

**TANZANIA: PUBLIC EXPENDITURE REVIEW ANNUAL
CONSULTATIVE MEETING**

Local Government Fiduciary Assessment

Joint Evaluation Report

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May 12-13, 2006**

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Abbreviations and Acronyms

ACBG	Agricultural Capacity Building Grants
ASDP	Agricultural Sector Development Programme
ASPS II	Agricultural Sector Programme Support Phase II
ASSP	Agricultural Services Support Programme
CAG:	Controller and Auditor General
CBO:	Community Based Organisation
CBG:	Capacity Building Grant
CDG:	Capital Development Grant
CMT:	Council Management Team
DADG	District Agricultural Development Grant
DADP	District Agricultural Development Plan
DAEG	District Agricultural Extension Block Grant
DASIP	District Agricultural Support and Investment Project
DC:	District Commissioner
DED:	District Executive Director
DIDF	District Irrigation Development Fund
DMO:	District Medical Officer
DMT:	District Management Team
DPLO:	District Planning Officer
DT:	District Treasurer
EBG	Extension Block Grant
GFS:	Government Financial Statistics
HLG:	Higher Level Government
IFMS:	Integrated Financial Management Systems
IPF:	Indicative Planning Figures
JRF PHF	Joint Rehabilitation Fund for Primary Health Facilities
LAAC:	Local Government Accounts Committee
LGAs:	Local Government Authority
LGRP:	Local Government Reform Programme
LGCDGs:	Local Government Capital Development Grant System
LGSP	Local Government Support Programme
LLG:	Lower Level Government
MTEF:	Medium Term Expenditure Framework
MTP:	Medium Term Plan
MOF:	Ministry of Finance
MP:	Member of Parliament
NAO	National Audit Office
NGOs:	Non-Governmental Organisations
OC:	Other Charges
O & OD:	Opportunities and Obstacles to Development
PADEP	Participatory Agricultural Development and Empowerment Project
PE:	Personnel Emoluments
PEDP:	Primary Education Development Plan
PETS:	Public Expenditure Tracking Study
PO-RALG:	President's Office – Regional Administration and Local Governments
POPP:	President's Office Planning and Privatisation
RAS:	Regional Administrative Secretariat
RWSSP	Rural Water Supply and Sanitation Project.
SEDP	Secondary Education Development Plan
TORs:	Terms of Reference
URT:	United Republic of Tanzania
WEO:	Ward Executive Officer
VEO:	Village Executive Officer

A. INTRODUCTION AND BACKGROUND

Introduction

Sound Economic Governance is essential for the achievement of the desired reduction in poverty levels and improvements in economic growth in Tanzania. Good Public Financial Management (PFM) is important for efficient, effective and equitable utilisation of scarce national resources. Whilst the extent to which policy makers are held accountable to their constituents is an excellent indicator of good governance. Accountability and transparency go hand in hand in developing open and participatory decision-making processes.

In 2005, the PEFAR reviewed the financial management practices and processes at the central government level. In 2006, the focus has shifted to local government, which now accounts for an increasing proportion of expenditures and is primarily responsible for service delivery in sectors such as primary education and primary health. The assessment is neither an audit nor intended to duplicate the work carried out by the Local Government Fiscal Review but rather to provide GoT and Development Partners with a comprehensive, integrated and candid assessment of Tanzania's key fiduciary risks at the local level as reflected in GoT's resource allocation, resource management and control, resource utilisation and accountability processes, and to make recommendations for improving the local PFM framework, institutional performance and capacity building.

It builds on the brief assessment carried out by the Country Financial Accountability Assessment in 2001, but makes an external and independent assessment against a clear set of indicators, enabling comparison both across local authorities and also across years.

Methodology

As for central government, the assessment uses the public finance management – performance measure framework (PFM – PMF) developed by the PEFA¹ secretariat. The PMF assesses public financial management across six dimensions. It first examines the credibility of the budget as a tool for implementing government policy, and then looks at two key crosscutting issues relating to PFM, the comprehensiveness and transparency of PFM systems. It then tracks performance through the four key stages in the budget cycle: budget formulation, budget execution, accounting and reporting and finally external scrutiny and audit.

Under each dimension a set of performance indicators is identified, and scoring criteria is set out. Although all indicators in the PMF are basically relevant for local governments, not all the criteria being assessed are applicable, and these were not applied. Whilst the PMF sets out indicators for assessing donor performance, it was also deemed appropriate that indicators should be developed for central government performance with respect to their financing and oversight role of local governments. It must also be emphasised that certain indicators relate more specifically to the way that local government financial management has been established in Tanzania rather than the poor performance of individual councils.

The PEFAR team selected a representative sample of seven local councils for assessment, based upon a number of parameters, including their existing capacity, whether they had manual or computerized accounting systems, whether they were rural or municipal councils, and whether or not they had qualified for the capital development grant. The seven councils selected for assessment were: Arumeru District Council, Rombo District Council, Mtwara and

¹ Public Expenditure and Financial Accountability Secretariat (PEFA) is supported by a number of development partners including the World Bank, IMF, DFID, EC, Swiss State Secretariat for Economic Affairs, French Ministry of Foreign Affairs, Royal Norwegian Ministry of Foreign Affairs and the Strategic Partnership with Africa.

Mikandani Town Council, Muleba District Council, Karatu District Council, Bagamoyo District Council and Mwanza City Council.

B. LEGAL AND FINANCING FRAMEWORK

Legal and regulatory environment

The legislative framework for local governance and local government finance is provided by a series of Acts jointly referred to as the Local Government Acts adopted in 1982. In fact, two different laws (Act Number 7 and 8, respectively) govern the establishment and authority of urban councils (Urban Authorities Act) and rural district councils (the District Authorities Act). The financial framework for all local government authorities is provided by the Local Government Finance Act (Act Number 9). Other laws, namely, Act No. 10 relating to local government service and Act No. 11 relating to local government negotiating machinery, both of 1982, have since been repealed by the Public Service Act No. 8 of 2002 and the Public Service Negotiating Machinery Act of 2003 respectively. The Regional Administration Act (No.19 of 1997) defines the roles and responsibilities of the regional administration.

The Local Government Acts have been amended intermittently since their enactment in 1982 in order to adjust the legislative framework to the evolving reality of an increasingly decentralised public sector. In particular, a number of amendments made in 1999 gave more authority to District and Urban Councils to approve their plans and budgets. The amendments also allow the central government to provide conditional and unconditional block grants to local government authorities. In addition, various amendments made to the Acts in 2003 and 2004 significantly reduced the revenue-raising authority of local councils.

One consequence of the various amendments of the Acts over time is that the Acts contain a series of repetitive, duplicative, and in some cases contradictory clauses. For instance, when the Local Government Finance Act was amended to authorize the government to provide block grants, the sections detailing the system of earmarked grants were never removed. Likewise, when the Act was amended to limit the discretion of local government authorities to define their own local revenue instruments, it appears that the clauses authorizing local authorities to define their own tax systems were not removed. Furthermore it is understood that specific laws e.g Hotel Levy Act have not been amended.

Further confusion arises from the fact that although the Public Finance Act does not cover Local Authorities, it is understood that the public finance regulations refer to local authorities in the definition of applicability. The LG Finance Act allows overdrafts with ministerial approval and the amended Government Loans Grants and Guarantees Act of 2003 has improved the management of public debt through a number of initiatives including the establishment of a National Debt Management Committee (NDMC). The Local Authority Financial Memorandum (LAFM) 1997 and the Local Authority Accounting Manual (LAAM) 1992 outline the basic reporting requirements for LGAs. The LAFM elaborates the details on budgeting, budgetary control/monitoring and financial reporting, while the LAAM sets out the accounting procedures, practices and standards, including the formats of presenting the LGA accounts, audits and the publication of audited accounts.

The procurement of works, goods, services and consultancies is governed by the new Public Procurement Act of 2004 and the related regulations. The Act requires under section 28 for each Local Government Authority to have a tender board for procurement of goods, services and works. The composition of a Local Government Authority Tender Board and the method of appointment of the members, and the procedures to be followed by such a tender board, shall be prescribed in Regulations made pursuant to the provisions of section 65 of the Local Government (Finances) Act, 1982. Under the old Public Procurement Act 2001, the PORALG

prepared Procurement Regulations 2003 for use by LGAs. In view of the enactment of the Procurement Act 2004, the old regulations need to be reviewed to be harmonised with the requirements of the new Act. The method of appointing members of the tender board and procedures to be followed are therefore yet to be determined.

Overlapping, duplicative and sometimes contradictory legislative framework at the local level undermines sound financial management practices. Efforts to harmonize legal requirements being carried out by the LGRP require high level support to ensure that reform proposed are effective. .

Financing framework

Grants and Transfers

In February 2004, Cabinet decided to move towards a formula-based system of sectoral block grants, where the level of grants that each local government authority receives for the various sectors is based on a number of transparent and objective client-focused financial norms. In accordance with the Cabinet decision, formula-based grants were introduced for primary education and local health services as part of the 2004/05 budget year. Similar formula based grant schemes for water, agriculture and roads were introduced in the FY 2005/6 budget year.

The Local Government compensation grant was introduced in 2003 to compensate for the abolition of development levy and other nuisance taxes. This grant has been renamed the General Purpose Grant (GPG), and in 2005/06 it was allocated according to a formula that reflects the size of the population (70%), land area (10%) and poverty count (20%). Proposals have been developed to combine the current GPG with the Local Administration Grant into a single, unconditional, equalizing, formula-based General-Purpose Grant scheme in 2006/7.

The introduction of a formula based block grant is expected to take several years to implement in its entirety due to the fact that no council is supposed to be worse off because of its introduction and the varying levels of service provision already in place.

Other grants and transfers, partly or completely funded by Development Partners include the Health Basket Fund (HBF), the Primary Education Development Plan (PEDP) which is further subdivided into a Capitation grant and a development grant, the Local Government Capital Development Grant (LGCDG). There are also a multitude of other donor funded projects including the Participatory Agricultural Development and Empowerment Project (PADEP) and the Rural Water Supply and Sanitation Project (RWSSP). Further discussion of the various forms of funding is provided in section E.

Own source revenue

In the 2003/4 and 2004/5 budget years, the Ministry of Finance (MoF) made very significant changes to local taxes, fees and charges. This was partially done to improve the business environment and partly to improve the transparency and consistency of taxes collected at the local level. The taxes, fees and charges that can now be charged at the local level are shown in table 1.

