UNITED REPUBLIC OF TANZANIA

2009 PUBLIC FINANCIAL MANAGEMENT PERFORMANCE REPORT ON MAINLAND TANZANIA

Public Financial Management Working Group
Tanzania

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PUBLIC FINANCIAL MANAGEMENT
PERFORMANCE REPORT

Contents

Abbreviations

AGA	Autonomous Government Agency
BOT	Bank of Tanzania
COFOG	Classification of the Functions of Government (a UN functional classification used by IMF-GFS and the PEFA Framework)
CMU	Cash Management Unit
DPs	Development Partners
DRD	Domestic Revenue Department
DSA	Debt Sustainability Analysis
GDP	Gross Domestic Product
GFS	Government Finance Statistics (IMF system)
HCMIS	Human Capital Management Information System
IFMS	Integrated Financial Management System
IPSAS	International Public Sector Accounting Standards
LGA	Local Government Authority
LPO	Local Purchase Order
LTD	Large Taxpayers Department
MDA	Ministry, Department, Agency
MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania: Tanzania's National Strategy for Growth and Reduction of Poverty
MOFEA	Ministry of Finance and Economic Affairs
MTEF	Medium Term Expenditure Framework
NAO	National Audit Office
NSGRP	National Strategy for Growth and Reduction of Poverty
PAC	Public Accounts Committee
PE	public enterprise
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public financial management
PFM-PR	Public Financial Management –Performance Report
PFMRP	Public Financial Management Reform Programme
PFMWG	Public Finance Management Working Group
PO-PSM	President's Office-Public Service Management
PPA	Public Procurement Act
PPAA	Public Procurement Appeals Authority
PPRA	Public Procurement Regulatory Authority
PRSP	Poverty Reduction Strategy Paper
SBAS	Strategic Budget Allocation System
TRA	Tanzania Revenue Authority
VAT	Value Added Tax

Financial year:	1 July to 30 June
Exchange rate at 30 June 2009:	TZS 1,286 = USD 1.00

SUMMARY ASSESSMENT

Integrated Assessment of PFM Performance

Credibility of the budget

Up to 2007/08, revenue collections exceeded original budget estimates mainly due to improved economic performance, continued tax policy and administration reforms, and a conservative revenue projections policy. In 2008/09 however, the impact of the global recession on Tanzania reduced collections, which fell 10 percent short of budget. In the same period, actual expenditures have been substantially less than the original budgets, especially in the categories of goods and other services, and domestically-financed development expenditures. The variations between actual expenditures and originally approved budgets, depending on the year, have been greater when looking at the expenditure composition within most ministries, departments and agencies (MDAs). There are several reasons for these deviations, including shifting priorities during the year, uneven implementation capacity, and unrealistic budgeting. It is also evident that certain expenditure categories have suffered across the board cuts due to macro-fiscal considerations and cash shortfalls.

Comprehensiveness and transparency

The budget preparation and documentation process is extensive, and is supported by very detailed budget preparation manuals issued by the Ministry of Finance and Economic Affairs (MOFEA) to the MDAs and separately to the local government authorities (LGAs). Transfers to the autonomous government agencies (AGAs) are recorded in the budgets of the MDAs, but the remaining part of the AGAs' budgets are not part of the budget documentation, as the AGAs budgets are approved by their own authorities established by individual laws. Some AGAs might pose fiscal risks for future budgets in the form of a need for increased transfers resulting from commitments that are not made known to the MOFEA. Furthermore, it is not known to what extent potential fiscal liabilities created by the public enterprises (PEs) are taken into account in the fiscal planning, as these are not highlighted in the government budget documentation.

Public access to fiscal information, both in the budget presentation and execution phases is good. Fiscal information in both budget documentation and execution reports are provided through several means, including the media and some government websites. However, the coverage and details of information are limited in the budget execution phase. For example, the actual composition of the MDAs' budgets are not published in the course of the year. These details are also excluded from the government final accounts, as the final accounts and government financial statements are very brief, only summarizing government transactions. The lack of an internationally-accepted functional classification in the budget, as well as the presentation of recurrent and development expenditures in different formats (very detailed for recurrent expenditures and very brief for development expenditures) reduce the value of the budget documentation. There are unreported expenditures in the budget and accounting systems, and some limited donor-financed operations do not pass through government systems. More importantly, the expenditures of AGAs that are financed from earmarked revenues as well as from the government budget are not reported in a timely manner and in a classification compatible with the government and MDAs' budgets.

The allocation of all types of transfers to LGAs is largely formula based, but because the transfers are conditional, sectoral policies are also taken into account. Budget ceilings along with detailed instructions and technical manuals are issued to the LGAs three months before the beginning of the fiscal year. However, budget ceilings are subject to significant change as the government budget is finalized and these changes in some cases are not adequately communicated to spending units in local governments.

Policy-based budgeting

Several policy papers and technical documents are prepared to support budget preparation, including macro-fiscal analysis papers, the National Strategy for Growth and Reduction of Poverty (NSGRP), Medium-Term Expenditure Framework (MTEF), and more recently a document called Strategic Budget Allocation System (SBAS) to help establish MDA budget ceilings. It is not clear, however, how medium-term sectoral policies translate into annual budgets. Although the MOFEA is responsible for the preparation of both recurrent and development budgets, these two budgets are technically not integrated, and the absence of a functional classification system in the budget does not help improve the policy base of the budget. A clear link between long-term sectoral planning and macroeconomic strategies and the budget formulation process is missing. There is a clear budget calendar. Starting from FY 2008 MOFEA is involving the Budget and Finance Committee of the Bunge early in the budget formulation process. The budget is normally submitted to the National Assembly just a few days before the beginning of the fiscal year, so there is little time for Parliamentary scrutiny.

Predictability and control in budget execution

Tax policy and administration, as well as procurement reforms are advancing. In spite of good tax collection performance, as well as increased and timely budget support from development partners, budget execution and implementation of government operations face ongoing uncertainty. It is widely believed that this stems from the monthly cash rationing system that limits timely purchase of goods and services in the MDAs. The weak cash management procedures employed in the process of monthly budget allocations hampers a meaningful budget execution. Some unbudgeted operations may also be initiated in the course of the fiscal year, thereby crowding out other MDAs' spending plans. The bulk of the MDAs' recurrent expenditures are salaries and wages, but payroll controls are weak and difficult to manage. Also, internal controls and internal audit functions in the MDAs continue to be weak and increase fiduciary risk in budget execution.

Accounting, recording and reporting

The Integrated Financial Management System (IFMS) has been in operation since 1998 and is one of the earliest such systems to be implemented in East Africa. As a central payment, accounting and reporting system, it has proved to be very useful, especially now that the system covers all central government ministries and all 22 sub-Treasuries across the country. The system has also been rolled out to 86 out of 133 local governments, significantly increasing the timeliness and quality of expenditure information produced by these units. Despite these achievements, the system continues to suffer from major weaknesses that have not been adequately addressed over the last 11 years. After a decade, the IFMS bank reconciliation module is still not operational, resulting in around 5 percent of transactions between MOFEA and the Central Bank not being reconciled through the automatic reconciliation process on a monthly basis. The Data Warehouse has also not been operational until very recently resulting in MOFEA being unable to access the information stored in this warehouse for any kind of analysis. Major capacity and implementation challenges exist at local government IFMS implementation sites with around half the sites not having had their chart of accounts updated for the last eight years. Limited capacity has been built in the systems unit of the Office of the Accountant General, resulting in ongoing dependence on the vendor. For these reasons, the quality of accounting and reporting in the MDAs is questionable, with external audit reports regularly calling for these issues to be addressed.

In 2008/09 for the second year, Government accounts have been produced in compliance with international public sector accounting standards (the cash-basis IPSAS). The Auditor General noted a remarkable improvement in compliance, 88 percent of the MDAs getting unqualified opinions (clean audit reports) on their accounts. Financial management procedures and regulations at the Central Government level derive their authority from the Public Finance Act. However local government units are governed by the Local Government Finances Act No.9 of 1982, and this act does not make any provision for the authority of the Accountant General or the Paymaster General. Accounting standards have therefore not been specified for LGAs resulting in different local government units producing accounts on different standards.

Some expenditure tracking surveys on the final service delivery units have been initiated and implemented by the MOFEA, but their methodology is not known and their reports have not been made public. The lack of publication of in-year budget execution reports by the MDAs, as well as the summary style coverage of the annual financial statements are the main problem areas. Fiscal reports (summary of revenue, expenditure and deficit and its financing) are helpful and are published regularly, but they do not disclose any detailed revenue or expenditure data. Both in-year and year-end reporting need to be improved and the corresponding data need to be published. Presently, the only in-year expenditure reports are the monthly fiscal flash reports produced by IFMS, but these are not made public, and their usage is limited to the cash flow management task.

External scrutiny and audit

External audit reports including the consolidated financial statements are submitted to the legislature in a timely manner, within nine months of the end of each fiscal year. The quality and timeliness of these reports has significantly improved over the last three years. A new Public Audit Act that was gazetted in September 2008 has helped strengthen the independence and powers of the Auditor General. Under the new Act the CAG now has full freedom in terms of the scope and type of audits. Recommendations can now include revisions in any relevant law. CAG's budget is still submitted to the National Assembly by the Minister of Finance, but the Minister must now have regard to the advice of the PAC at a joint meeting of the Minister and the PAC at which the CAG presents the budget. The CAG can now employ, appoint, promote and control discipline of its officers, but shall, with necessary variations, be guided by the laws governing employment in the public service. The CAG can now determine the remuneration of its staff.

External scrutiny and audits need further strengthening. While the Public Accounts Committee has significantly reduced its backlog over the last couple of years, the quality of its reports needs to be improved. Capacity building of the members of the PAC and the two other accountability committees of the House – the Local Authorities Accounts Committee (LAAC) and the Parastatal Organizations Accounts Committee (POAC) - is ongoing and is complemented by strengthening the capacity of the Secretariats of these Committees. There has been limited follow up by the Executive to PAC reports, since Treasury Memoranda have not been issued for the last five years. An emerging good practice over the last two years is the structured response of the Permanent Secretary of MOFEA to the PAC on the main issues raised in audit reports at the time of the Annual Review of Budget Support around November every year.

Assessment of the impact of PFM weaknesses

Tanzania has a good record of overall budget performance and fiscal discipline in the context of economic growth and macroeconomic stability, to which government fiscal policy is a main contributor. Also legal aspects of PFM have been well addressed in recent years. However, the processes of the PFM system face a number of shortcomings. Although the weaknesses have already been identified and the DPs have been providing technical assistance in a number of areas, further attention is needed by the authorities to overcome the PFM related problems in a more systematic manner.

There are concerns about the engagement of the legislature in the budget process, the quality of budget classifications, the lack of a realistic resource-supported medium-term sectoral analysis, and wider goals without adequate financing possibilities, and the full integration of recurrent and development budgets. There is a need to improve quality of budgeting and bring back credibility to the budget as a firm government financial and operational plan.