Table 1 List of Revenue Sources for Local Government (2005)

<p><i>Taxes on property</i></p> <ul style="list-style-type: none"> • Property rates 	<p><i>Other Taxes on the Use of Goods, Permission to Use Goods</i></p> <ul style="list-style-type: none"> • Forest produce license fees • Building materials extraction license fee • Hunting licenses fees • Muzzle loading guns license fees
<p><i>Taxes on Goods and Services</i></p> <ul style="list-style-type: none"> • Crop cess (maximum 5% of farm gate price) • Forest produce cess 	

<p><i>Taxes on Specific Services</i></p> <ul style="list-style-type: none"> • Guest house levy <p><i>Business and Professional Licenses</i></p> <ul style="list-style-type: none"> • Commercial fishing license fee • Intoxicating liquor license fee • Private health facility license fee • Taxi license fee • Plying (transportation) permit fees • Other business licenses fees <p><i>Motor Vehicles, Other Equipment and Ferry Licenses</i></p> <ul style="list-style-type: none"> • Vehicle license fees • Fishing vessel license fees 	<ul style="list-style-type: none"> • Scaffolding/Hoarding permit fees <p><i>Turnover Taxes</i></p> <ul style="list-style-type: none"> • Service levy <p><i>Entrepreneurial and Property Income</i></p> <ul style="list-style-type: none"> • Dividends • Other Domestic Property Income • Interest • Land rent <p><i>Other Local Revenue Sources</i></p> <ul style="list-style-type: none"> • Administrative Fees and Charges • Fines, Penalties and Forfeitures <p>“Local Governments are not allowed to levy any taxes, levies or fees which are not on this list.”</p>
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Whilst the rationalization of taxes has eliminated the “nuisance” factor of some charges, the diminishing local revenue base and the increasing reliance on central government transfers have serious implications for local government accountability and long term sustainability of local investments. Indeed there is evidence in Tanzania as well as internationally that local government officials become less responsive to their communities, less accountable, and in fact more corrupt when local activities are mostly funded by intergovernmental transfers.

A Local Government Finance Study was completed in 2005 and made a number of recommendations on future financing of local government in Tanzania. In order to improve both the local revenue base and local accountability, serious consideration needs to be given for implementing the recommendations of this study.

Institutional framework

Background

After independence in 1961, the government established elected local government authorities in both urban and rural areas with the purpose of accelerating the pace of economic development at the local level. However, under the period of socialist economic planning under President Nyerere, the public sector expanded rapidly and the financial resource requirement for the local government authorities could no longer be satisfied. As a result, elected local authorities were dissolved in 1972. Between 1972 and 1984 a deconcentrated system of governance was practiced.

In 1984, local authorities were reintroduced following the enactment of a series of local government laws in 1982. In 1985, local government was entrenched in the country’s constitution. However it continued to portray many features of a deconcentrated system, not least because of the earmarked budget allocations from central government. By mid 1990s, the system was performing so badly that there were popular demands especially from the Association of Local Authorities in Tanzania (ALAT) to have the system substantially strengthened and reformed.

In 1998 the government adopted the policy for the reform of local government commonly referred to as “decentralisation by devolution” which is intended to empower local communities by empowering their local government authorities.

Current local government structure

The role and mandate to oversee and coordinate the Local Government Authorities (LGAs) used to lie with the President’s Office – Regional Administration and Local Government (PO-

RALG). This responsibility has recently (2006) been transferred to the Prime Minister's Office (PMO). In theory this office is supported by the Regional Secretariats found in each of the 21 regions in mainland Tanzania. RSs are deconcentrated administrative units of the central government. They lack elected representation and own revenue sources, and their role in sub national affairs was significantly limited by the enactment of the Regional Administration Act No. 19 of 1997.

Local government authorities are autonomous legal entities governed by elected councils, with their own expenditure budgets, revenue sources, and (in principle) with the ability to borrow funds. LGAs function as important providers of public services; they deliver key government services including basic education, basic health care, agriculture extension, local water, and local roads. Local government authorities are further subdivided into numerous types of sub-district governments.

The local level consists of 114 LGAs, which comprises 22 Urban Councils and 92 District Councils. The category of Urban Councils can be further subdivided into Town Councils and Authorities (8), City Councils (2), and Municipal Councils (12). In an urban setting the local government authorities' areas of jurisdiction are divided into wards which are further divided into mitaas. Since July 2005, Mitaas have the same legal status as villages and township authorities. In the rural areas the district councils' jurisdictions are divided into wards which are further divided into villages (approximately 10,863 registered villages). The villages are further divided into vitongojis.

Politically, Councilors of district and urban councils and members of village and township authorities are elected on political party tickets. The councilors in turn elect chairpersons and mayors of their respective local authorities. Chairpersons of village councils are elected by the respective Village assemblies. Once the district, urban and village councils are established, they set about creating standing committees and it is through the committee structure that the councils carry out their mandated responsibilities.

Tanzania now has a large (and growing) institutional structure at the local level, with increasing levels of responsibility and funding being directed at even the lowest level. Financial management practices, processes and procedures need to be aligned to meet these challenges in a practical and efficient way. Successfully meeting this reform challenge requires that human resource issues are adequately addressed..

Ongoing reforms

In 1996 the government formulated and endorsed a local government reform agenda and designed an implementation strategy as part of the wider Public Sector Reform Programme. The LGRP launched in 1997 and implemented from 1999 has the key objective of improving service delivery through the vehicle of decentralisation. Planned implementation is until June 2011

The LGRP is made up of five components each contributing to the overall goal of improving the quality and access to public services provided or facilitated by LGAs. The components have the following objectives:

- ❖ *Governance*: To establish broad based community awareness of, and participation in the reform process and promote principles of democracy, transparency and accountability.
- ❖ *Local Government Restructuring*: To enhance the effectiveness of local government authorities in delivering quality services in a sustainable manner.
- ❖ *Finance*: To increase the resources available to LGAs and improve the efficiency of their use.
- ❖ *Human Resource Development*: To improve the accountability and efficiency of human resource use at the LGA level.

- ❖ *Institution and Legal Framework*: To establish the enabling legislation that will support the effective implementation of local government reform.

Since 1999, there have also been a number of other initiatives and reforms at the district level either for a particular sector or for a particular district. Gradually however, an increasing number of initiatives have been centred on the LGRP. In the 2001 Country Financial Accountability Assessment, the team noted the challenges facing local government reform, not least from sector ministries. At that stage many local governments were not regularly preparing accounts and generally financial management practices were extremely poor. Benchmarking assessments carried out by the LGRP's Zonal Reform Teams (ZRT) show a gradual improvement in the carrying out of many key financial management practices for the seven selected councils. These are shown in table 2 below.

Table 2 LGRP Assessment Scores for Selected Local Councils

	5 th 2003	6 th 2004	7 th Feb. 2005	8 th Sept. 2005
Arumeru	403	699	748	801
Rombo	599	787	788	796
Mwanza	585	762	891	899
Muleba	529	536	708	764
Karatu	352	675	722	664
Bagomoyo	408	394	480	414
Mtwara Mikindani	681	685	490	730
Average Score: (Maximum score 1000)	51%	65%	69%	72%

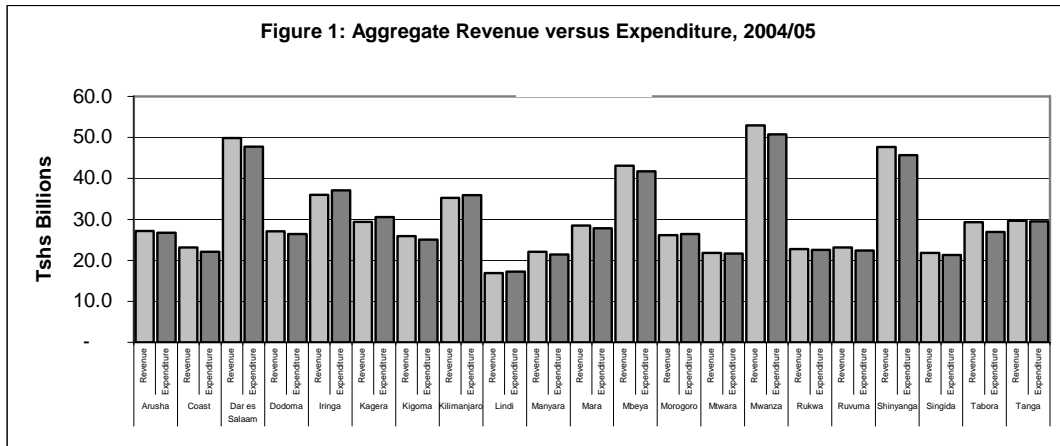
C. FISCAL PERFORMANCE OF LOCAL AUTHORITIES

The following table illustrates the increase in the % share of GDP that is now being spent at the local authority level and the increasing reliance on central government grants as opposed to own source revenue and/or donor funded projects.

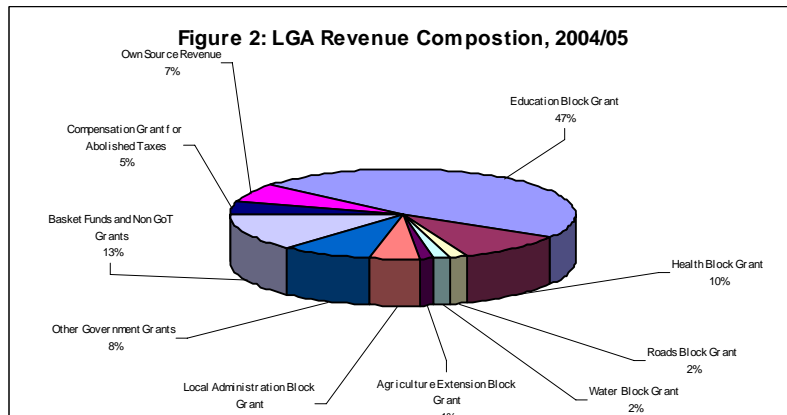
Table 3 Local authority expenditure as a % of GDP

	Outturn 2003			Outturn Jan - June 2004			Outturn 2004/05		
	Tshs	%	%	Tshs	%	%	Tshs	%	%
	Bn	GDP	Share	Bn	GDP	Share	Bn	GDP	Share
Total Revenue	434	4.4%		242	4.3%		647	6.0%	
Own Source Revenue	48	0.5%	11%	18	0.3%	7%	43	0.4%	7%
Central Grants	340	3.5%	78%	185	3.3%	76%	518	4.8%	80%
Basket Funds and Non GoT Grants	46	0.5%	10%	39	0.7%	16%	86	0.8%	13%
Total Expenditure	434	4.4%		242	4.3%		627	5.8%	
Expenditure as % of Total Govt Expenditure	19%			17%			19%		

Unlike previous reviews which reported large discrepancies between LG recurrent inflows and outflows with LG outflows, *the new data set shows a very high correlation between revenue and expenditure across the 21 regions* with average total expenditure equal to 98.2% of total revenue. Four regions' expenditure exceeded their budgeted revenue figures for the FY, these included Iringa, Kagera, Kilimanjaro and Lindi each of whom overspent by 3%, 4%, 1.8% and 2.2%, respectively, primarily as a result of brought forward balances. The position for each of the regions is shown in figure 1 below.

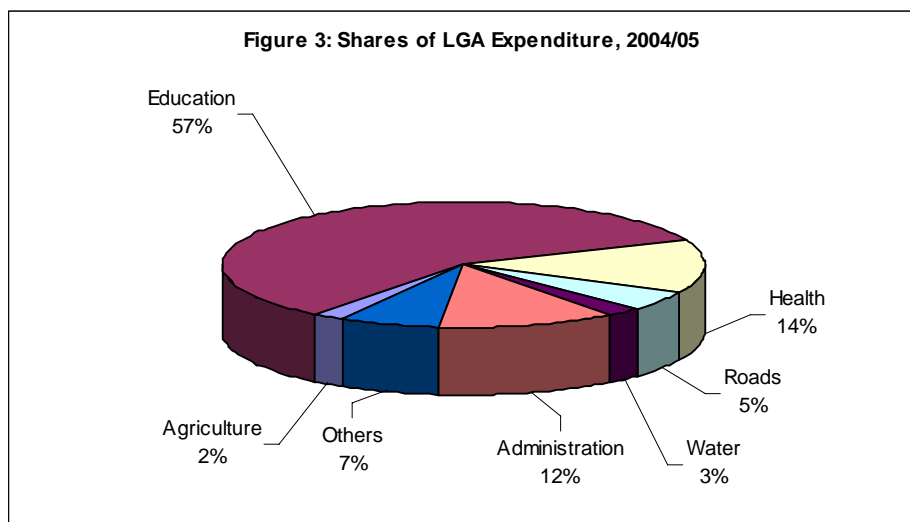


As shown in figure 2, in 2004/5 block grants, basket funds and non-government grants make up 88.7% of LGAs total revenue (47% of which is from the education block grant), leaving them with a total fungible revenue² source of just over 11%.



The sectoral shares of expenditure are shown in figure 3 which clearly indicates that in terms of expenditure composition, over 50% LGAs resources are spent on education, while health and administration each claims just over 10%.

² Total fungible revenue in this instance includes both own source revenues and compensation grant, although it is understood that CG does provide some guidelines on the use of the latter.



Of total aggregate expenditure across LGAs in Tanzania 76% of their expenditure is on recurrent items, whilst 24% is on development expenditure. In areas such as education and health recurrent expenditure far outstrips development expenditure as PE makes up such a high %age of these recurrent costs. The balance is more evenly spread in other sectors as shown in table 4 below.

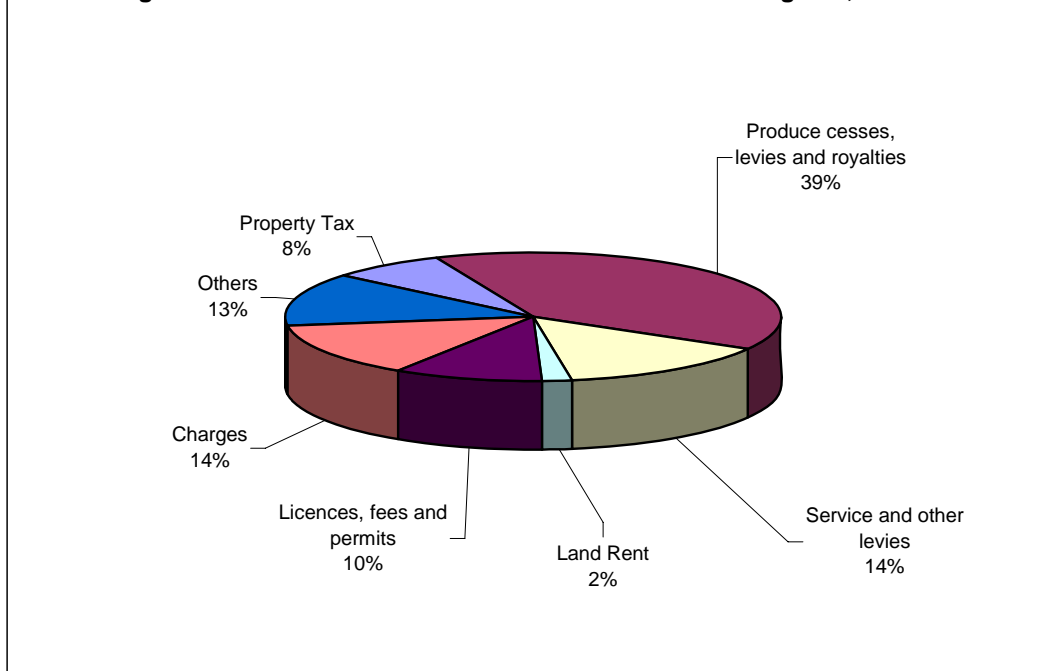
Table 4: Priority Expenditure – Recurrent vs. Development

Agriculture Rec.	57%
Agriculture Dev.	43%
Education Rec.	81%
Education Dev.	19%
Health Rec.	79%
Health Dev.	21%
Roads Rec.	33%
Roads Dev.	67%
Water Rec.	61%
Water Dev.	39%

The relative maturity of the education and health block grants is illustrated by the relatively close correlation between the block grant and expenditure within the sectors. It is assumed that this is partially as a result of the rationalization of donor projects. It is also unlikely that significant amounts of own source revenues will be spent in these areas. The situation is different in other sectors e.g. agriculture, roads and water, where the block grant system is relatively less well established, central ministries have continued to play an important role and there are still a large number of donor funded projects.

LGAs own sources of revenue account for only small share(11.3%) of total LG revenue. Of the total own revenue collected by LGAs across the 21 regions (Tsh.42.8 billion) Dar es Salaam's collection accounts for Tsh.14.2 billion or 33% of this. In terms of composition of LGAs own sources of revenue, produce cess, levies and royalties make-up 39% of total revenue collections from own sources in all LGAs excluding Dar es Salaam.

Figure 5: Own Source Revenue Collection - All Other Regions, 2004/05



LGAs own sources of revenue by region vary widely with a range of Tshs.0.3 billion to Tshs.3.2 billion, reflecting differences in economic activities and therefore the revenue base. Although local government's account for 20% of government spending, following the rationalization of local taxes in 2003 and 2004, own source revenues only represent between 4-5% of overall revenue. Local government fiscal performance is therefore highly dependent on central government performance and central government and donor transfers.

D. ASSESSMENT OF THE PFM SYSTEMS AND PROCESSES

Budget credibility

		Arumeru	Rombo	Mwanza	Muleba	Mtwara	Karatu	Bagamoyo
PI-1	Aggregate expenditure out-turn compared to original approved budget	A	D	D	D	D	D	N/A
PI-2	Composition of expenditure out-turn compared to original approved budget	D	C	B	D	D	D	N/A
PI-3	Aggregate revenue out-turn compared to original approved budget ³	A (D)	D (D)	A (D)	B (D)	D (D)	D (D)	N/A
PI-4	Stock and monitoring of expenditure payment arrears	C	A	A	A	B	B+	C+

The assessment teams collected data for three periods for this analysis: (i) January to December 2003, (ii) January to June 2004 and (iii) July 2004 to June 2005. Reliable and consistent fiscal data for these three periods proved a major challenge. **There is enormous**

³ The figures in brackets indicate the scores based on own source revenues only.

variability in budget numbers contained in the MTEF documents, the budget presented to the Local Council, the central government transfers approved by Parliament, the expenditure information compiled by the LGRP, and what is contained in the audited final accounts. Teams finally relied upon the audited final accounts and supplemented this with additional clarifications and data provided by the District Treasurer.

Whether the figures shown in the audited final accounts relate to original or revised figures is often unclear. Some care must therefore be taken in interpreting the figures. Cross council comparison is also complicated by the level of detail maintained in the final accounts, disaggregated figures must therefore be treated with some caution.

PI-1 As shown in the relevant indicator (PI 11) the credibility of the original budget figures at the local government level is seriously undermined by changes in the block grant ceilings from central government after the approval of the original budget by the Council in earlier years, the comprehensiveness of the budget at the local level was also undermined with significant unbudgeted transfers from sector ministries. Actual expenditure figures have been affected (negatively and positively) by the poor predictability of fund flows of both donor and central government funding. In many cases funds have been received too late to spend in the current FY.

With the exception of Arumeru, aggregate expenditure outturns against budget have been very poor. . It would appear from the figures that Arumeru has been the subject of the lowest level of adjustment by CG. As shown in table 5, average variances have been between < 5% and > 60%. However comparisons across councils should be treated with caution because of the differences in budget data.

Table 5 Variances between aggregate expenditure and aggregate budget

	Jan – Dec 2003	Jan – June 2004	July 2004 – June 2005
Arumeru	4%	3%	9%
Bagamoyo	N/A	N/A	N/A
Karatu	+55%	+65% ⁴	+54%
Mtwara	-8%	+28%	+33%
Muleba	19%	4%	29%
Mwanza	35%	16%	14%
Rombo	18%	14%	25%

PI-2 In terms of expenditure composition, i.e the variances at the disaggregated level over and above the variance of aggregated figures, in most instances, these have also been significant as shown in table 6. The explanation for this appears to be the incidence of brought forward balances and the provision of additional funds for expenditure by the line ministries, particularly education. The exception is Mwanza, which in terms of variances in expenditure composition does not vary significantly from the aggregate variances. This would tend to suggest that the overall quality of budgeting, based on the CG guidelines is poor and cannot be attributed to any particular sector. Further investigation would be required to determine

⁴ The budgeted expenditure figures for Karatu could not be obtained from the audited accounts and have therefore been based on the budgeted revenue figures.

whether this is due to the fact that the formula based ceilings have to be modified more for Mwanza than other locations in order to ensure that the council is no worse off.

Table 6 Variance in expenditure composition

	Jan – Dec 2003	Jan – June 2004	July 2004 – June 2005
Arumeru	8%	19%	12%
Bagamoyo	N/A	N/A	N/A
Karatu	54%	11%	5%
Mtwara	9%	20%	15%
Muleba	10%	26%	16%
Mwanza	3%	3%	15%
Rombo	16%	9%	0%

PI-3 Aggregate revenue outturn can be broken down into own source revenues and central government transfers (including basket funding). Own source revenues (OSR) account for only around 4-5% of total revenues. The exception is Mwanza City Council where OSR accounts for 20% of income. As shown in table 7, there was a general underperformance of own source revenues, whilst the performance of combined grants and own source revenues varied. In most cases however, if the performance of the grants alone was assessed, it would show that grants received were in excess of the original budgeted amount - a situation not captured by the by the performance indicators. This over performance appears to be a reflection of the poor predictability of the ceilings provided by central government in the original budget guidelines. As for expenditure, care must be taken in making cross council comparison because of the differences in the budget data recorded.