Predictability and control of budget execution are weak. The uncertainty in availability of funds for the MDAs is an example of the lack of predictability. Due to the persistence of modified cash rationing, MDA requests for cash releases cannot always be met, resulting in difficulties in implementing their policies as plans. On the other side, the ineffectiveness of payroll controls and insufficiency of internal controls and audit in non-salary expenditures in the MDAs have also been identified as areas of concern.

In general, accounting, recording and reporting remain weak, undermining the management of services and the intended allocation of resources. Internal audit is poor although efforts are in progress to improve it. There is little available information on the delivery of resources to service delivery units.

Prospects for reform planning and implementation

There are a number of areas where further reforms need to be undertaken including strengthening the budget preparation process, improvement in budget execution and cash management, and accounting and reporting systems.

The MOFEA has recognized the weaknesses and redesigned its PFM reform strategy, which was announced in July 2008. The new PFM reform strategy demonstrates how the MOFEA intends to address the observations of key diagnostic reviews in the wide-ranging PFM cycle, but a carefully phased implementation with interval outcomes of the plan will be critical to realise the impact of reforms in the new round. Phasing the actions and harmonizing reforms with government capacity and commitment to reform will remain key factors in the success of the new PFM reform strategy.

Comparison of performance in 2009 with 2005

The comparison is detailed in Annex 1. This shows that several indicators showed a lower rating than in the previous assessment, but there was insufficient evidence, either in 2009 (indicators 9, 13, 15, 18 and 22) or in 2005 (indicators 7, 8, 12, 16, 17 and 23) to make valid comparisons. The remaining 20 indicator scores can be compared, as shown in the table below:

Improvement	5	PI-14, 19, 26, D-1 and D-2
Deterioration	4	PI-3, 4, 11 and 28
No change	11	PI-1, 2, 5, 6, 10, 20, 21, 24, 25, 27 and D-3
Total	20	

The distribution of scores is as follows:

	2005	2009
A	4	3
B+	1	1
B	7	4
C+	7	6
C	8	9
D+	3	1
D	1	2
Not rated	-	5
Total	31	31

It would appear from this that the average score in 2005 is slightly over C+ and the average for 2009 is slightly below C+, ie. that overall there has been a deterioration in performance, but this is not correct. Several of the 2005 scores (at a time when the methodology was very new) were not fully evidenced: a re-rating would probably show an overall improvement from 2005 to 2009. On those indicators for which sufficient evidence existed in both years, there was a net improvement, as shown above.

I. INTRODUCTION

Objective of the Public Finance Management Performance Report

Tanzania has been a pioneer in the application of the PEFA framework. It was a pilot for testing the PEFA methodology in 2004, before the launch of the framework in 2005. It was also the second country (after Uganda) where the PEFA framework was adapted and applied to Local Governments. In 2007, Tanzania was the first country to try and adapt the PEFA framework to parastatals, an exercise that resulted in ten separate reports on various parastatals. Their findings were not consolidated due to significant variation among these enterprises, and public enterprises remain outside the scope of the PEFA framework.

The objective of this Public Finance Management Performance Report (PFM-PR) is to provide an update of the status of public financial management in the central government of Tanzania at June 2009 in order to lay down a baseline for future assessments, to measure progress since the last assessment in 2005 (insofar as indicators are comparably scored), and to provide a basis for government/donor dialogue on future PFM reforms. Reforms and developments since June 2009 are described at the end of each indicator write-up in section 3. These do not, of course, affect the ratings at June 2009.

Process of preparing the PFM-PR

This is the first comprehensive PFM-PR report. It is based on PEFA in-country diagnostic work undertaken in June 2008 and March 2009, with a further review in May 2010 to include audited fiscal data up to June 2009 at the request of the Accountant General, and a final update in October 2010. The 'snapshot' is as at **30 June 2009**. This is the critical date on which the time or period for assessing each indicator is based, in accordance with PEFA guidance. Reforms and other events after 30 June 2009 have been mentioned in the text against each indicator, but have not affected the ratings as of June 2009. Ratings and comparisons with the previous assessment are tabled at Annex 1.

The comparison year is **2005**, as that is the year that most of the fieldwork was done, subsequently updated by East Afritac and the Donor Working Group to take into account the changes in the PEFA indicators. The indicator scores (without dimensional scores) were published as an annex to the PEFAR October 2005. As part of the PEFAR 2006, the indicators were updated to include the dimensional split through desk research and the review of some additional information e.g. 2004/05 audit reports and financial statements. This was published in May 2006. The comparison therefore covers a period of four years.[1]

The methodology

In line with the objective of this PFM-PR, the PFMWG with the assistance of a short-term consultant updated and finalized this report, preparatory work on which had been conducted

[1] It may be noted that comparing indicator scores in this report with those of the 2004 PEFA exercise would not be valid due to the different methodology and definitions that were used in 2004 (PEFA pilot period) before the final manual was issued by the PEFA Secretariat in June 2005.

earlier as mentioned above. Comments of the institutions on earlier drafts were instrumental in finalizing this report. As with earlier versions of this report, Government officials have facilitated the updating and finalization of the report. The draft report was shared with the authorities and their comments have been taken into account while finalizing the scores. In this regard, whenever possible, evidence was obtained and quantitative data sought to justify the scores. Also the team discussed in detail the qualitative descriptions of events and processes with the officials.

The scope of the assessment

This report covers the central government operations (MDAs) only: the financial management of local governments and public enterprises are only visited in relevant indicators as prescribed by the PEFA manual where they have fiscal relations with the central government, and in the context of fiscal risk assessment and transparency and timeliness of fiscal transactions.

The assessment covers only mainland Tanzania, not Zanzibar. Though Zanzibar is a part of the URT since the Union of 1964, it is largely autonomous with regard to its PFM systems. A separate PEFA assessment for Zanzibar was completed in August 2010.

II. COUNTRY BACKGROUND INFORMATION

II.1. Economic Situation

Country context

Tanzania is a low income country with an estimated population of 43 million people in 2009. The country's economic performance has been stable. Grounded in prudent macroeconomic policies, growth averaged 7 percent during 2001-08, outpacing the average for sub-Saharan Africa, though the financial crisis restricted growth in 2009 to 5.5 percent. Inflation remained moderate during this period, although recent global fuel and food price increases pushed inflation to a peak of 14 percent in December 2008, and the average for 2009 is estimated at 11.9 percent. Government spending has experienced extraordinary growth since 2001, financed by a significant broadening of the revenue base and scaled-up donor assistance. By limiting the government's use of domestic financing, fiscal policy helped to ease inflationary pressures and provided room for a rapid expansion of credit to the private sector. Extensive debt relief and a major build-up of international reserves have reduced external vulnerabilities.[2]

Overall government reform programme

Tanzania's National Strategy for Growth and Reduction of Poverty (NSGRP), known as the MKUKUTA (Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania) was designed in June 2005 for implementation over the period 2005-2010. It is the successor to Tanzania's Poverty Reduction Strategy Paper (a first generation PRSP, formulated in 2000) and builds on Tanzania's *Development Vision 2025*, especially in its emphasis on growth and long-term

[2] IMF Website—Tanzania: Sixth Review Under the Policy Support Instrument—Staff Report, December 2009.

strategy for reducing aid dependence. MKUKUTA has an increased focus on equitable growth and governance, and is an instrument for mobilizing efforts and resources towards targeted poverty reduction outcomes. MKUKUTA includes targets for poverty reduction outcomes which are consistent with, and indeed in many cases go beyond, the Millennium Development Goals. MKUKUTA identifies three clusters of broad outcomes: (i) growth of the economy and reduction of income poverty; (ii) improvement of quality of life and social well being, and (iii) enhanced governance and accountability.

Rationale for PFM reforms

Continuing PFM reforms are recognized as key to achieving the aims of the MKUKUTA. The PFM reforms cover all stages of the system from planning and budgeting to budget implementation, control, auditing, and external oversight. The Government has announced that it seeks to achieve resource efficiency by (a) ensuring aggregate fiscal discipline and accountability, (b) allocating resources in accordance with government priorities, and (c) promoting efficient service delivery through enhanced predictability and availability of medium-term resources for the MDAs.

II.2. Budgetary Outcomes

Fiscal performance

Between 2006/07 and 2008/09 Tanzania's overall fiscal performance has improved. Domestic revenue grew by 3.4 percentage points to 15.9 percent of GDP. External grants (including direct budget support, programme support, including basket grants and project grants) grew by 1.6 percentage points reaching 7.0 percent of GDP. Expenditures remained stable in this period, and fiscal deficit and its financing as percentage of GDP was reduced from 5.0 percent to 1.6 percent of GDP. Thanks to external concessional loans for financing the deficit, net domestic borrowing in 2007/08 became negative, thereby reducing the stock of domestic debt (Table 2.1).The financial crisis of 2009 necessitated a more expansionary fiscal policy and net domestic financing increased to 1 percent in 2008/09. The government faces a fiscal risk with about 30 percent of its total revenue coming from external grants. Moreover, given the fact that from a macro-fiscal perspective there is no room for domestic non-inflationary borrowing, almost the entire budget deficit is financed by concessionary external loans.

Table 2.1: Central Government Operations (% of GDP)

	2006/07 Actual	**2007/08 Actual**	**2008/09 Actual**
Total revenue	**19.4**	**22.8**	**20.5**
- *Own revenue*	14.4	15.9	15.9
- *Grants*	5.0	6.9	4.6
Total expenditure	**23.5**	**22.8**	**25.2**
- *Non-interest expenditure*	22.4	21.7	24.3
- *Interest expenditure*	1.1	1.2	0.9
Primary deficit	-3.0	6.9	9.3

Aggregate deficit (incl. grants)	**-4.1**	**0.0**	**-4.7**
Adjustment to cash[3]	-0.9	-1.7	0.3
Overall deficit	-5.0	-1.7	-4.5
Net financing	**5.9**	**1.7**	**4.5**
- *external*	3.8	3.2	3.5
- *domestic*	2.1	-1.6	1.0

Source: MOFEA Budget Execution Reports – Summary of Central Government Operations

Allocation of resources

In the absence of a functional classification of expenditures in Tanzania's budget and accounting systems it is difficult to provide a clear picture of the allocation of government revenues to internationally-recognized government operations (see PI-5 for details). A data bridging exercise from the existing administrative and economic classifications to a standard functional classification does not seem to be very helpful either, due to several assumptions that may not be stable and reliable over time. Indirectly, however, the economic classification of expenditures (table 2.2) demonstrates a substantial increase in development expenditures, and knowing that these expenditures are mainly allocated to social and economic services it may be concluded that the composition of expenditures over the last 3 years has moved to these kinds of expenditures from 5.7 percent to 8.0 of GDP. This also may be verified by increased external grants and concessional loans, which are typically directed to social and economic services, especially those which are based on programmes and projects. However, since recurrent expenditures for operations and maintenance are not classified on functional basis, this alone does not provide a full picture.

Table 2.2: Economic Classification of Expenditures (% of GDP)

	2006/07 Actual	**2007/08 Actual**	**2008/09 Actual**
Total expenditure	**23.5**	**22.8**	**25.2**
Recurrent expenditure	17.3	12.7	17.3
-*Wages and salaries*	*5.1*	*5.0*	*6.0*
-*Interest payments*	*1.1*	*1.2*	*0.9*
-*Goods and services and transfers*	*11.1*	*6.6*	*10.5*
Development expenditures	6.2	7.9	7.9
- *Domestically-financed*	*2.6*	*2.5*	*3.4*
-*Foreign- financed*	*3.6*	*5.4*	*4.5*

Source:. MOFEA Budget Execution Reports – Summary of Central Government Operations

[3] Unidentified financing (+)/expenditure (-). Includes expenditure carryover from the previous year.

II.3. The Legal and Institutional Framework for PFM

The legal framework

The roles and responsibilities, accountability of spending agencies, transparency requirements, and sanctions arrangements are specified to different extents in various pieces of legislation: the Constitution; the Public Finance Act; the Public Procurement Act; the Local Government Finance Act; the Loans, Grants and Guarantees Act, and a new Audit Act.

Chapter 7 of the Constitution of the United Republic of Tanzania (1977) outlines the legislative function and the roles of various bodies involved in the management of public finances, specifically the National Assembly (legislature), the President (executive) and the Controller and Auditor General.

The Public Finance Act (2001, revised in 2004) and its subsidiary instrument (regulations 2001, revised in 2004) defines in great detail the roles, functions and responsibilities in management of government revenue and expenditure (the Minister of Finance, the Paymaster General, the Accountant General, the Accounting Officers and Warrant Holders in ministries, departments and agencies, as well as the Controller and Auditor General). They also define the accounting, control and reporting systems.

A new Audit Act passed through the National Assembly and was gazetted in September 2008. This is expected to bring about wide-ranging improvements in the external auditing task in the future, including greater independence of the National Audit Office (NAO), enhanced engagement of the Public Accounts Committee (PAC) of the National Assembly in the oversight processes, response of the executive government to the NAO's findings, etc. Presently, the NAO is drafting the enabling regulations of the new law.

The Public Procurement Act (2004) repeals the Public Procurement Act of 2001 with a view to make better provision for the conduct of public procurement with the establishment of the public procurement regulatory authority, tender boards, principles and methods of procurement and dispute settlement. The enabling regulations of the act were updated in 2005 with focus on the selection and employment of consultants, and outlines specific guidelines for their selection, recruitment and payment.

The Local Government Finance Act of 1982 (as amended in 2000) and the Local Authority Financial Memorandum of 1997 require each council to advertise in the media and/or post key information on the council notice board including: receipts of funds from the government, expenditure, statements, budgets and signed audited accounts, and tenders advertised. The law allows the public to attend full council meetings.

The Loans, Grants and Guarantees Act (1984), amended in 2003, defines roles, functions and responsibilities in public sector contracting of loans, issue of guarantees and receipt of grants. This covers the entire Union (URT) though some sections are silent on the position in Zanzibar.

Since 2002 a number of taxation acts were updated, including the Income Tax Act; Value Added Tax Act; Tax Revenue Appeals Act; Gaming Act; Vocational Educational and Training Act;

Foreign Vehicles Transit Charges Act; Hotels Act; Motor Vehicles (Tax on Registration and Transfer) Act; Stamp Duty Act; Road and Fuel Tolls Act; Port Services Charges Act; Airport Service Charges Act; and the Tanzania Revenue Authority Act.

The institutional framework

As noted in the Report on the Observance of Standards and Codes (2002) by the IMF, fiscal management responsibilities are defined on the basis of a clear separation of roles between the executive, legislative and judicial branches. The Constitution assigns the responsibility for fiscal matters to the executive and legislature; and it also provides the legal basis for appropriating and spending public funds. The National Assembly approves the state budget, as well as enabling laws for the imposition of taxes, and authorizes expenditure out of the Consolidated Fund. The Cabinet of Ministers - on the basis of authority conferred by the President - is responsible for formulating the budget, and submitting it to the National Assembly for approval. The judicial process and procedures, including the composition of the courts, are defined in the Constitution.

The MOFEA oversees budget preparation and execution. Each year in June, it presents the Budget Speech to the National Assembly which contains the government's fiscal revenue, expenditure and financing policies and plans. The Ministry monitors fiscal developments during the year and reports to the National Assembly. The Ministry also formulates and manages revenue policies and legislation that are presented to the legislature. Its responsibilities include preparing the central government budget; developing tax policy and legislation; managing government borrowing on financial markets; determining expenditure allocations to different government institutions; and transferring central grants to local governments.

The key features of the PFM system

Tanzania has a few PFM features that need to be mentioned, as they have some impact on the analysis of the indicators.

First, apart from the central government MDAs as the first level organizational classification of the government budget (known as vote), there exist some Autonomous Government Agencies (AGAs), which are regarded as central government agencies under some MDAs, and which enjoy more financial freedom after receiving block transfers from their parent MDAs. The AGAs might pose some fiscal risks by their decisions in the form of future larger transfers from the government budget. Their spending is not subject to the same rules and scrutiny that apply to MDAs. For example, some AGAs do not use the standard government budget classification.

Second, the LGAs receive about 95 percent of their resources from the central government under different arrangements, almost all of which can be classified as conditional grants. In other words, the central government has delegated several of its functions to the LGAs while policy and financial aspects of these functions remain at the central level. LGAs do not have borrowing power (except by specific law), and do not pose fiscal risks to the central government, except with regard to expenditure arrears. Though LGAs are treated rather like MDAs in regard to their budgeting, payment and accounting systems, they have some discretion in the use of conditional grants, and have their own accountability to elected councils. They are therefore treated in this assessment, as in previous assessments, as sub-national governments.

Third, the PEs have commercial goals and their own budgeting and accounting systems and, therefore, can pose potential and actual fiscal risks. This may arise from a need for transfer from the central government's budget to them, both on current and capital accounts in the form of subsidy or capital injections. In Tanzania, AGAs and PEs are referred to collectively as 'parastatals', though they are different types of organization by international standards.

Fourth, the appropriation structure that is approved by the National Assembly is brief and broadly classified (normally one vote for one ministry). It provides wide authority to the government to change its operations without reference to the legislature. Although some detailed ministerial budgets are prepared and widely disseminated, these can be changed in the course of budget execution by the executive branch, with the approval of MOFEA.

III. ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS

III.1. Budget credibility

Aggregate expenditure outturns compared to original approved budget (PI-1)

The difference between actual and budgeted total expenditures (excluding interest payments and externally-financed development expenditures) was small in 2006/07 (3.9 percent of budget). In 2007/08 this ratio was over 10 percent, and in 2008/09 it was 0.3 percent. The budget execution reports of the MOFEA reveal that most variations have been from spending on goods and services in the recurrent budget and domestically-financed development expenditures. A draft World Bank policy note identifies the main reasons for budget implementation deviations on both recurrent and development budgets.[4]

Table 3.1: Comparison of Originally Budgeted and Actual Expenditures
In billions of Tsh.

	2006/07	2007/08	2008/09
1. Originally total budgeted expenditures (excluding interest payments and foreign-financed development expenditures).	2,656.2	2,949.4	3,734.5
2. Actual total expenditure (excluding interest payments and foreign-financed development expenditures).	2,441.6	2,941.7	3,667.0
3. Absolute difference	-214.6	-7.7	-67.5
4. ***Percentage deviation***	***-8.1 %***	***-0.3%***	***-1.8%***

Source: MOFEA, Year-end Budget Execution Reports.

[4] Draft Budget Execution Analysis for 2006/07, Policy Note, World Bank, September 2008

Indicator	Score	Brief Explanation and cardinal data used
PI-1 Aggregate expenditure out-turn compared to original approved budget	**A**	In the last three years only in 2006/07 did the actual total expenditure deviate from budgeted expenditure by more than 5 percent.

This is not quite as good as in 2005, when the aggregate expenditure outturn was within 1 percent of the original budget in each of the previous three years. An A rating is still given where there is not more than one 'outlier' year in which variance is more than 5 percent.

Composition of expenditure out-turns compared to original approved budget (PI–2)

There are some large differences between original budgets and out-turns in almost all MDAs. This is partly due to the distribution of contingencies, more specifically on salary increases during the year from a provision under the MOFEA vote to the MDAs. Most of these differences are due to discrepancies on the development expenditures and non-salary expenditures. In general, development expenditures are over-budgeted or, in the case of those financed from domestic resources, are cut back during budget implementation. Cash restrictions force the government to reduce expenditures on goods and services in the course of the budget year in almost all MDAs. On the basis of the figures provided by the AGD on the actual expenditures of the main votes, and comparing them with the original budgets, these variations have been calculated according to the PEFA Manual (table 3.2 and Annex 4).

Table 3.2. Variance of Expenditure Composition

	2006/07	**2007/08**	**2008/09**
Variance in overall expenditure (as defined in PI -1 above)	8.1%	0.3%	1.8%
Variance in expenditure composition (in percent)[5]	13.5%	22.4%	22.6%
Excess of variance in expenditure composition to overall primary expenditure (percentage points)	***5.4%***	***22.1%***	***20.8%***

Source: AGD, Annual budget documents and the ministerial vote books kept in the AGD.

Table 3.2 indicates that the variance in expenditure composition exceeded the variance in overall expenditure by more than 10 percentage points in at least two of the last three years.

Indicator	Scores	Brief Explanation and cardinal data used
PI-2 Composition of expenditure out-t urn compared to original approved budget	**D**	In 2007/08 and 2008/09 variance in expenditure composition exceeded overall deviation in primary expenditure by more 10 percentage points.

[5] Figures refer to the sum of absolute deviations for the largest 20 votes and all other votes counted as a single vote as a proportion of total budgeted expenditure, excluding debt service and externally-financed operations.

This is slightly better than the variances calculated in 2005 on the three years to 2004/05, which were 22.1 percent, 23.0 percent and 20.4 percent. However, the overall rating is unchanged at D.

Aggregate revenue out-turn compared to original approved budget (PI-3)

Actual domestic revenue collection compared to its estimates in the originally approved budget over-performed in 2006/07 and 2007/08 with surpluses ranging from 4 percent to 11 percent of the approved budget. However, the global recession hit revenue collections in 2008/09, resulting in a 10 percent shortfall.

Table 3.3: Domestic Revenue Performance
In billions of Tsh.

	2006/07	2007/08	2008/09
Original budget (total domestic revenue)	2,461.0	3,502.6	4,781.6
Actual revenue collection	2,739.0	3,634.5	4,293.1
% of actual collection to original budget	***111.3%***	***103.8%***	***89.8%***

Source: MOFEA, Year-end Budget Execution Reports.

It appears that traditionally governments in Tanzania are rather conservative in revenue projections, thereby providing a safeguard to unexpected in-year expenditures, and preventing possible unwanted budget deficits. It should also be noted that tax policy and administration reform in recent years, along with better economic performance have helped enhance revenue performance.