Table 7 Variances in aggregate revenue split between OSR and total revenue

	Jan – Dec 2003	Jan – Dec 2003	Jan – June 2004	Jan – June 2004	July 2004 – June 2005	July 2004 – June 2005
	OSR	Grants and OSR	OSR	Grants and OSR	OSR	Grants and OSR
Arumeru	-20%	+1%	-17%	-2%	-36%	+10%
Bagamoyo	N/A	N/A	N/A	N/A	N/A	N/A
Karatu	-47%	+15%	-16%	+65%	-2%	+28%
Mtwara	-31%	-11%	0%	8%	-43%	-5%
Muleba	-41%	-38%	-36%	+15%	-9%	-3%
Mwanza	-29%	+20%	-19%	+16%	-32%	+18%
Rombo	-31%	-10%	-23%	-28%	+8%	-18%

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PI-4 Whilst the team found no formal mechanism for regular monitoring of arrears (see PI 20) year end accounts in the majority of councils showed relatively small levels of outstanding creditors in FY 2004/5. In some councils e.g. Bagamoyo accounts in earlier years showed quite significant arrears (salary and/or suppliers). However, as a matter of policy since 2003, central government has been deducting outstanding (and the majority of current statutory deductions), centrally, thus mitigating this problem. The position with respect to utility and pension contribution arrears is less clear. In Bagamoyo the team was informed of the accumulation of significant electricity arrears for the Chalinze water scheme and in Arumeru of outstanding arrears of contributions to the Local Authority Pension Fund and Local Government loans Board. As noted in PI 20, arrears accumulate in Arumeru through the creation of negative cash book balances (unpresented cheques). In Bagamoyo, the team were also advised of the practice of health staff recording allowances (additional hours) awaiting possible future payment.

Key findings and recommendations	
<ul style="list-style-type: none"> ▪ The integrity of the original budget formulation process is seriously undermined by the central government changes to ceilings for block grant transfers after the budget is approved by the Local authority. <p><i>Improvements to the central government budgeting process need to be introduced as soon as possible so that local government budgets are more meaningful.</i></p>	
<ul style="list-style-type: none"> ▪ The credibility of aggregate and disaggregated expenditure outturns is adversely affected by the poor predictability (timing and amount) of fund flows from central government particularly for development activities and Other Charges. <p><i>Whilst recognizing that 2005/6 has not been a typical year, predictability (timing and amount) of fund flows needs to be improved to facilitate effective service delivery.</i></p>	
<ul style="list-style-type: none"> ▪ The low level of own source revenues undermines the demand for local accountability, as well as the sustainability of local investments. Potential revenue sources do not appear to be adequately assessed and collection targets often not met. <p><i>The GoT should review the recently completed study on local government finances to enhance the ability of local authorities to generate their own sources of revenue in a fair and transparent way and more effort should be applied to ensuring that there is adequate knowledge of local revenue potential.</i></p>	

Comprehensiveness and transparency

		Arumeru	Rombo	Mwanza	Muleba	Mtwara	Karatu	Bagamoyo
PI-5	Classification of the budget	C	C	C	C	C	C	C
PI-6	Comprehensiveness of information included in budget documentation ⁵	B	D	D	B	B	C	D
PI-7	Extent of unreported government operations	C	C	A	C	A	A	C
PI-8	Transparency of inter-governmental fiscal	C+	C+	C+	C+	C+	C+	D+

⁵ The team has used the standard list of required information set out in the PMF. Whilst it is acknowledged that some of this information is not strictly applicable to the local authority context, similar information would be required e.g. debt stock – some indication of any loans to the LGLB should be noted.

	relations between the LGA and lower levels of government ⁶							
PI-9	Comprehensiveness of aggregate fiscal risk oversight	C	D	C	C	B	C	D
PI-10	Public access to key fiscal information	B	A	B	A	B	C	D

PI-5 The classification system at the LG level is the same as at the central government level. The economic classification broadly follows the 1986 GFS model. It maintains a traditional administrative classification based on the responsibilities assigned to LG in Tanzania. Like Central Government, it does not use the COFOG functional classification.

PI-6 The comprehensiveness of budget documents submitted to the Council varies. All Councils provided information on budgeted revenues and expenditures for the fiscal year for central government block grant transfers and own source revenues plus last year's actual revenue at least at aggregate level. The degree of integration/inclusion of donor funding (project and basket) varied. The medium term (3 year) and activity based format (MTEF) for the budget is now also being presented to Councils at least in summary form. With the exception of Karatu, this format covers central government block grant (OC) and development grant expenditure only.

PI-7 It is difficult to quantify unreported local government operations, but at the councils visited, they are considered to be relatively small. In most councils community contributions are not formally included in fiscal reporting but Mtwara informs the Council of any significant effort. In terms of donor reporting, the major exception was TASAF I. This has now changed and TASAF II is to be fully integrated in the budget and reported at district level. It should be noted however that supplies from the central medical stores are not always reported locally, either in the budget, in year budget report or final accounts, although expenditure is captured nationally and reported by the District Medical Officer.

PI-8 As described later (see PI CG1) the bulk of central transfers are made on the basis of objective formulae, which have been developed by the Block Grant Implementation team and indicative budget figures for central grants are transmitted to the local government and its lower tiers. These formulae do not change to accommodate donor projects. The rules for contesting discretionary funding (General purpose grants, LGCDG, LGCBG and LGDG) are not transparent to sectors at LG level, let alone Councillors, wards and villages

The transparency of actual transfers to lower local governments and SDUs (**for which this indicator is assessed**) varies between councils and type of funds. For sector grants, whilst in theory the formula is clear, unpredictable disbursement from the centre means actual disbursements to lower level entities are less clear or are delayed awaiting central instructions. For example PEDP per capita funds do not reflect the agreed amount and/or the student figures. Since the rationalization of taxes, the basis for disbursement of administration costs to wards and villages appears haphazard.

In Karatu, funds received by the Council for distribution to schools and wards were discussed at Council and generally well communicated through letters; though there were delays (funds would be transferred before information reached persons concerned). Closer follow-up by the opposition led Council was cited by several as a key factor in increased transparency. In terms of reporting actual expenditure, LG expenditure is expensed at the time of transfer to the

⁶ The team has adopted the position of assessing under this indicator the transparency of the relationship between the local government authority and the villages, wards and sdus. This is the stance taken in a similar report carried out in Uganda.

wards, villages and SDUs. There is no legal requirement for villages and wards to prepare accounts, although schools should report as part of the PEDP.

PI-9 The extent of fiscal risk at the lower level of government is considered to be small, although there are a number of legal anomalies and lack of an appropriate regulatory environment which should be addressed to ensure that the incidence of contingent liabilities and arrears does not become an area of concern. In particular the legal status of wards and the situation with respect to the transfer of water supply responsibilities from the central ministry to Water Associations/ Boards needs to be reviewed.

PI-10 The ability of the public to hold LGs to account for performance is dependent on the availability of timely and relevant information. Information which is presented in a clear, concise and user friendly format can facilitate and enhance local stakeholder involvement. The availability and quality of information available to the public varied between Councils. In general, however, there are accountability issues regarding access to information at every level of the system:

- Service Delivery Unit: Information – the quality, accessibility and timeliness of information posted at the SDUs visited varied considerably.
- Village level: Little meaningful financial information was found in the villages visited. There is a pressing need to develop clearer guidelines on what information should be posted at this level, how and where.
- District level: Information that is currently advertised in the media and posted on notice boards at district and village level, does not appear to be adequate to allow local oversight of the use of funds. There is a need to develop and agree on simpler formats for posting basic budget execution information. This should allow the public to assess the quality of financial management and to ensure that there are channels through which the public can follow up with more detailed queries on budget implementation and its impact as well as on suspected malfeasance.

Key findings and recommendations	
<ul style="list-style-type: none"> ▪ Monitoring of fiscal risk and oversight of activities at the lower level is limited. As expenditure at the lower levels increases, there is need for an improved regulatory environment to ensure that proper monitoring of fiscal risk occurs. <p><i>Improved monitoring of fiscal risk and oversight of lower level activities will be required, this may require revision of the regulatory environment.</i></p>	
<ul style="list-style-type: none"> ▪ The ability of lower tier governments and SDUs to carry out their mandates is undermined by the lack of timely and relevant information on fund availability. Activities are carried out on receipt of funds and often on the basis of pressing need rather than structured plan. <p><i>Greater predictability of fund flows is required at all levels.</i></p>	
<ul style="list-style-type: none"> ▪ Improvements in domestic accountability will require improved supply of user friendly information and greater demand for information. <p><i>In addition to improving the supply of user friendly information, greater effort is required to educate/raise awareness of communities on their role in the accountability process.</i></p>	

Policy based budgeting

		Arumeru	Rombo	Mwanza	Muleba	Mtwara	Karatu	Bagamoyo
PI-11	Orderliness and participation in	D+	D+	D	D+	A?	B+	B

	the annual budget process							
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	D+	C	C	C	B?	D+

PI-11 The overall budget process begins with the formulation of budget policy objectives. Currently, this is the responsibility of the centre, the MOF and PO -RALG. The extent to which LG priorities are incorporated in the national process is limited. Budget Guidelines contain priority sector objectives and targets, sector and expenditure ceilings, procedures for preparation and submission of the draft local budget to PO-RALG and MOF. The Budget Guidelines are supposed to be ready for distribution to Vote holders by end of December or early January in each year. For 2006/7 budget guidelines were only issued in March.

The following broad timetable was followed by all the Councils involved, although Karatu initiated discussions at the village level prior to the issue of budget guidelines and Muleba also produced its own budget call circular.

Month	Activity
Jan	Issuing of budget guidelines
Feb	Call from proposals from sub-village – village – ward - district
March	Council Management Team (CMT) prepares draft budget
April	Draft budget submitted to regional secretariat, Council standing committees. After their approval it is then passed to the full council for approval. Subject to being passed by the full council the budget is then submitted to PMO-RALG and the MoF.
May	Initial discussions with MoF to try to obtain revised sectoral ceilings
June	Parliament discusses national budget including transfers to LGs
July - November	Receipt of final ceilings for the sectors from the Ministry of Finance. This delay is what adversely impacts the LG budget process

Within the constraints of the current budgetary framework, political involvement in the process is fair, although central government direction and funding limits autonomy and discretion. This effort is however undermined by changes to the outlays made by the Central Government between adoption of the Council budget in April and appropriation of the national budget between July and September.

PI-12 Currently there is a multiplicity of resource intensive planning processes. Some processes including Opportunities and Obstacles to Development (O & OD), TASAF and LGCDG emanate from the bottom - from hamlet, village plans, to Ward Development Committee (including village representatives), to District. Each method has its own unique project selection and approval process. They are not carried out in the context of available resources and essentially a wish list is prepared on an annual basis, far in excess of available resources.