Indicator	Scores	Brief Explanation and cardinal data used
PI-3 Aggregate revenue out-turn compared to original approved budget	**C**	In the last three years revenue collection was below 92% of budgeted domestic revenue in no more than one year.

In 2005 the rating was A, as collections were 98.3 percent, 96.5 percent and 100.9 percent of budget in the three years 2002/03 to 2004/05. The deterioration in revenue performance is due solely to the major shortfall in 2008/09.

Stock and Monitoring of Expenditure Payment Arrears (PI-4)

Stock of expenditure payment arrears and any recent changes in the stock. Payment arrears in the last year have increased, both absolutely and as a percentage of total expenditure. It is widely understood that without monthly cash allocations, the Integrated Financial Management System (IFMS) does not allow for expenditure commitment. However, payments still could be delayed for any reason, such as:

- expenditures without repeated contracts such as utilities
- non-completion of payment documents at the end of an accounting period
- multi-year contracts

- o supplementary legal claims associated with previous contracts due to price escalations, etc.

At June 2008, the stock of expenditure arrears was 9.1 percent of total expenditures and had increased to 9.5 percent by June 2009. This does not include salary arrears, which are not known, but believed to be insignificant.

Table 3.4: Expenditure arrears compared to total expenditures
In billions of Tsh.

	2006/07	**2007/08**	**2008/09**
1.Total expenditures[6]	2,649.2	3,182.6	3,874.7
2.Stock of arrears at year-end	131.9	289.4	369.7
3.Percentage of 2 to 3	5.0%	9.1%	9.5%

Source: AGD, Government consolidated final accounts

Availability of data for monitoring the stock of expenditure payment arrears. Data on payment arrears are collected at the year end when final accounts and government financial statements are prepared for external auditing. The AGD receives financial reports from the MDAs in which they are required to report any arrears with a footnote explaining the reason for the accumulation. In a related matter, also periodic audits for specific MDAs are undertaken to verify their arrears prior to clearance during the year, the action which by itself indicates the accumulation of payment arrears.

Information regarding arrears is held within different units of MOFEA as well as in the Central Bank. An effort is currently under way to consolidate these databases but the results of this exercise are still to be verified. This exercise is crucial given the extensive fraud that occurred through the External Payment Account of the Bank of Tanzania that came to light in 2008 (see PI-20 below).

Indicator	**Score**	**Brief Explanation and cardinal data used**
PI-4 Stock and Monitoring of Expenditure Payment Arrears	**C**	(i) The stock of expenditure payment arrears at 30 June 2009 is slightly under 10 percent of total MDA expenditure (excluding foreign funded development expenditure) **(C)**. (ii) Data on the stock of arrears is currently being consolidated through merging the different databases in MOFEA and BoT. However this database is still to be verified. It also lacks an age profile **(C)**.

In 2005, this indicator was rated A as the stock of arrears appeared small and well under control. There appears to have been a significant deterioration in performance.

[6] As defined and recorded in table 3.1, with interest added back.

III.2. Comprehensiveness and transparency

Classification of the budget (PI-5)

Since 2001 the government has used a Government Finance Statistics (GFS)-based economic classification for the budgets of all MDAs. This classification is also fully incorporated into the IFMS and the quarterly budget execution reports. However, use of a standard and internationally-accepted *functional* classification of expenditures remains absent from the budget documentation and execution reports, both in respect to recurrent expenditures and development expenditures. One challenge has been the continued focus on a traditional sector classification in the development expenditures, which does not match with a GFS-based functional classification. This needs to be addressed along with introducing a functional classification for recurrent expenditures.

In the budget preparation guidelines the MDAs are requested to classify expenditures according to the NSPRG clusters: (i) growth of the economy and reduction of income poverty; (ii) improvement of quality of life and social well being, and (iii) governance and accountability. This seems to be an innovative but unusual expenditure classification, which is not directly linked to standard budget classifications. Some selective programme classification, especially in externally-financed operations, can be found in some MDAs' development budgets, but none of these classifications are linked to a standard functional classification.

Indicator	Score	Brief Explanation and cardinal data used
PI-5 Classification of the budget	**C**	The 2008/09 budget documentation and execution is based on administrative and GFS-compatible economic classification. There is no COFOG-based functional classification in the budget documentation and reporting system.

There has been no change in the score since 2005. The use of MKUKUTA clusters/sectors may have inhibited development of full functional classification. Government intends to introduce a GFS-compliant COFOG functional classification in the 2010/11 budget.[7]

Recent developments The economic classification has moved from the IMF-GFS 1986 version to the 2001 version, in preparation for accrual accounting.

Comprehensiveness of Information Included in Budget Documentation (PI-6)

At end June 2009, the latest budget to be submitted to the legislature was for 2009/10. The assessment is therefore based on the documentation for this year. The budget documentation for 2009/10 including the budget speech submitted to the National Assembly and the audited Financial Statements for 2007/08 (which are available to the National Assembly at the same time), include the following data:

[7] 2009 Public Expenditure and Financial Accountability Review, para. 3.31.

1. Macroeconomic assumptions, including growth rate and inflation, are briefly stated in the budget speech, and further supported by a detailed economic review for the previous calendar year submitted separately to the National Assembly, but not as part of the budget documentation.
2. Fiscal deficit as defined by the GFS or other internationally recognized standards
3. Deficit financing and its anticipated composition
4. Debt stock is included in the economic review volume, mentioned above.
5. Financial assets at June 30, 2008, which are shown in the Financial Statements for 2007/08
6. Prior year's budget out-turns in the same format as the budget proposal.
7. Current year's revised budget in the same format as the budget proposal.
8. Budget proposal data in summary and details in several volumes, including for the current and previous year.

Missing information is:
9. Budget implications of new budget initiatives for expenditures, though these are mentioned for revenues.

Indicator	Scores	Brief Explanation and cardinal data used
PI-6 Comprehensiveness of information included in budget documentation	**A**	2009/10 budget documentation fulfils 8 out of 9 benchmarks of the required information.

There has been no change in the score since 2005.

Extent of unreported government operations (PI-7)

The level of extra-budgetary expenditure (other than donor-funded projects), which is unreported. Budgets and accounts of AGAs, with the exception of transfers to them from their parent ministries' budgets, remain outside government budgeting and accounting systems. This is because AGAs are treated as parastatals and are classified alongside PEs, even though they are not public corporations and are financed from earmarked revenues and transfers from the government budget. The MOFEA Treasury Registrar collects annual reports and accounts from AGAs, but these are normally delayed and are not published. AGAs include universities, the Road Agency, National Parks Agency and several not-for-profit organizations owned and operated by the Government. No data is published to indicate the size of unreported expenditures by AGAs that are financed from own sources; but taking into account their size and number, and available data in the MOFEA, such expenditures are estimated to be between 5 and 10 percent of total government expenditure.[8]

[8] From information in the Auditor General's Report for 2008/09 on Public Authorities and Other Bodies, it appears that 120-130 of these bodies are autonomous government bodies (rather than public enterprises) and not included in the scope of the Consolidated Financial Statements. On a sample of 15 such bodies, the latest accounts (mostly for 2007/08, but some older) showed that expenditure exceeded subventions by about TZS 80 billion, including 55 billion by the Parastatal Pensions Fund. Treating the PPF separately as an outlier, and extrapolating to all 120-130,

Income/expenditure information on donor-funded projects which is included in fiscal reports. Whilst income/expenditures of loan-financed operations are included in the fiscal reports using data available in the debt management unit of the MOFEA and the MDAs final accounts, there are still some unreported expenditures using external grant funds. The AGD has recently increased its attempts in this regard through advising MDAs and providing them with specific forms for reporting such transactions on monthly basis. The AGD then enters this information into the IFMS centrally. However, there are some unreported income/expenditure from grants where donors directly are spending and/or providing goods and services to the MDAs or LGAs. The level of the latter is far less than 50 percent of all donor grants, even if NGO spending is taken into account, which is not classified as official aid flows.

Indicator	Scores	Brief Explanation and cardinal data used
PI-7 Extent of unreported government operations	**C+**	(i) Extra-budgetary spending is estimated to be between 5 and 10 percent of total government expenditure **(C)**. (ii) Complete income/expenditure information is included in the fiscal reports for all loan-financed operations and at least 50 percent of grant-financed operations **(B).**

In 2005, extra-budgetary spending was estimated at less than 5 percent of the total budget, which resulted in a B rating on dimension (i) In the absence of data on how this was calculated, it is not possible to say if there has been any real change in the coverage of government reporting since 2005. On dimension (ii), there has been no change in rating.

Transparency of inter-governmental fiscal relations (PI-8)

In Tanzania the Local Government Authorities (LGAs) comprise 133 city, municipal, town and district councils. In 2008/09. 92 percent of their operations were financed by different types of transfer from the central government. This demonstrates the low revenue base of the local governments, which is limited to small amounts of municipal taxes and service charges. The transfers from the central government to the LGAs are mostly sector-based and can be classified as conditional grants. In other words, the LGAs must observe sectoral ceilings and limitations, but may implement with reasonable flexibility while following the central government's guidelines. These transfers consist of: recurrent block transfers (60%), sector basket funds and ministerial subventions (10%), and development grants and funds (30%). Though under different names, almost all of these transfers are sector-based and fully conditional, with the exception of recurrent block grants that are associated with a general-purpose grant allocated for the improvement of local government capacity (about 12 percent of the total).

"unreported expenditure" by other bodies would be 7% of total expenditure (excluding foreign development expenditure) for 2007/08.

Table 3.5: Expenditure by LGAs in 2007/08 by Function and Economic Category

	PE	OC	Recurrent Expend.	Development Expend.	Total
TShs. Million					
Education	329,276.4	72,952.5	402,228.9	51,966.4	454,195.2
Health	70,605.0	28,780.8	99,385.8	17,399.2	116,785.0
Agriculture	10,401.4	4,277.6	14,679.0	19,340.4	34,019.5
Roads	4,965.7	4,301.5	9,267.1	9,307.8	18,574.9
Water	4,095.4	9,723.1	13,818.5	15,206.7	29,025.2
Concurrent functions	***419,343.9***	***120,035.4***	***539,379.3***	***113,220.5***	***652,599.9***
Local Admin	46,870.9	47,869.3	94,740.2	14,335.9	109,076.1
Other Spending	19,962.9	19,643.8	39,606.7	57,017.9	96,624.6
Exclusive local func.	***66,833.8***	***67,513.1***	***134,346.9***	***71,353.8***	***205,700.0***
Total	**486,177.7**	**187,548.5**	**673,726.2**	**184,574.3**	**858,300.6**
Percent of local government expenditures					
Education	38.36	8.50	46.86	6.05	52.92
Health	8.23	3.35	11.58	2.03	13.61
Agriculture	1.21	0.50	1.71	2.25	3.96
Roads	0.58	0.50	1.08	1.08	2.16
Water	0.48	1.13	1.61	1.77	3.38
Concurrent functions	***48.86***	***13.99***	***62.84***	***13.19***	***76.03***
Local Admin	5.46	5.58	11.04	1.67	12.71
Other Spending	2.33	2.29	4.61	6.64	11.26
Exclusive local func.	***7.789***	***7.87***	***15.65***	***8.31***	***23.97***
Total	**56.64**	**21.85**	**78.50**	**21.50**	**100.0**

Source: PMO-RALG, LGA Finance Statistics, FY 2006/07 (LOGIN)

PE = personnel emoluments. OC = other recurrent expenditure charges

Transparent and rule-based systems in the horizontal allocation of unconditional and conditional grants from central government (both budget and actual allocations). In each type of transfer and in each sector, several quantitative measures, such as population and its composition, number of villages, number of rural population, and some sector-specific measures initiated by sectoral ministries, are taken into account and budgetary amounts are calculated in great detail. However, these do not constitute a firm formula, and because of the conditional nature of the transfers, sectoral policies need to be taken into account as well. The LGAs do not have a say in these measures, but they are announced in the local government budget preparation guidelines and are published in the website of the Prime Minister's Office. As for actual allocations, the LGAs are treated like central government MDAs, meaning that in the course of the year their allocations are subject to the government's cash position.

There are serious issues of equity that need to be taken into account in distributing sectoral grants, especially those relating to the health and education sector. A large amount of variability currently exists in allocation of resources to LGAs, with the top ten LGAs in the health sector receiving per capita allocations that are five times greater than the bottom ten and in the education sector the disparity is eight times. This is due to many reasons including the effort to "hold harmless" the LGAs that had in the past received disproportionately higher allocations.

However, this does not affect the scoring of PI-8, which is concerned only with transparency and objectivity.

Timeliness of reliable information to LGAs on their allocation from central government for the coming year. Information on the ceilings of LGA budgets is known normally three months before the beginning of the fiscal year, and in this regard they are treated as MDAs. However, the LGAs are required to receive the approval of their Councils before sending their budgets to the MOFEA, and then a round of discussions begins between MOFEA and the LGAs. In the event that some other outcome (either ceiling or budget composition) emerges as a result of these negotiations, then the concerned LGAs are required to receive approval of their Councils again. This is done before the start of the LGA fiscal year (July – June). In other words, initially timely data is available to the LGAs on their ceilings, but these are not firm, and may change during their budget discussions with the MOFEA. All this is due to the conditional nature of the transfers and the engagement of sectoral policies mandated by MDAs. In other words, a balance always needs to be made between central policy-making and decentralized execution, and within changing financial means. A major issue affecting the reliability of the budgeting process in LGAs is the fact that they are allowed to carry forward unspent balances (unlike central government spending units). These can be substantial considering the large transfers that occur during the last quarter of the financial year. These unspent balances are not fully integrated into the subsequent year's budget resulting in significant fiduciary issues and also significantly impacting the reliability and credibility of the entire budgeting process.

Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories. Reporting on local government operations is of two types. First, when the central government makes monthly transfers to the LGAs, it reports the transfers as its outlays, which can be considered satisfactory in the context of in-year fiscal reporting for central government. Second, for their use of local funds and the sectoral distribution of their expenditure from transfers, the LGAs report to the Local Government Working Group, a body comprising representatives of the Prime Minister Office, MOFEA and relevant sectoral ministries. This data is available within three months of the end of each quarter on the Prime Minister's Office website. The main users of these reports are the Prime Minister's Office itself and the relevant sectoral MDAs.

LGAs submit annual financial statements to the Auditor General, mostly within four months of the end of the fiscal year, and these are consolidated and published (www.pmoralg.go.tz). The statements for 2008/09 were prepared according to the accrual-based IPSAS for the first time, though there were omissions, such as physical assets in the balance sheet and depreciation as an expense. However, a third of LGAs are still utilizing an IFMS system which organizes financial transactions according to an outdated 19-digit chart of accounts that cannot be reconciled with the newer 28-digit chart. This prevents the production of consolidated financial statements for LGAs based on IFMS data. The only application that permits data consolidation is PlanRep, which is not equipped with adequate controls and oversight to ensure data integrity and reliability (PEFAR 2009).

Indicator	Scores	Brief Explanation and cardinal data used
PI-8 Transparency of inter-governmental fiscal relations	**C**	(i) The horizontal allocation of almost all transfers is guided by certain measures. However actual transfers cannot be predicted by the receiving LGAs, except for a general-purpose grant amounting to 12 percent of the total grants **(C)**. (ii) Information to LGAs is issued three months before the start of the fiscal year, but this is unreliable **(C)**. (iii) Fiscal information is collected and consolidated annually for all LGAs, but data integrity is doubted(**C)**.

In 2005, this indicator was rated C+, but the basis for rating the dimensions is not known, and no overall comparison can be made.

Oversight of aggregate fiscal risk from other public sector entities (PI-9)

Extent of central government monitoring of AGAs and PEs. In March 2008, NAO for the first time published a report on financial statements of public authorities and other bodies. Inter alia, the report makes two points. First, a reliable database regarding these entities does not exist. There are significant variances in the data provided by the Treasury registrar of MOFEA and various ministries. Second, the report notes that of the 158 entities covered, 51 submitted their accounts late, while 17 did not submit their accounts at all. The Treasury Registrar is of the view that there are 55 public entities that have not submitted their accounts for the last few years, including over 30 water authorities. It is not known if at least most major parastatals submit their accounts annually.

AGAs and PEs (collectively called parastatals) are required to submit quarterly financial statements and audited year-end statements to the MOFEA. These reports, however, are not yet standardized and are frequently received late. The 2006/07 audit report mentions that there was a large increase in guarantees provided to parastatals which results in risk of increased expenditures should the parastatals not be able to repay the loans, thus pointing to a weakness in financial control and risk assessment.

Extent of central government monitoring of sub-national governments' fiscal position. LGAs are legally autonomous and can carry forward unspent balances from one year to another. This avoids any end-of-year rushed spending and improves efficiency. Current transfers can be supplemented by unspent transfers from the previous year and progress maintained on planned programs. However budgets should reflect the work to be done including work uncompleted from the previous year, and transfers should similarly be adjusted. Poor budgeting has complicated budget monitoring: it is not unusual for LGAs to incur expenditures significantly greater than their annual appropriations under various heads. [9]

[9] The LAAC Workshop of January 2009 has identified this as a major area of fiduciary concern.

Apart from the fact that the budgeting process is significantly flawed, there are other major weaknesses in the overall PFM system. The legislation governing PFM issues in LGAs does not clearly specify the entity to provide leadership on PFM issues. Different LGAs follow different accounting standards: of the 86 LGAs on IFMS, one third are on a chart of accounts that has not been updated since 2000, and several have corrupted databases due to poor capacity and lack of qualified manpower. Reporting is weak since the primary reporting mechanism used is Login Tanzania that is an Excel based consolidation spreadsheet that does not contain any supporting data or any kind of audit trail control.

LGAs, usually, are not allowed to generate fiscal liabilities for the central government through borrowing, unless with special authorization from the MOFEA, which is normally not granted. Despite this, due to the reasons noted above, the monitoring of SN entities' fiscal position is significantly incomplete.

Indicator	Scores	Brief Explanation and cardinal data used
PI- 9 Oversight of aggregate fiscal risk from other public sector entities	**NR**	(i) There is weak monitoring of AGAs/PEs as their final number is still to be established. A consolidated overview is missing. **(NR)**. (ii) The PFM system at LGAs suffers from deep-rooted institutional challenges that have not been adequately addressed to date. LGAs do not have borrowing power, unless approved by the MOFEA, which is not done. Their budget execution reports are of variable quality and cannot be relied upon as an accurate reflection of the fiscal position of the LGAs, which is significantly incomplete.**(D)**.

In 2005, this indicator was rated C on both dimensions. Lack of data makes this not comparable.

Public Access to Fiscal Information (PI-10)

The government has improved the public access to fiscal information through the dissemination of its reports on the national websites, and in government gazettes and local newspapers. These include:

1. Annual budget documentation, as prescribed in PI-6, and as they are submitted to the National Assembly.
2. In-year budget execution reports (quarterly one page fiscal table with narratives), but not budgets of MDAs either in total or in detail.
3. Year-end financial statements, as they are completed. Audited financial statements for 2007/08 were tabled in the National Assembly, and thus became public documents, in March 2009 (nine months after the end of the year).
4. External audit reports, as they are completed. The Audit Report on 2008/09 was submitted to the President in March 2010 for tabling in the National Assembly.

5. Contract awards, published bi-weekly, as reported to PPRA, which may or may not be complete.

Missing from the list is: Resources available to primary service providers, such as schools and health centers.

Indicator	Scores	Brief Explanation and cardinal data used
PI-10. Public access to key fiscal information.	**B**	The government makes available to the public 5 out of 6 types of information, but two of them are not complete.

No major changes since 2005, when the indicator was rated B.

III.3. Policy-based budgeting

Orderliness and participation in the annual budget formulation process (PI-11)

Existence of and adherence to a fixed budget calendar. The fiscal year runs from July 1 to June 30. There is a clear budget preparation calendar, encompassing macro-fiscal studies, MTEF planning exercise, annual budget policy analysis, budget preparation circular issue, and budget discussions between MDAs and MOFEA. After issue of the budget preparation guidelines, MDAs have 6 to 8 weeks to prepare their estimates. However, the calendar is always implemented in a manner that the government budget is presented to the National Assembly in mid-June, just 10-15 days before the start of the fiscal year. This late budget submission has become an old tradition.

Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent). A very detailed and comprehensive budget preparation circular called budget preparation guidelines is issued to the MDAs in February or March and includes economic policy directions, major points of the NSGPR, three-year budget preparation forms, etc. Political approval should be secured before communicating budget ceilings to the MDAs, but this does not always happen.

Timely budget approval by the legislature (within the last three years). Following the Budget Speech by the Minister of MOFEA around mid-June, the National Assembly has a roll call vote to approve the budget aggregates, called Finance Bill for revenues and Appropriation Bill for the expenditure of each MDA, which authorise government to implement the budget. Any combination within the total ceiling of a MDA's budget remains at the discretion of the executive branch, which is determined between the MOFEA and the MDA in the course of budget execution. The late submission of the budget to legislature does not provide sufficient time to the National Assembly to meaningfully debate the government budget. The MDAs, as they discuss with MOFEA and finalize their budget within the ceilings during May, also attend the National Assembly's Sectoral Committees and explain their budgets to them before the budget is formally presented by the government in mid-June. The detailed estimates and Appropriation Bill each year have been passed as follows:

2006/07 August 15, 2006

2007/08	September 10, 2007
2008/09	October 3, 2008

Indicator	Scores	Brief Explanation and cardinal data used
PI-11 Orderliness and participation in the annual budget formulation process	**C+**	(i) A comprehensive budget calendar exists, but delays are sometimes experienced. MDAs have 6-8 weeks to submit their budgets **(B)**. (ii) A comprehensive budget circular and budget preparation guidelines are issued, but the MDA ceilings are not always approved by the Cabinet before issue **(B)**. (iii) The Legislative approves the budget with more than two months delay in two of the last three years (**D)**.