Although some links were said to exist between the MTEF plans and the O&OD, this was not clearly demonstrated. Each of the Councils is also required to develop its own comprehensive health plan which is added to the overall plan for the council. District officials are then faced with the task of trying to reconcile and connect top down budgeting guidelines and bottom up planning processes rather than the development of a prioritized and integrated medium term plan for the District. All councils visited now prepare an MTEF activity based budget, based on the CG model, and focusing on 3 year rolling plans. However, the maturity of this process varies between the councils visited. With the exception of Karatu and Muleba, and in contradiction to the budgeting guidelines, the MTEF activity based budget only covers operational and capital costs of activities funded from the CG grants. Basket funding, donor

project funding, own revenue spending, and salaries, remain outside this planning framework. The full budget is therefore often an aggregate of funding silos with uncertain ceilings from different sources of funds rather than a coherently prioritized plan. Consequently links between investment decisions and their recurrent implications are poor and exacerbated by decisions and funding at the village level e.g. TASAF.

It is understood that Planrep2 which is scheduled to be implemented in 2006/7 will simplify and consolidate some of the demands of these various planning and budgeting requirements. However it will not resolve the basic disconnect between a multiplicity of top down and bottom up planning and budgeting mechanisms, which undermine the integrity of the whole planning and budgeting process.

Key findings and recommendations	
<ul style="list-style-type: none"> ▪ The integrity of the original budget formulation process is seriously undermined by the central government changes to ceilings for block grant transfers after the budget is approved by the Local authority. <p><i>As noted above, the reliability of the ceilings provided by central government need to be improved.</i></p>	
<ul style="list-style-type: none"> ▪ Bottom up planning processes do not connect with top down budget guidelines The multiplicity of planning, budgeting and reporting requirements undermines the integrity of the whole budgeting/planning process and raises the question as to whether funds are being efficiently and effectively directed to local needs. <p><i>There needs to be a rationalization in the planning and budgeting processes so that more emphasis can be placed on meeting <u>local</u> needs in a strategic and structured way.</i></p>	

Predictability and control in budget execution

		Arumeru	Rombo	Mwanza	Muleba	Mtwara	Karatu	Bagamoyo
PI-13	o Transparency of taxpayer obligations and liabilities	D	D	D+	C	C	D+	D
PI-14	o Effectiveness of measures for taxpayer registration	D	D+	D+	D+			
PI-15	o Effectiveness in collection of tax payments.							
PI-16	Predictability in the availability of funds for commitment of expenditures	D	D	D	D+	D	D	D
PI-17	Recording and management of debt and guarantees	D	B	D+	B	A?	C	D
PI-18	Effectiveness of payroll controls	B+	B+	B+	B+	B	C+	C+
PI-19	Competition, value for money and controls in procurement	B	C	C	B	B	N/A	C
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	D+	D+	D	C	D+	D
PI-21	Effectiveness of internal audit	D	C+	C+	B	C	C+	D+

Management of Local Revenues

The rationalization of local taxes over the last three years has meant that local authorities have a limited local tax base. However neither the potential of the current tax revenue base, nor its collection is being fully exploited in the majority of localities.

PI-13/14 and 15 Visits by the team found that a standard set of local revenue administration guidelines do not exist⁷. With a few exceptions e.g. Mtwara, tax payers do not have a clear understanding of their liabilities and obligations and appeals mechanisms are restricted to court procedures. Indeed it is apparent in some districts that there is confusion at the district level as to which taxes can now be collected. Penalties for non compliance are understood to be limited and enforcement and follow up by the Council is difficult. Although in some instances, e.g. Mtwara and Bagamoyo councils were working with the TRA, who have greater powers of investigation.

In Karatu and Mtwara efforts are also being made to collect tax arrears. In many councils, collection of some taxes e.g. guest house levies, market dues, bus stand fees, forest cess has been privatized. In Bagamoyo there has been widely publicized concern about the process of awarding tenders for tax collection and collection rates have been poor. Follow up by the Council as to the cause of the discrepancies has also been slow. In other Councils e.g. Mtwara and Karatu the agents are set monthly collection targets which have to be remitted regardless of the actual collection. It is not clear what proportion of the total receipts are being retained by the private collectors but Mtwara and Karatu officials expressed satisfaction with the system and receipts have evidently increased. Although in Karatu, this satisfaction is not shared by the Councilors.

Predictability of funds

PI-16 Cashflow management within local government is weak and the teams found no evidence that departments translated work plans and procurement plans into cash flow plans. The situation is similar at the SDU level. Lack of predictability of CG transfers means that no council is able to provide SDUs with a timetable as to when either OC or development monies would be disbursed. It was reported that some SDUs were required to retire to the council the previous disbursement prior to receiving further allocations. This led to additional delays in SDUs receiving the monies and implementing activities.

Cash management

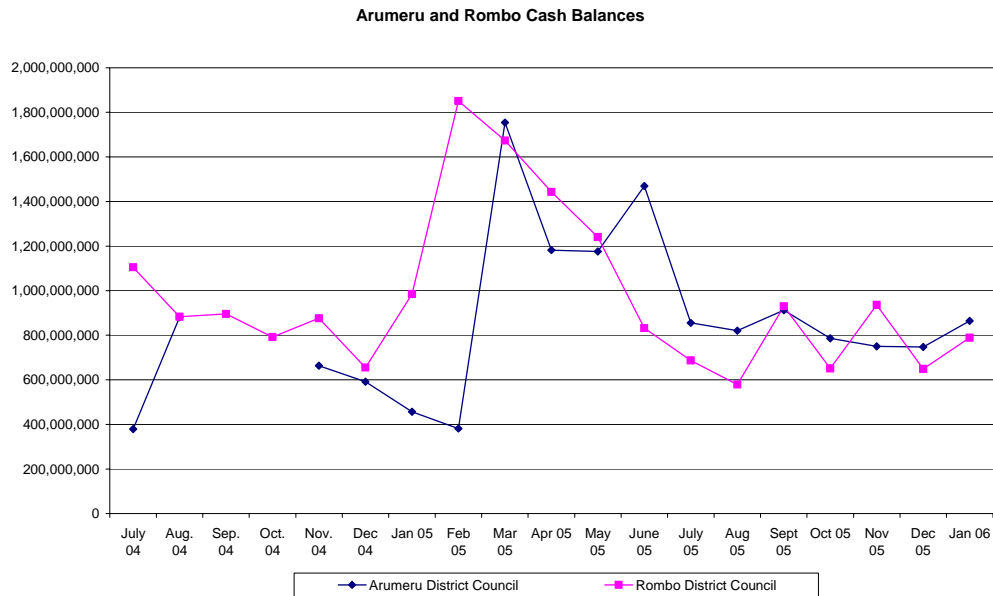
PI-17 Local authorities in Tanzania are only allowed to borrow from the Local Government Loans Board and even then must obtain ministerial approval. Whilst technically allowed under the Local Government Finance Act, bank overdrafts require ministerial approval which is rarely given. This indicator therefore assesses primarily cash management at the local government level.

At the district level, councils had between 14 and 30 different accounts. Separate bank accounts are maintained by individual villages, wards and SDUs. The multiplicity of bank accounts at district level is in response to donor and central government concerns about local level compliance with financial management procedures. In the absence of adequate budgetary control mechanisms, they act as a basic financial control mechanism helping to ensure that funds are not redirected to alternative uses.

⁷ Such guidelines would include a clear definition of the taxpayer and the tax base; the valuation of the tax base; the administrative procedures in collecting the revenue (including the tax forms to be used); as well as any enforcement and appeals procedures. Standardization of local tax administration will also enable central government officials to more systematically monitor the collection of local government revenues and to assist in building local government tax administration capacity and for local governments to supervise more effectively privatized tax collectors.

However, from a cash management perspective multiple accounts are inefficient and result in suboptimal use of funds, potential loss of interest and increased bank charges. In Tanzania it was noted that funds were held in non interest bearing accounts⁸, a sub optimal use of resources. As shown in Figure 6, the average monthly cash balances in Arumeru and Rombo across all bank accounts was in excess of 500 million shillings. Yet as noted in PI 4 and PI 20, Arumeru often has a negative balance on its main cash book representing an accumulation of arrears.

Figure 6 Arumeru and Rombo cash balances

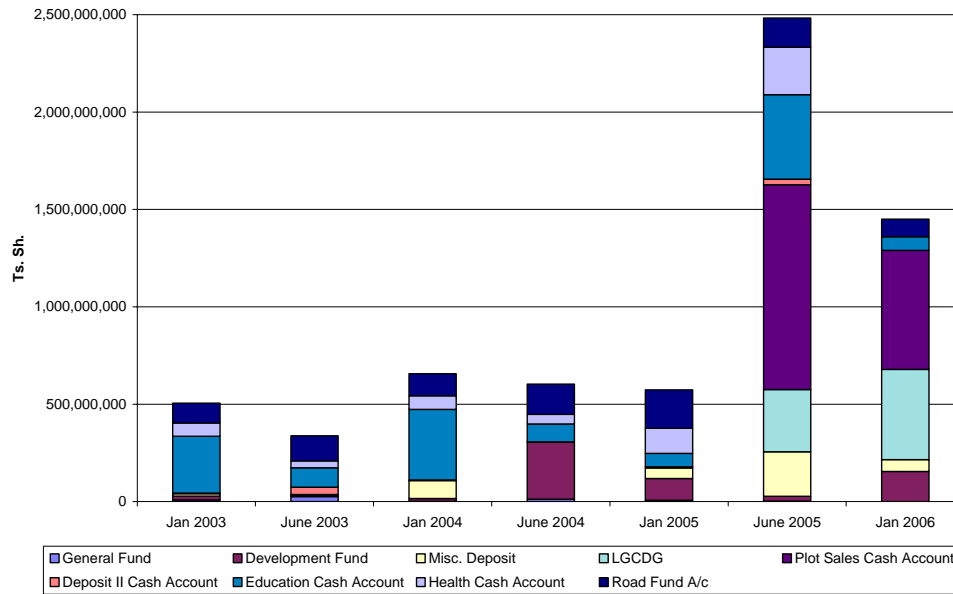


The situation was worse in Mwanza where the monthly cash balance in July 2005 was around Tshs. 2.5 billion. This was primarily on account of plot sales as shown in figure 7 below.

Figure 7 Mwanza City Council Selected bank balances

⁸ The team recognize that this is sometimes a requirement of donor support.

**Mwanza City Council :
Bank Balances (Selected Accounts)**



Payroll

PI-18 The payroll for all local government employees, whether funded from central government transfers or from own resources is managed centrally. Payrolls are collected physically each month and reconciled by heads of department with their staff lists. The length of time reported to make changes varied but did not exceed three months in most instances. Although staff surveys have been carried out as part of the restructuring process, most council payrolls with the exception of Mtwara have not been the subject of a full payroll audit. A full payroll audit reviews the processes from the central government level to the physical verification of personnel at the individual SDUs.