The slight deterioration in the rating of this indicator since 2005 is due to increasing delay in completion of the budget process.

Multi-year perspective in fiscal planning, expenditure policy and budgeting (PI-12)

Preparation of multi-year fiscal forecasts and functional allocations. The government budget system includes a three-year rolling MTEF, but outer years' expenditure projections are weak. The budget preparation guidelines–the principal decision making tool for the framework – is insufficiently strategic. The budget ceilings in the budget guidelines have little to do with the previous year's MTEF. The formal part of the MTEF continues vigorously, but because of short-term emerging needs, the rolling plans need to be adjusted widely to the annual budget realities. Moreover, in the absence of a functional classification of expenditures the MTEF normally follows an administrative classification, which is less relevant to an MTEF.

Scope and frequency of debt sustainability analysis. It has been decided to conduct a full DSA only every two years as debt has been brought under control and generally does not change much from year to year. The IMF in collaboration with the World Bank carried out a DSA in 2007, covering domestic and external debt. A DSA was conducted in mid-2009 by the staff of the World Bank and the IMF in conjunction with the MoFEA.

Existence of sector strategies with multi-year costing of recurrent and investment expenditures. Fully costed sector (or sub-sector) strategies cover most sectors but tend to be inconsistent with aggregate fiscal forecasts. The sectoral strategic plans are not being followed, sometimes to the extent that the implemented budget may not be totally relevant to the sectoral policies, and they may not represent the real priorities of the government. Part of the reason behind this is lack of a realistic connection between the sector strategies and domestic resources, and its reliance on donor funds, which by themselves are not clearly known for longer periods, especially on programme and project funds. On the other hand, the resultant drastic reductions to reach affordable budget ceilings together with the late involvement of senior policy-makers in the process make it difficult for stakeholders to see any transparent application of clear sector priorities.

Linkages between investment budgets and forward expenditure estimates. Separate recurrent and development budgets are prepared under the coordination of the MOFEA, but there is limited integration of recurrent and development expenditure proposals in the planning process. There are two different budget classifications and volumes for recurrent and development budgets. Moreover, the separation of these two budgets is based on their financing source rather than the nature of their operations. For example, considerable amounts of recurrent expenditure are classified as development expenditures simply because they are financed from external sources. Linkages between investments in different sectors are not being analyzed. There is no overall public investment programming process, but instead, political priorities (not always as reflected in sectoral expenditure programmes) and/or donor preferences are the main drivers behind the more sizeable investment projects. The links between investments and the recurrent cost implications of these investments are weak.

Indicator	Scores	Brief Explanation and cardinal data used
PI-12 multi-year perspective in fiscal planning, expenditure policy and budgeting	**C**	(i) Forecast of fiscal aggregates, on the basis of main categories of administrative and economic classification for recurrent expenditures and project or sector-based for development expenditures, are prepared for two years in addition to budget year **(C)**. (ii) DSA for external and domestic debt has been undertaken twice in the last three years **(B)**. (iii) Sector strategies exist but they are inconsistent with aggregate fiscal forecasts **(C)**. (iv) Linkages between investment budgets and sector strategies and recurrent budgets are weak **(D)**.

The assessment in 2005 gave higher ratings on dimensions (i), (iii) and (iv), but were insufficiently evidenced to make comparisons with 2009. Though there have been major improvements in monitoring and evaluation, the MDA MTEFs are not yet firmly aligned to MKUKUTA, nor are development and recurrent expenditures integrated within sectoral resource ceilings.

Recent developments Work has continued on realigning policies and programmes and putting in place a more effective performance reporting system (Guidelines for the Medium Term Plan and Budget Framework 2010/11 - 2012/13, chapter 9).

III.4. Predictability and control in budget execution

Transparency of taxpayer obligations and liabilities (PI-13)

Clarity and comprehensiveness of tax liabilities. Tanzania has relatively new and up-to-date Income Tax (2004) and VAT laws. There have been a number of high profile dispute resolution cases in recent years, which indicate that there is enforcement of this legislation. The East

African Customs Management Act (2005) is relatively comprehensive. Revenue administration procedures are clearly documented and uniformly implemented. Overall, discretionary powers are fairly limited and the clarity of taxation liability has improved. Legislation that is outstanding is the development of the taxation procedures court. This involves harmonising the regulations from the different taxation laws and in doing so removing the power from the other Acts. Standardisation occurs around the dates for the submission of tax returns, the penalties for non-submission, and the objections and appeals procedures. Common administrative procedures are, in some cases, applied differently across the income tax and VAT laws, creating some uncertainty and administrative discretion. Most penalties (fines and periods of imprisonment) are expressed as a minimum and maximum, within which the Commissioner has discretionary application.

Taxpayer access to information on tax liabilities and administrative procedures. Tanzania Revenue Authority (TRA) has developed some comprehensive taxpayer education material, in both English and Kiswahili, and has an active taxpayer education programme across the country involving communications in newspapers, the radio and billboard advertising. TRA, however, does not yet have a full- fledged tax information centres, phone-in call centres, and an advance rulings regime. Due to lack of a comprehensive and integrated tax administration system, the taxpayers may not know precisely what their liabilities are especially since the self-assessment system is only beginning to operate. The positive side is that some information is available on the TRA website, including the taxation laws and the latest associated communications. Comprehensive information and assistance are available on income tax and customs duty. MOFEA has an interactive guide to income tax on its website.

Existence and functioning of a tax appeals mechanisms. Tanzania has an independent disputes resolution system funded separately by government since the establishment of the Appeals Board and Tribunal under the Tax Revenue Appeals Act of 2000. The Tax Revenue Board and Tribunal have been established although this is not used in all cases. There are still residual cases with the court system. It is estimated that the number of appeals is small and reflects the nature of the work rather than a systemic and serious backlog. No information is available on the system's transparency, access, efficiency, fairness or follow up on its decisions.

Indicator	Scores	Brief Explanation and cardinal data used
PI-13 Transparency of Taxpayer Obligations and Liabilities	**NR**	(i) There are relatively new and comprehensive income tax and VAT laws, with limited discretionary powers to the TRA **(B)**. (ii) Taxpayer access to information on tax liabilities and administrative procedures. There is good taxpayer education systems but no call centre or central information system **(B)**. (iii) Not rated for lack of information

The above assessment shows improvement since 2005 in taxpayer access to information on their tax liabilities and administrative processes (from C to B), but there is no change in the rating on clarity and comprehensiveness of tax liabilities. No comparison can be made on the tax appeals process.

Effectiveness of measures for taxpayer registration and tax assessment (PI-14)

Controls in the taxpayer registration system. Taxpayers have a single identification number. A block management system is in place since 2005 and a large scale review of business has been implemented in a number of blocks in Dar es Salaam. Inconsistency still exists, as linkages within TRA are weak due to limited connectivity between the integrated tax administration system (for VAT and income tax) and customs. Linkages with external systems such as bank account opening and motor vehicle licensing, the Tanzanian Bureau of Standards and the Ports Authority are nonexistent.

Effectiveness of penalties for non-compliance with registration and declaration obligations. Clear penalties are prescribed under the income tax and VAT laws, but penalties are too low and to negotiate an increase is a lengthy and challenging process. Penalties under the income tax and VAT laws not harmonized: different penalties for similar offences such as non-submission of returns may apply. There are no guidelines for penalties, which can lead to inconsistencies. For example, there is no guidance for the application of different penalties to first time or repeated offenders and for different types of offences.

Planning and monitoring of tax audit and fraud investigation programs .A comprehensive and documented audit plan has been developed and implemented in the Large Taxpayers Department (LTD) which accounts for 70 percent of revenue but less than 5 percent of taxpayers. The audit plan is being effectively operated with good risk profiling and quality assurance. The Domestic Revenue Department (DRD), which accounts for over 90 percent of taxpayer population, has an audit plan and manual, but implementation has not been possible due to capacity limitations.

Indicator	Scores	Brief Explanation and cardinal data used
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	**C+**	(i) Taxpayers are registered in a database with an identification system but there are no links to other systems. and partial surveys of potential taxpayers **(C)**. (ii) Penalties exist but they are insufficiently specific and in some cases too low to impact on compliance **(C)**. (iii) There is a good tax audit operation in the LTD (the main tax collection department), but a mixed performance in DRD **(B)**.

There is an improvement on the overall 2005 assessment (C), due to real progress in the area of tax audits.

<u>Recent developments</u> Eight Customs databases are being consolidated into two. A consultancy is in process.

Effectiveness in collection of tax payments (PI-15)

Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years). Available data on debt collection ratio in 2004/05 and 2005/06 was 33 percent (LTD data) and 71 percent (LTD and DRD data) respectively At June 2008, tax arrears were TZS 16.5 billion, but it is not known how much of this was collected in 2008/09. At June 2009, arrears were TZS 10,019 million, per the Annual Accounts

Effectiveness of transfer of tax collections to the Treasury by the revenue administration. The individual accounts for taxpayers are posted, and transfers for all taxes are made to the Treasury main account (Paymaster General's account) twice a week. The LTD taxpayers pay directly into the treasury main account.

Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury. The authority to undertake assessments, collections, arrears and transfers is delegated from MOFEA to TRA, as a department of MOFEA. The functions of TRA are to assess, collect and account for tax revenue. Assessments are raised and logged in the ledger account and when collections are made these are also reflected in the ledger account. Arrears are the difference between assessments and collections. The TRA undertakes complete monthly reconciliations.

Indicator	Scores	Brief Explanation and cardinal data used
PI-15 Effectiveness in collection of tax payments	**Not rated**	(i) Not rated for lack of information on collection of tax arrears in 2007-08 and 2008-09. (ii) Revenue collected is transferred to the government main account in the Bank of Tanzania within a week (**B)**. (iii) Reconciliation between tax assessments, collections, arrears records and receipts by the Treasury takes place as a matter of routine **(A)**.

Since 2005, there has been significant improvement in the effectiveness of transfer of tax collections to the Treasury and in the reconciliation of assessments, collections, arrears and Treasury receipts.

Predictability in the Availability of Funds for Commitment of Expenditures (PI-16)

Extent to which cash flows are forecast and monitored. After approval of the budget, cash flow projections and plans are prepared by the MDAs for the year with a monthly breakdown and submitted to the Budget Department of the MOFEA. The MDAs' cash outflow requirements are thereafter forwarded to the Cash Management Committee in the MOFEA, chaired by the Permanent Secretary, which determines the corresponding monthly ceilings for each MDA, as well as transfers to the LGAs. These ceilings are mainly determined based on overall government's cash availability for the month with a view to the MDAs' previous monthly implementation reports, their work plans and procurement plans. Currently, four pilot MDAs have been trained and are in the process of preparing credible cash flow and procurement plans (PEFAR 2009).

The cash management system is still nascent and has not been fully implemented. The main challenge is that monthly projections are not reliable and nor are they produced by all the spending agencies. This makes it impossible to compile the full cash flow picture and to allocate resources accordingly. Due to this, these projections are not accepted by MOFEA nor are they updated on a credible basis throughout the year. Secondly, the cash flow projections received by MOFEA tend to be frontloaded, making them difficult to implement under a cash budgeting framework. A draft report on the implementation of the cash management system indicates that the lack of an established administrative structure and expertise to handle the roll out of the system are the underlying causes for the lack of a coherent cash management system. These may largely be teething challenges to this new process. Strengthening cash management is a current priority. A Cash Management Unit has recently been established in the Accountant General's Department to prepare a rolling three-month cash forecast.

The integration of the cash flow forecasts with the relevant module of the IFMS should be pursued in order to enhance the coherence of the systems. Currently, cash management and procurement plans are outside the IFMS. This lack of integration results in a major disconnect between budget execution through the IFMS and procurement and cash management plans. Cash management plans are particularly weak where the normal practice is to divide the overall allocation by twelve to arrive at the monthly estimation. These factors affect the resource allocation process within spending agencies. Since monthly releases tend not to follow a cash flow plan, a time consuming resource allocation process takes place each month within the spending units, causing delays in the deployment of resources.[10]

Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment. The existing cash management system, though very useful for maintaining overall macro-fiscal balance and controlling total government expenditures, by its nature creates uncertainty for the MDAs. The MOFEA is aware that the monthly cash release system has undesirable consequences in terms of predictability of funding for the MDAs and reduces their effectiveness and the efficiency of service delivery. Without these monthly ceilings and their associated fund releases, the IFMS does not allow commitment of funds. Consequently, processing bulk purchases for MDAs is difficult, though according to the MOFEA staff the CMC takes into account the urgent needs for bulk purchases in each month. A strong and predictable quarterly fund allocation for commitments, including monthly limitations for actual payments, may make the cash flow projections a more helpful tool for both maintaining macro-fiscal balance and improving predictability for commitment of funds by the MDAs.

Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs. Budget adjustments take place throughout the year based on requests from the MDAs and approval by the MOFEA and/or due to lack of sufficient cash, which forces the MDAs to reallocate funds within their approved budget. The adjustments are

[10] MOFEA, The Implementation of the Cash Management System, May 2008

consolidated and notified to the National Assembly at intervals. If adjustments are within the budget of a MDA, they do not require approval by the National Assembly. If the budget of a MDA is to be increased, a supplementary budget submission to the legislature is required. A contingency provision is also made for payroll adjustments and annual pay increases, as well as for other needs that may arise in the course of the budget year, and these are fairly transparent. Reallocations within the budget of a MDA are made routinely, as the monthly cash allocations necessitate such changes, and this mainly remains at the discretion of the MDAs..

Indicator	Scores	Brief Explanation and cardinal data used
PI-16 Predictability in the Availability of Funds for Commitment of Expenditures	C	(i) An annual cash flow forecast for government budget and each MDA is prepared, but is neither adhered to nor updated throughout the year. **(C)**. (ii) MDAs are provided with reliable information for their commitments but only for each month and with relatively short notice **(C)**. (iii) Significant in-year budget adjustments are frequent, but undertaken with some transparency **(C)**.

The 2005 assessment gave an A rating to dimension (i), but there was no monthly re-forecasting of cash flows then or now, so it cannot be concluded that there has been a deterioration. In fact, there are indications of improvement, but not enough to change the above ratings.

Recording and management of each cash balances, debt and debt guarantees (PI-17)

Quality of debt data recording and reporting. Debt is recorded and managed by the AGD using the CS-DRMS (a debt management system developed by the Commonwealth Secretariat), which provides information on servicing and repayment of the principal for foreign debt and a portion of domestic debt. Information on domestic debt is complemented by the Bank of Tanzania (BOT), as it manages government treasury bills. Debt data in MOFEA and BoT databases is being consolidated in CS-DRMS. The debt database is updated monthly, including data received from the BOT. While some discrepancies exist, they are not large and mainly due to the different timing of updating of information. The debt database is reconciled monthly, using the system's reports and creditors' records. Monthly debt profiles (external and domestic), a quarterly newsletter, an annual debt report and annual statements of public debt are prepared by the AGD. MOFEA publishes a Quarterly Public Debt Report on external and domestic debt stock, debt service and operations.

Consolidation of the Government's cash balances. Apart from the government main bank account held at the Bank of Tanzania (BOT), a number of government bank accounts are held in the commercial banks under different arrangements. This reduces the liquidity position of the government while cash is available in a number of bank accounts that is not accessible to the MOFEA for its monthly cash allocations to the MDAs and LGAs. Due to different legal and/or managerial arrangements, until recently no attempt has been made to consolidate the balances of these accounts in the BOT, thereby allowing accumulation of idle cash in different government bank accounts. These can be used by commercial banks to purchase Treasury bills resulting in government paying interest on its own cash. A joint BoT–MOFEA committee in 2007 identified 36,269 commercial bank accounts holding central government cash – see Table 3.6. Some of these hold donor funds, which are also public funds.[11] No information is available to the assessment team on the balances on these accounts.

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Table 3.6

STATUS OF GOVERNMENT ACCOUNTS WITH COMMERCIAL BANKS

Number of accounts **36,269**
Acounts with full particulars **26,415**
Accounts with some missing information **9854**

ACCOUNTS WITH FULL PARTICULARS
Financed by Government **7,242**
Financed by donor **19,173**

COMMERCIAL BANKS WITH GOVERNMENT ACCOUNTS

Name of Bank	Number of Accounts
Stanbic	11
NMB	34852
Citi Bank	18
NBC bank ltd	287
CRDB Bank ltd	698
International Commercial Bank	5
Standard chartered Bank	84
FBME Bank ltd	2
African Bank corporation ltd	50
Diamond trust	10
Dar es Salaam Community Bank	155
Commercial Bank of Africa	2
CF Union bank	15
Twiga bancorp ltd	16
Bank of Africa(BOA)	62
Exim Bank ltd	2
Total	**36269**

The Minister of Finance in his 2008/09 budget speech announced that in order to improve the cash position of the MOFEA the government intends to transfer balances of these bank accounts from the commercial banks to the government main account at the Bank of Tanzania, and that the government has begun discussions with donors. There has been progress in this area: out of 43,406 identified accounts at June 2009, 31,441 are to be closed by June 2010. So far 10,555 have been closed and the balances transferred to the Bank of Tanzania.

[11] This does not include LGA bank accounts, since the LG Fiduciary Review of 2006 identified each LGA as having around 500 bank accounts. With 133 LGAs, bank accounts at LGAs alone would be around 65,000. This assessment is limited to central government.

Contracting loans and issuing guarantees. The National Debt Management Strategy adopted in 2002, as well the Loans, Grants and Guarantees Act of 2003 outline comprehensive procedures for contracting and guaranteeing loans. Since 2004/05 the government has a policy of not providing guarantees for any external borrowing but of considering selective guarantees for domestic borrowing, mostly by public enterprises.

An implementation plan for public debt management has been developed which is in line with the Strategy and the Act mentioned above. The National Debt Management Committee advises the Minister of MOFEA on the contracting of debt based on an evaluation against set criteria including viability and suitability. Only the Minister has the authority to contract new debt.

Indicator	Scores	Brief Explanation and cardinal data used
PI-17 Recording and management of each cash balances, debt and debt guarantees	**C**	(i) The various databases containing debt data are currently in the process of being merged. Data quality is considered fair and minor reconciliation problems occur. For the data entered in CS DRMS, statistical reports are regularly produced **(B)**. (ii) The balances of several government bank accounts in commercial banks are not consolidated, though there is a plan to do so **(D)**. (iii) Contracting of loans and issuing guarantees is approved by the Minister of MOFEA in line with rules, but there are no ceilings **(C)**.

In 2005, dimension (ii) on the consolidation of cash balances was rated C, but without evidence that government balances held by commercial banks were calculated at least monthly . Though a major consolidation exercise is in progress, at the time of this assessment the position is not yet changed.

<u>Recent developments</u> Debt management performance has been assessed, using the IMF DeMPA tool. Work has continued on closing dormant bank accounts.

Effectiveness of payroll controls (PI-18)

Integration and reconciliation between personnel records and payroll data. Personnel records kept at the President's Office-Public Service Management (PO-PSM) and payroll data kept at the MOFEA, are totally integrated, and use the same software: Lawson human resources software package, called Human Capital Management Information System (HCMIS). The system is operated by the Computer Center of the MOFEA, which is connected to the PO-PSM. MDAs undertake reconciliation between payroll and personnel records monthly, and send them to the MOFEA and PO-PSM, where relevant personnel records and payroll data are entered into the system prior to payment of salaries.

Timeliness of changes to personnel records and the payroll. MOFEA and PO-PMS receive thousands of requests from MDAs to change the payroll and personnel records every month.[12] There is limited capacity to verify these requests in the two weeks currently allocated for monthly payroll data entry. Approval of these requests is generally fast, based on trust that the officers in the MDAs have checked and verified the requests before making their submissions. Although HCMIS is designed to assist the officers to authenticate most requests, each request cannot be checked through the system. Because salary payments are time-sensitive, the data processing both in the MDAs and the two central agencies is quite timely, but its accuracy is not assured, due in part to low quality of work in the MDAs and shortage of time for all parties involved. Salary arrears are a continuing challenge. Anecdotal evidence suggests that in individual cases, delays in processing payroll changes extend to six months or more, but this could not be confirmed, nor their relative frequency.

Internal controls of changes to personnel records and the payroll. The payroll system data is currently accessible to several users (operators and systems analysts), which poses challenges in protecting the payroll information from being lost, read, changed (either maliciously or accidentally), or modified by those not authorized to do it. Some internal controls are incorporated into the system, but these are not sufficient to prevent entries by non-authorized operators. The main risk area, however, originates in the MDAs where operators are close to beneficiaries thus more easily inclined to manipulate data than operators based in the central agencies. Audit reports have frequently mentioned deficiencies in the MDAs, indicating that central internal controls are not sufficient or even fully practical.

Existence of payroll audits to identify control weaknesses and/or ghost workers. Payroll audits are conducted for a sample of MDAs and LGAs on a quarterly basis. Usually, officers from PO-PSM constitute teams that visit selected MDAs and LGAs. A key challenge of the audits is that the payroll data in the current payroll system is not accurate and the human resources information is incomplete. Therefore, the selection of the MDAs to be audited may be triggered by various events including unusual payroll change requests from a MDA, a static payroll that never changes over the year (ghost workers), or even someone receiving both pension and salary at the same time, etc. In such cases, the audits are not sufficiently funded to cover an entire MDA e.g. Ministry of Health or Ministry of Education, but focus on specific problem institutions, e.g. a school or health facility.