Procurement

PI-19 : The main issue with procurement at the local government level is that the March 2003 Regulations being used are based on the 2001 Procurement Act which has been repealed by the 2004 Public Procurement Act (PPA). The public procurement regulations being used at the central government level came out in May 2005 and are based on the PPA. While the PPA applies to both central and local government levels, the Regulations are not applicable to the local governments. Following the PPA coming into effect, all other laws, regulations or rules relating to public procurement ceased to have effect. The March 2003 Local Government Procurement Regulations contradict some important provisions of the PPA including the reporting arrangement of procurement officers in relation to the treasurer and the accounting officer as well as the composition of the tender boards. The present reporting arrangements and the composition of the tender board pose serious potential conflict of interests. Under the present set up, the head of supplies unit reports to the local government treasurer who is also a member of the tender board, and the accounting officer still chairs the tender board. In short, independence of functions as required by the PPA is missing in the current set up. Complaints mechanism under the LG procurement regulations does not conform to the provisions of the PPA, and it is difficult for bidders who may choose to appeal against procurement decisions, particularly for cases where a procurement contract has come into force. There is urgent need for the local government to revise its Regulations to comply with the PPA.

Non-salary Expenditure controls

PI-20 There is no expenditure commitment control system in any of the councils visited. Epicor had been implemented in four of the seven councils visited, but unlike central government does not currently have the purchase order module and associated commitment module installed. This means that purchase orders are raised with no check on either budget or cash availability. Although in Mtwara, it was reported that a (manual) check takes place against bank balances. It is understood that the purchase order module is to be implemented in 2006/7.

In Muleba, the team noted that the integrity of the data maintained by the Epicor system was corrupted, with differences between closing and opening balances, unexplained re-allocations and differing reports for the same time period.

The team was informed that the financial regulations, the LAFM and the LAAM had not been updated since 1997 and therefore did not reflect changed circumstances. Some officials reported that no training had been provided since 1999. Whilst in other councils e.g Karatu it was reported that all but one of the employees (excluding the DT) that had received Epicor training had left the Council. There are also a number of additional (donor driven) financial management manuals e.g health basket, PEDP et al which use fairly similar procedures for the incurring of expenditure, but have different reporting requirements. This creates an additional burden for all staff involved.

In general it was noted that the concept of the budget as a control mechanism is not generally recognized and the formal process of revising budgets and/or raising supplementary estimates (see PI22) is not done. Thus carried forward balances and in some instances revised block grant amounts are not included in a revised budget. Consequently even manual checks against budget can not be carried out.

In some councils e.g. Bagamoyo, the team noted that management of imprests and advances was very poor, undermining the reliability of any financial data. In other councils e.g. Arumeru the team noted that the General Fund bank account viz. the primary bank account used by Local Councils is frequently overdrawn (as per cash book) leading to a build up of arrears, (a drawer of unrepresented cheques). Fixed asset registers are not routinely maintained by several of the councils.

*PI-19.*In 3 of the 7 councils visited, there was no internal auditor present at the time of the visit. Although in one instance, this was due to study leave. A Local Government Internal Auditors Manual produced by PO-RALG is in use. Internal auditors are required to prepare a minimum of four reports a year and this was generally done, the quality of the audit reports varied between Councils. In some cases the focus of the audit was on transaction testing, rather than systems audit. In all cases however, the scope of the work to be carried out e.g. schools, villages, health centres as well as district accounts requires more resources combined with risk based plans. Follow up by the Council Management Team (CMT) and the Finance Committee was reported to be fair, although this could not be verified at all councils.

In those councils with Epicor, the effectiveness of the internal audit function is impaired by lack of knowledge of the system and is perhaps one explanation for the poor functioning of the Epicor system in some Councils.

Key findings and challenges
▪ Commitment control mechanisms do not exist. The concept of the budget as a control mechanism is not well understood and other internal controls are not being rigorously applied.
<i>In those councils with Epicor, the implementation of the commitment control module needs to</i>

be introduced, whilst manual commitment registers could also be introduced in other locations.

- **Data integrity appears to be compromised in some Epicor installations.** In some locations data appears to be corrupted. Whilst transfer of Epicor data to other reporting systems without adequate measures to ensure the integrity of the data will also undermine financial accountability.

Checks should be made on the integrity of the Epicor systems to ensure that they are operating correctly and additional training should be provided to both accounts and internal audit staff. Integrity of data transferred from Epicor to other reporting systems needs to be maintained.i

- **Standard revenue administration guidelines do not exist.** Revenue collection at the local level is not carried out in a transparent and consistent manner.

Consideration should be given to the development of some standard revenue administration guidelines together with guidelines on the selection and management of private sector operators.

- **Fund management** The multiplicity of bank accounts leads to sub optimal cash management and resources lying idle.

Consideration should be given to the possible consolidation of some of the bank accounts to improve cash management at the councils.

Accounting, recording and reporting

		Arumeru	Rombo	Mwanza	Muleba	Mtwara	Karatu	Bagamoyo
PI-22	Timeliness and regularity of accounts reconciliation	B	B	D+	B	A	B	C
PI-23	Availability of information on resources received by service delivery units	C	D	B	C	A	C	D
PI-24	Timeliness, quality and dissemination of in-year budget reports	C	D+	D+	C	B	C+	D
PI-25	Timeliness and quality of annual financial statements	D+	D+	D+	C+	A	C+	D+

PI-22 With the exception of Mwanza, where bank reconciliations had not been completed for several months, the timeliness of bank reconciliations was fair to good. However the quality of reconciliations in some instances was poor with errors even in the computerized systems (closing balances not equaling opening balances). In some Councils, procedures for the regular checking of bank reconciliations by the DT and/or DED were not being followed and there is poor management of advances and imprests, the latter not cleared on a regular basis or even at year end.

PI-23 The quality of reporting at SDUs varies between Councils both in terms of information available at the local level and the level of reporting to the District Level. Although PEDP requires regular reports to be produced, this was not seen at all councils visited. As noted in PI 10, the quality and availability of information for public consumption and the service delivery level also varied considerably, with most information not being provided in a useful and accessible format.

PI-24 Whilst in year budget reports are produced regularly, their quality and comprehensiveness varies. Associated with the problems of multiple planning and budgeting processes, there are multiple budget reporting systems, causing a strain on limited resources.

Budget v Actual reports tend to be sector or grant specific and no composite in year budget report was found except for Muleba. Monthly reports are sent to the Council Management Team and to the Finance Committee, whilst quarterly reports are presented to the full council and then sent to RS, PMO RALG and MoF.

PI-25 The annual final accounts are meant to be submitted by local governments within three months of the financial year and for the latest set of accounts (2004/5) this was achieved by all the Councils visited. It is understood that this trend is representative of the whole of local government in Tanzania. The quality of account presentation is also improving but varies significantly between Councils. However for the period under review, lack of consistency in data presentation has made analysis and cross year comparison difficult. Whilst international standards are not followed, greater adherence to the standards set out in the financial regulations would improve readability and usefulness. In theory, reports should be prepared according to Generally Accepted Accounting Principles.

Key findings and recommendations	
<ul style="list-style-type: none"> The quality of accounts reconciliations is an area of concern and one that has not been identified by monitoring or audit teams. <p><i>Additional training on bank reconciliations could be provided either in situ or in a classroom format. Internal auditors and zonal reform teams should monitor more closely the quality of bank reconciliations not just their completion.</i></p>	
<ul style="list-style-type: none"> Multiple reports are produced which are designed for the use of CG and donors and not for the effective and efficient management of the Council itself or for sound local accountability. <p><i>The content and format of reports should be reviewed to ensure that reports are produced which are of benefit to Council management and local councilors/public rather than just central government and/or donors.</i></p>	

External scrutiny and audit

		Arumeru	Rombo	Mwanza	Muleba	Mtwara	Karatu	Bagamoyo
PI-26	Scope, nature and follow-up of external audit	C+	C+	C+	B	A?	C+	D+
PI-27	Legislative scrutiny of the annual budget law	D+	D+	D+	D+	B	C+	D+
PI-28	Legislative scrutiny of external audit reports	C+	B+	B+	B+	B	B+	C+

PI-26 External audit reports are prepared annually for higher local governments by the Controller and Auditor General. With the exception of Mtwara, only financial and attest audits are carried out. It was reported that in Mtwara, some VFM auditing had been carried out both by the private sector auditors and by the NAO. The status of audit reports for the seven selected Councils is shown in the following table. The Audit report for Local Government for the FY 2004/5 was tabled with Parliament in March 2006. Management letters and individual audit reports were sent out at the end of each specific audit.

CAG Assessment						
Council	2000	2001	2002	2003	Jun-04	04/05
Arumeru	Adverse	Qualified	Qualified	Clean	Qualified	Clean

Muleba	Adverse	Qualified	Clean	Adverse	Clean	Clean
Rombo	Adverse	Clean	Clean	Clean	Clean	Clean
Mwanza CC	Qualified	Qualified	Qualified	Clean	Qualified	Qualified
Karatu	Adverse	Adverse	Qualified	Clean	Clean	Qualified
Bagamoyo	Adverse	Adverse	Adverse	Qualified	Qualified	Clean
Mtwara	Clean	Qualified	Qualified	Adverse	Adverse	Adverse

In addition to the NAO council audit, a number of specific audits are also carried out. These include: i) Special audit of the Road Fund - NAO; ii) Health basket – private sector auditors; iii) PEDP – private sector auditors; iv) Donor projects – private sector auditors. Other inspections and internal audits are carried out by central ministries and these are covered in indicator CG4. The findings of these specific audits do not appear to be incorporated into the overall audit findings of the NAO. Technically, given their partial scope, they are then of limited value, in ascertaining whether funds have been used for the assigned purpose.

As indicated in CG 4, the multiplicity of audits and inspections is a strain on limited resources and disruptive to the routine of the Council. Despite the multiplicity of audits, the scope of audit at the village and SDU level is limited with only PEDP auditors required formally to review operations at the school level. According to the LG Finance Act, village transactions do not have to be audited by the NAO except at the request of the DED. Currently there is no requirement for accounts to be prepared by villages or township authorities. Given that > 50% of funds in the LGCDG are assigned to the village level, the lack of formal audit is a matter of concern.

As for central government the quality of audits carried out are adversely affected by the auditors understanding of the Epicor system. The mission also noted that clean audits had been awarded in some Councils where there were multiple outstanding queries and an apparent poor quality of financial management. Whilst a brief comparison of the audit reports for the seven councils showed a lack of consistency of approach.

PI-27 Within the constraints of the current budgetary framework, the Council review of the budget was generally seen to be reasonable at least to the stage of the approval of the original budget. Although, in most cases, the quality of their intervention could be improved. In addition, Bagamoyo does submit a budget which may not be approved by the full Council. Revision of budgets and the approval of supplementary estimates are however found to be lacking in all Councils with the exception of Mtwara.

PI-28 Audit reports are submitted to the Finance Committee and formal responses are made to audit queries in most local governments. The full Council received the NAO June 2004 audit report in January 2006. It was also found that in most cases the additional audit reports are submitted to the Finance Committee and the full Council. External audit reports are frequently in English, however, to improve transparency it was reported that in some councils they were translated into Kiswahili. Generally a record of audit recommendations are minuted in the Finance Committee meetings and progress followed up in subsequent meetings. The extent and effectiveness of follow up was however variable with audit queries frequently raised in subsequent audit reports. The Council’s ability to ensure that the Executive respond to audit queries is limited. The unclear relationship between district officials and the elected Council mean that district officials are often unwilling to respond to issues raised by elected members. Indeed in Karatu, concern was raised by a few district officials as to the perceived “interference” of Councillors, rather than viewing it as their legitimate role.

Key findings and recommendations
▪ Quality and integrity of external audits needs to be improved and standardized

across Councils, this is not achieved by a multiplicity of standalone and partial audits.

As part of the modernization of the NAO, particular attention should be given to the audit of local authorities.

▪ **The ability of the Council to ensure that centrally appointed and centrally paid district officials** respond to queries is limited.

The human resource issues surrounding decentralization and local accountability need to be addressed, so that district officials are responsive to their local councilors.

Donor practices

		Arumeru	Rombo	Mwanza	Muleba	Mtwara	Karatu	Bagamoyo
D1	Predictability of basket and project funding ⁹	D	D	D	D	C	D	D
D2	Financial information provided by donors for budgeting and reporting on project aid and basket funding ¹⁰	D	D	D	D	D	D+	D
D3	Proportion of aid that is managed by national procedures ¹¹	C	C	C	C	C	C	C

Although the vast majority of local government revenues accrue from the central government grant system, a significant share of revenues accrue from donor projects/basket funding. These funds either directly channelled to local governments by donors, or are channelled via projects managed by line ministries.

D-1 In the past, health basket funding has sometimes been unpredictable for example, in the six months ending June 2004, funds were significantly delayed. In general however there has been reasonable consistency in amounts received.

There appears to be some confusion over the predictability of LGCDG, the funding for which is dependent on a separate assessment, but council funds (5% of potential funding) have to be set aside in the budget process, awaiting potential receipt of the external funds. Receipt of PEDP funds was seen to be quite erratic in a number of the councils visited with the first funds being received for 2005/6 in January 2006. A brief examination of previous year's receipts showed that at the school level, there was weak correlation between amounts received, agreed per capita amounts and the number of school aged children in the district.

D-2 Information on project/basket funding varies, whilst certain donor led funding is included in the budget process, information on other projects is not provided in a timely manner to allow for inclusion in the local government budgeting process. Information on disbursements often arrives late and in some instances is not provided to the Council at all. This is particularly the case with projects carried out by NGOs and funded by donors.

D-3 Whilst it is recognized that certain funds e.g. health basket, PEDP use some government channels for the disbursement of funds and the incurring of expenditure. The majority of donor funded/supported activities require different or additional reporting and accountability mechanisms e.g. separate plans, separate audits, additional reports.

⁹ As the predictability of budget support is assessed in the central government matrix, the team have adopted a slight change to the central government indicator and assessed the predictability of basket funding and project funding.

¹⁰ The team have assessed the financial information provided by donors for project aid and basket funding, thus eliminating any confusion over the use of the term programme aid.

¹¹ More than 90 % of funds received by lgas are block grant transfers, according to the central government assessment 58% of donor funds use national procedures, thus 52% of local government funds are sourced in this way.

Key findings and recommendations	
<ul style="list-style-type: none"> ▪ The multiplicity of planning, budgeting and reporting requirements of donors is having a negative rather than a positive affect on overall financial management at the local level. <p><i>Serious consideration should be given to the streamlining of the separate planning, budgeting and reporting systems.</i></p>	
<ul style="list-style-type: none"> ▪ Predictability of funding in terms of timeliness and amount for both basket and project funded activities causes difficulties in service delivery. <p><i>Donors (and central government for basket funds) should improve their efforts to improve the predictability both in terms of timeliness and amount for their support.</i></p>	

Central government practices

		Arumeru	Rombo	Mwanza	Muleba	Mtwara	Karatu	Bagamoyo
CG1	Predictability of funds	C	C	C	C	C	C	C
CG2	Timeliness of information	C	C	C	C	C	C	C
CG3	Level of autonomy	C	C	C	C	C	C	C
CG 4	Oversight and scrutiny	C	C	C	C	C	C	C

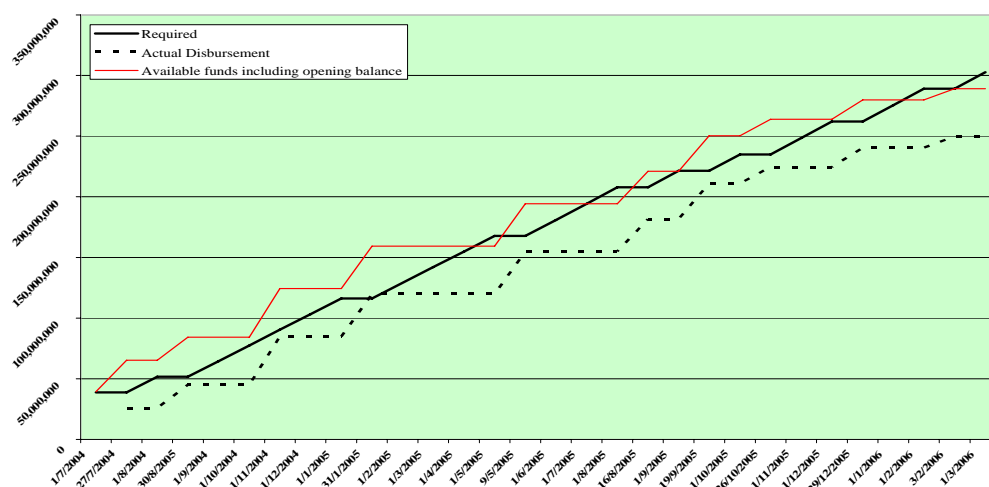
Intergovernmental Fiscal Transfers

Central government now provides the majority of funding for local government in Tanzania (in excess of 90%). The importance of a sound, reliable and transparent fiscal transfer system is essential for local authorities to carry out their mandate.

CG-1 The teams found that the personnel emoluments (PE) portion of the block grants is received regularly every month, normally between the 25th and 30th of the month. Other charges (OC) are less regular. The frequency and amount of OC funds disbursed appears to vary between sectors and even between Councils. As shown in the following graph, without the b/f cash balances¹², Mtwara would have had difficulty in carrying out many of its planned activities at the beginning of the year.

¹² The team has been informed that CG intends to recall unused funds at year end starting from FY 2005/6, given the current poor predictability of funding, such action would inevitably result in poor financial management practices e.g. excess expenditures.

Graph of requirements vs. actual disbursements - Cumulative Education grant - OC



LGRP has reported that there are large differences in LGCDG amounts disbursed and received as can be seen from the table below. Although this data is there only for four regions, it shows that the amounts received by Local Councils are only a third of the amounts released by the Central Government. Some of the differences may be due to timing differences, but this alone cannot explain the large variations.

LGCDG Disbursements to 31/12/05

REGION	NAME OF COUNCIL (LGA)	Disbursement figures as per Central Government				AMOUNTS SHOWN BY LGA (Tshs)
		CDG Disbursed 1st Quarter (Tshs)	CDG Disbursed 2nd Quarter (Tshs)	CBG Disbursed 2nd Quarter (Tshs)	Total (Tshs)	
MARA	Musoma Municipal Council		46,447,500	13,860,000	60,307,500	0
	Bunda District Council		118,112,500	18,260,000	136,372,500	31,146,000
	Musoma District Council		151,690,000	20,350,000	172,040,000	0
	Serengeti District Council			16,940,000	16,940,000	0
	Tarime District Council			24,585,000	24,585,000	0
MWANZA	Mwanza City Council	79,817,801	208,422,500	23,815,000	312,055,301	59,621,000
	Ukerewe District Council			18,150,000	18,150,000	0
	Sengerema District Council	86,906,781		24,915,000	111,821,781	434,533,903
	Geita District Council			31,020,000	31,020,000	119,085,800
	Kwimba District Council			19,965,000	19,965,000	0
	Magu District Council			22,660,000	22,660,000	0
	Misungwi District Council			18,260,000	18,260,000	43,028,600
SHINYANGA	Shinyanga Municipal Council		49,142,500	14,025,000	63,167,500	0
	Shinyanga District Council			25,795,000	25,795,000	0
	Maswa District Council		139,810,000	19,635,000	159,445,000	0
	Bariadi District Council			28,270,000	28,270,000	0
	Kahama District Council			27,995,000	27,995,000	0
	Meatu District Council	48,989,306	121,852,500	18,535,000	189,376,806	48,989,306

	Bukombe District Council		191,785,000	22,825,000	214,610,000	0
KAGERA	Bukoba Municipal Council	10,998,542	29,067,500	12,815,000	52,881,042	0
	Karagwe District Council		180,565,000	22,165,000	202,730,000	0
	Biharamulo District Council			22,165,000	22,165,000	0
	Muleba District Council			20,625,000	20,625,000	0
	Bukoba District Council		165,467,500	21,230,000	186,697,500	0
	Ngara District Council	53,810,965	138,985,000	19,580,000	212,375,965	60,586,420
TOTAL		280,523,393	1,541,347,500	528,440,000	2,350,310,893	796,991,029

CG-2 Although CG informs the Councils of grant levels in the annual budget guidelines, the reliability of the information is poor with figures regularly changing between approval by local council and appropriation by the national assembly. For example the sectoral block grant amounts that were actually included in the government budget for FY 2005/06 deviated substantially from the formula-based ceilings that were included in the budget guidelines issued earlier in the budget formulation process. The sole cause for these deviations was the issuance of PE budget estimates for local authorities which were issued by PO-PSM late in the budget formulation cycle. Information on the transfer of funds from CG to the Councils comprises of notification to the bank. Frequently Councils receive money for which the purpose is unclear and it can take district officials several weeks to determine the purpose of a particular fund.

Extent of autonomy

CG-3 Although there appears to be broad consensus that it is ultimately the local government that should determine the balance between PE and OC for government services delivered at the local government level, the current budget process still imposes separate aggregate requirements on local PE and local OC. Secondly although the grants are now formula based, central government continues to provide detailed instructions on their specific use. In many instances, there appears to be very limited scope for true local decision making.

Oversight and Scrutiny

CG-4 As indicated in PI 26, there is a multiplicity of external audits, in addition there are a number of monitoring/ internal audit and inspection activities carried out by various central ministries. The purpose of some of these monitoring visits is unclear and possibly more related to receipt of allowances than effective service delivery or sound financial management.

The Local Authorities Accounts Committee (LAAC) receives a copy of the NAO report and councils (Council Chairman and DED) are required to appear before the committee. If there are queries raised, a second appearance at the expense of the Council is ordered. This process lacks transparency.

Key findings and recommendations
<ul style="list-style-type: none"> ▪ The non predictability of central government transfers adversely affects the implementation of planned activities. <p><i>As noted earlier, predictability of central government transfers needs to be improved.</i></p>
<ul style="list-style-type: none"> ▪ Timely and reliable information from central government on fund transfers is poor. <p><i>Greater attention needs to be given to the provision of basic information on the transfer of funds so that there can be no confusion as to its purpose.</i></p>
<ul style="list-style-type: none"> ▪ Local government autonomy is limited. Central government continue to issue detailed

guidelines for the use of money

Greater freedom needs to be provided to local authorities to determine their priorities, at least at the micro level

- **There is a clear need to improve the quality** rather than the quantity of monitoring/inspection efforts

Greater effort needs to be placed in improving the quality of audits/inspections carried out and reducing the number of separate audits

- **The fining of Councils by LAAC** needs to be done in an open and transparent manner.

Consideration should be given to alternative means of financing second sittings of the LAAC which is seen to be both transparent and equitable.

**E. FUND FLOW, REPORTING AND ACCOUNTABILITY MECHANISMS BY MAJOR SECTOR
PLANS, GRANTS, BUDGETS AND PROCESSES (DRAFT)**

Sector and programme	Funding mechanism/grant	District Plan (Village Plan)	Amounts (Tshs. 000,000s)			Source	On budget? (Yes/NO)*	Purpose	Planning/reporting mechanism (governance)	Separate plans/reports/audits		
			FY05 (actual) [# of LGAs]	FY06 (budg.) [# of LGAs]	FY07 (est.) [# of LGAs]					plans	reports	audit
CONTESTABLE MULTI-SECTOR PROGRAMMES												
LGCDG	CBG						Y	Capacity building for LGAs who haven't qualified for the LGCDG	Provided to LGAs that fail the CDG criteria, provisional on the presentation of an approved capacity building plan	Yes		
	CDG						Y	Capital development funds for LGAs	Provided to LGAs that meet a the set minimum criteria. At least 50% should be spent at village/mitaa level	Yes		
	LGDG							Non-earmarked grants for development	Provided to LGAs that don't qualify for CDG, but that meat the less stringent conditions set for LGDG			
TASAF	TASAF							Provides funds for development for LGAs and communities based on participatory planning processes	CDG conditions must now be met to receive TASAF. Separate planning AND reporting, not included in consolidated district reports or budgets	yes	yes	Yes?

Sector and programme	Funding mechanism/grant	District Plan (Village Plan)	Amounts (Tshs. 000,000s)			Source	On budget? (Yes/NO)*	Purpose	Planning/reporting mechanism (governance)	Separate plans/reports/audits		
			FY05 (actual) [# of LGAs]	FY06 (budg.) [# of LGAs]	FY07 (est.) [# of LGAs]					plans	reports	audit
AGRICULTURE												
ASSP								Similar objectives to ASDP sub-component 2.	Appears from documentation that it was intended for this to be rolled into ASDP (see below)	?	?	?
ASDP	Three sub-components: 1. Local Agricultural Investment 2. Local Agricultural Services 3. Local Agricultural Capacity Building and Reform		33,709 (Total)	47,979(Total)					THE ASDP Basket Fund is managed by the ASDP Steering Committee (not yet established as of Dec. 2005)	?	?	?
	DADG	DADP (VADP)	4,000	4,000	80% GOT 0% DPs 20% Benef.		Top-up to LGCDG for local agricultural investments	The basic DAG is available for all LGAs regardless of whether they meet minimum conditions	?	?	?	
	Enhanced DADG	DADP		1,700	49% GOT 31% DPs 20% Benef.			Conditional on specific access conditions for the DADG, 170m is available per council. Another 340m per council is available for good performers	?	?	?	
	DIDF		3,000	4,000	25% GOT 55% DPs 20% Benef.		Funding development of local irrigation schemes (not for recurrent costs)	Allocated on basis of local irrigation potential and implementation capacity. Only available to district that qualify for LGCDG and DADG	?	?	?	
	(DAEG) EBG		15,690	16,484			Recurrent costs for extension staff at district level	Formula based – part of the regular block grant transfers to the LGAs				
	(DAEG) Enhanced Extension Grant, “EBG top up”			504			Discretionary funds for private extensions services	To be introduced to qualifying councils from FY07. Will, over time, replace recurrent expenditure, as services are gradually outsourced.				

Sector and programme	Funding mechanism/grant	District Plan (Village Plan)	Amounts (Tshs. 000,000s)			Source	On budget? (Yes/NO)*	Purpose	Planning/reporting mechanism (governance)	Separate plans/reports/audits		
			FY05 (actual) [# of LGAs]	FY06 (budg.) [# of LGAs]	FY07 (est.) [# of LGAs]					plans	reports	audit
	A-CBG				496			Discretionary fund to finance training and capacity building of LGA	Top up funding to the CBG			
PADEP												
ASPS II												
DASIP												
HEALTH												
	Block grant PE								Need to physical fetch and verify payroll each month, payment through bank accounts.			
	Block grant OC								Reporting to CMT, Council, RC and RALG. Also linked to elaborate sets of reports (MTUHA, weekly IFR, R+R, etc)			
	Health Basket Fund								Elaborate quarterly reporting including detailed bank reconciliations, funds spent, outputs achieved – necessary to trigger next Q+1 funding.	No	Yes	Yes
	Primary health care facilities grant								Create separate facility committees and bank accounts at village level – as per special manual developed by PORALG	?	?	?
	JRF PHF							Ear marked fund for rehabilitation of primary health facilities	Operated by dedicated committee and has own bank account and separate reporting (in Karatu the manual was only supplied in English)	?	yes	?
	Immunization funds								Reporting to UNICEF/Ministry		yes	
	Vitamin A funds								Reporting to UNICEF/Ministry		yes	
	Global fund									?	?	?
	TASAF								Separate planning streams, parallel reporting and construction, not in district reports	Yes	yes	yes
	NHIF								Insurance deducted from salaries			
	Community health fund								Cost-sharing collected at facility level –			
EDUCATION												
	PE	District						GOT	Need to physical fetch and verify payroll each			

Sector and programme	Funding mechanism/grant	District Plan (Village Plan)	Amounts (Tshs. 000,000s)			Source	On budget? (Yes/NO)*	Purpose	Planning/reporting mechanism (governance)	Separate plans/reports/audits		
			FY05 (actual) [# of LGAs]	FY06 (budg.) [# of LGAs]	FY07 (est.) [# of LGAs]					plans	reports	audit
		plan						month, payment through bank accounts.				
	Capitation as part of OC						GOT	Various school reports, quarterly reports to RALG				
PEDP	Capitation Grant					WB	10,000 shillings per student (4,000 reserved for books) payable to the schools Non-discretionary, ear-marked funding. Funds transferred to districts (from MOF, PMO-RALG and MOEVT) for further transfer to schools.	Various school reports, quarterly reports to RALG	yes	yes	yes	
	Development Grant					WB	Building of classrooms and staff houses.	Transferred to districts who decide where and how to spend money Various school reports, quarterly reports to RALG	yes	yes	yes	
	Capacity Building Grant					WB	Capacity building of school committees	Training and trainees decided by districts	yes	yes	yes	
SEDP	SEDP classroom funds					WB		Ambiguous involvement of district, funds spent at sub-treasury level not sent to school accounts, reporting to PS Education.				
	Secondary fees							Collected by school,				
Water												
	Block grant PE					GoT		Need to physical fetch and verify payroll each month, payment through bank accounts.				
	Block grant OC					GoT		Reporting to CMT, Council, RC and RALG. Also linked to elaborate sets of reports (MTUHA, weekly IFR, R+R, etc)				
RWSSP						WB	Construction of RWSS	MWLD responsible for the overall implementation of the Project The Rural Water	yes	yes	yes	

Sector and programme	Funding mechanism/grant	District Plan (Village Plan)	Amounts (Tshs. 000,000s)			Source	On budget? (Yes/NO)*	Purpose	Planning/reporting mechanism (governance)	Separate plans/reports/audits		
			FY05 (actual) [# of LGAs]	FY06 (budg.) [# of LGAs]	FY07 (est.) [# of LGAs]					plans	reports	audit
							facilities, establishment and strengthening of DWSTs and community education	Supply Department (RWSD) of MWLD manage the implementation of the Project and support participating districts in: (a) establishing a DWST; (b) preparing a District WSS Plan (DWSP) endorsing policy principles; and (c) establishing a District WSS Fund to which the Project would make financial contributions.				
Roads												
	Block grant PE					GoT			Need to physical fetch and verify payroll each month, payment through bank accounts.			
	Block grant OC					GoT			Reporting to CMT, Council, RC and RALG. Also linked to elaborate sets of reports (MTUHA, weekly IFR, R+R, etc)			
Road fund										yes	yes	yes
Administration												
General Purpose Grant												

* Y_c = on Central Govt. budget

Colour codes:

Red type Central Government subventions under the recurrent budget

Black type Separate project or programme funding (includes GOT development funding)

Blue type Community contributions, fees or cost-sharing

Sources:

Agricultural Sector Development Programme (ASDP) Government Document December '05.

F. CAPACITY BUILDING AND HUMAN RESOURCE ISSUES:

Capacity building efforts

Over the last six years, there has been considerable emphasis placed on capacity building and this is now also reflected in the number of capacity building grants available. The down side to the current capacity building effort is its effect on the day to day operations of the Councils which suffer already from limited resources. It is clear that there is a long term requirement for effective training programmes. Zonal reform teams and Epicor support teams can play an important role in translating academic or workshop oriented training into more practical on the job assistance. Training of Council Committees is also an ongoing process as members change.

Human resource constraints

In the districts visited, the teams noted that the councils and the SDUs were all operating with limited capacity, both in terms of numbers and expertise. It is expected that shortfalls in numbers are even more acute in the remoter areas of the country. Recruitment in Karatu was reported to be particularly difficult because of prospective candidate's perception of the opposition led council. A broader constraint faced by local governments in attracting adequate numbers of qualified staff to deliver local government services is their lack of control over local government salaries. Providing local governments greater control in determining local government salaries -or allowing LGAs to top up the salaries of local government employees within the context of their available resources- would improve the ability of local authorities to attract and retain staff, especially in rural and remote parts of the country.

A second constraint is the unclear relationship between the Council and the district officials, which as noted elsewhere is sometimes strained. Following the changes in the Public Service Act, Councils have little or no say in the recruitment of their senior personnel. In some instances, they appear to be unfairly criticised for the quality of their staff, yet they have no involvement in staff recruitment.