As a result of these audits, it was recently observed that records are not being kept up to date by the MDAs, and the MOFEA issued a circular to the MDAs to do so. In 2000 the government computerized the payroll by collecting data from employees. Since then, payroll data has been changed through payroll amendment requests submitted by MDAs to MOFEA and PO-PSM. Since 1994 no comprehensive survey has been conducted for government employees now totaling about 350,000 (including about 200,000 teachers). A complete employee census is planned in order to overhaul the payroll/personnel database.

[12] The MOFEA pays LGA personnel as well as MDA personnel. This indicator relates only to central government personnel.

Indicator	Scores	Brief Explanation and cardinal data used
PI-18 Effectiveness of payroll controls	**NR**	(i) Personnel records and payroll data are stored in the same database and are fully integrated and reconciled **(A)**. (ii) Delays in processing not rated for lack of information **(NR)**. (iii) Some internal controls exist to data entry for changes on personnel records and payroll data, but are not adequate to ensure the integrity of data, which originate in the MDAs **(C)**. (iv) Quarterly payroll audits with limited coverage have been undertaken during the last three years, but no comprehensive survey has been conducted since 1994 **(C)**.

Compared with 2005, dimensions (i) and (iii) show no change, while dimensions (ii) and (iv) cannot be compared.

Recent developments A plan to upgrade the payroll system is being implemented, and meetings on payroll management are clarifying the roles of PO-PSM and MOFEA. A payroll survey has been made in the health sector.

Competition, value for money and controls in procurement (PI-19)

As much as 70 to 80 percent of central government expenditure goes through procurement processes. A new Public Procurement Act (PPA) was enacted in 2004 and together with its associated regulations became operational on May 1, 2005. The Public Procurement Regulatory Authority (PPRA) was established and is now fully staffed. The PPRA is responsible for the oversight of public procurement and overall capacity building in the procuring agencies. The Authority has developed a system for checking and monitoring procurement activities in the MDAs, LGAs, AGAs and PEs. Recent work of the PPRA has included the training of approximately 1,200 staff for procuring agencies. All government agencies have established their Procurement Boards or Procurement Management Units.

During 2008/09 the PPRA carried out procurement audits in 25 central government agencies (ministries, executive agencies, independent departments and regional administration secretariats) out of a total of 99.[13] The objective of the audits was to determine whether the procedures, processes and documentations for procurement, contracting and disposal of public assets by tender were in accordance with the provisions of the PPA regulations, and the standard documents prepared by PPRA and that procurements carried out achieved the expected economy and efficiency, and the implementation of contracts conform to the terms thereof. The audits indicated an average level of compliance of 55% for MDAs, computed from the 13 established compliance indicators. [14] Indicator number 9 on the correct choice of modality (competitive

[13] The Audit Report on Public Authorities and Other Bodies for 2008/09 lists 166 such bodies, of which 60 appear to be public enterprises and 106 appear to be autonomous government agencies, as defined by IMF/GFS and the PEFA Framework. The AGAs include all 35 regulatory bodies, all 25 higher learning institutions, 12 parastatals and 34 government institutions (consultant estimate). Public enterprises are outside the scope of this indicator.
[14] Audit Reports on Central Government and Public Authorities 2008/09. Further information including indicators used to measure compliance is available on the PPRA website (www.ppra.go.tz)..

bidding, quotation, etc), which scored 33 percent in 2007/08, was improved to 92 percent, according to the PPRA Monitoring and Compliance Division. The external audit report for 2008/09 said that procurement was still not effectively managed by MDAs.

Use of open competition. The PPRA indicators do not include the proportion of contracts above the threshold for open competitive bidding that are in fact openly and competitively bid. However, according to the NAO's 2006/07 report, 66 percent of tenders under the open tendering process in that year were advertised.[15] The report pointed to a weakness in the publication of contracts awarded, as a majority of them had not been communicated properly to unsuccessful bidders. The PPRA's own periodic audit reports which are also published show similar results. Presently, the bi-weekly publication of the PPRA as well as its website contains a wealth of information on the procurement plans and bids by government agencies, as well as contract awards, though the full coverage of the latter has to be verified by further procurement audits.

Competitive procurement. The procurement act makes competitive tendering the default method, but allows the use of less competitive procurement methods with justification. Although PPRA's professional views may be sought, the procuring agency is responsible for interpreting the law and choosing such methods, the quality of which may differ from one agency to another. The OECD/DAC trial in 2005/06 found that most stakeholders were not familiar with the Public Procurement Act or Regulations. Substantial training has been given since then, and PPRA procurement audits indicate a good level of justification in 2008/09, though the extent of splitting of contracts[16] is not known.

Existence and operation of a procurement complaints mechanism. The legislative framework provides for a very comprehensive complaints mechanism at three level consisting of the procuring agency, the PPRA, and the Public Procurement Appeals Authority (PPAA). There is also provision for appeal to the courts in the event of delay. The model for complaints handling is in line with international practices, and gives aggrieved bidders adequate means to protect their interests. It has, however, been observed that although the PPRA is timely in processing these complaints, the number of complaints is declining. No data are available. While this may be interpreted as a good development it is also argued that some local contractors avoid filing complaint cases, fearing the risk of being excluded from future bids.

Indicator	Scores	Brief Explanation and cardinal data used
PI-19 Competition, value for money and controls in procurement		(i) 66 percent of tenders under open tendering process were advertised in fiscal year 2006/2007 **(B)**. (ii) Using less competitive procurement methods is allowed

[15] This is similar to the findings of a pilot study on the OECD/DAC methodology for assessing national procurement systems conducted in Tanzania by PPRA and consultants in 2005/06.Out of a random sample of 388 contracts, 59 percent used national or international competitive tendering method. 58 percent of tenders were publicly advertised. PPRA (2008) Assessment of the Country's Procurement System, Final Report, September. Though this sample did not classify contracts as above or below the threshold for competitive tendering, and the sample favoured ICT/NCT contracts, it is sufficient evidence for a B rating on dimension (i) of PI-19.

[16] Splitting large contracts (or failing to consolidate requirements from several agencies within the ministry) reduces the number of contracts above the thresholds at which advertising and competitive tendering is compulsory.

	B	with justification. PPRA audits in 2008/09 show that the great majority of contracts now use the correct method. **(B)** (iii) A comprehensive complaints mechanism operates, but for unknown reasons the number of complaints has declined **(B)**.

Significant improvement is seen in this indicator, which was scored D+ in 2005.

Recent developments A unit has been established in MOFEA for the formulation of procurement policy and the development of the procurement cadre.

Effectiveness of internal controls for non-salary expenditure (PI-20)

Effectiveness of expenditure commitment controls. As part of the functionality of the IFMS, a commitment control system was introduced in 2001 under which a Local Purchase Order (LPO) is required for the purchase of goods and services. The system is relatively effective and restricts the production of a LPO to financial codes with adequate funds and is issued only when the resources are released to the MDAs. On the other hand, the system has provided a re-budgeting power to the MOFEA during the year creating uncertainty to the MDAs and LGAs. There are some unpaid commitments at the end of fiscal year which may be related to commitments such as multi-year contracts that cannot be prevented by the IFMS (see explanation at PI-4).

Comprehensiveness, relevance and understanding of other internal control rules/ procedures. There is a comprehensive set of controls, although in some instances concern is expressed that they may be excessive. These include payments for casual labour, and minor goods and services or collection and handling of minor non-tax service charges and administrative fees, safekeeping, store management, etc., covering a long list which is generally understood by the MDA staff involved.

Compliance with rules for processing and recording transactions. Levels of compliance vary among MDAs. According to external audit reports, compliance is improving and the amount of improperly vouched expenditure is decreasing. The audit of the financial statements for MDAs in the year 2008/09 resulted in an increase in unqualified opinions (clean audit reports) from 73 percent in 2007/08 to 88 percent in 2008/09.

Indicator	Scores	Brief Explanation and cardinal data used
PI-20 Effectiveness of internal controls for non-salary expenditure	**C+**	(i) The use of IFMS with a commitment control feature is relatively effective, but cannot provide a full guarantee at all times **(B).** (ii) Other internal rules and procedures cover major sets of controls that are generally understood but in some areas these are excessive and compliance rate varies **(C)**. (iii) Rules are observed in majority of transactions, but there is some evidence of misconduct **(C)**.

In 2005, dimension (i) on commitment control was rated A on the basis that commitments outside the IFMIS control system were not material. Dimension (ii) was rated B on the basis of significant training efforts on new legislation. There is no change in the rating of dimension (iii) or overall.

Recent developments Electronic funds transfer has been introduced on the recurrent and development accounts.

Effectiveness of internal audit (PI-21)

Coverage and quality of the internal audit function. According to the NAO's 2006/07 report, most MDAs have established Internal Audit Units. Most are understaffed and ineffective. Consequently they are only able to undertake audits of narrow scope with minimal follow-up on findings. The activity of pre-audit of transactions has been transferred to accounts staff, and it is estimated that 20 percent of internal audit staff time is assigned to system-based reviews and high risk areas.

A rough estimate is that 4 percent of MDAs do not have an internal audit committee. Where they are established they lack charters, or do not meet quarterly as they are expected to do. The NAO's report emphasises the need to increase capacity (qualified staff and regular training) and to establish audit committees properly. Establishing a central internal audit unit at the AGD in September 2006 was a step towards coordinating the internal audit function across government and enhancing its effectiveness. The Public Finance Act is presently being revised to establish the MOFEA Internal Audit Unit as an independent unit outside the Accountant General's Department.

Frequency and distribution of reports. Internal audit reports are issued for most MDAs but these are not routinely considered and implemented, in part due to the weak capacity in most MDA. Internal audit reports are copied to AGD/MOFEA, and are available on request by external audit. Reports have been standardized with some improvement in quality.

Extent of management response to internal audit findings. The follow-up of internal audit findings is limited although Audit Committees in the MDAs are tasked to do so. The central internal audit unit is working to change the style of auditing which includes agreeing a timetable with the client for the follow-up of queries or recommendations which aims to improve the quality and timing of follow-up. Due to the large number of MDAs it has not been possible to monitor the follow-up of all audit queries.

Indicator	Scores	Brief Explanation and cardinal data used
PI-21 Effectiveness of internal audit	**C**	(i) Internal audit function exists in most MDAs, and it is estimated that 20 percent of the staff time is allocated to system-based reviews and high risk areas **(C)**. (ii) Reports are issued for most MDAs but these are not copied to the NAO **(C)**. (iii) To some degree actions are taken by management on major issues but

		often with delay **(C)**.

No change in ratings since 2005.

Recent developments The Finance Act, 2010, provides greater autonomy for the internal auditor general.

III.5. Accounting, recording and reporting

Timeliness and Regularity of Accounts Reconciliation (PI-22)

Regularity of reconciliation of bank accounts. Transactions of the central government's bank accounts (main treasury account held at the BOT and other accounts with smaller amounts held in commercial banks) are reconciled with the government accounting records at the end of each month, but with substantial delays and many reconciliations incomplete. The AGD produces lists of un-reconciled items and submits them to the MDAs to identify matching pairs and enter them into an adjustment model for reconciliation, but the process is unreliable and at times incomplete. The bank reconciliations are reviewed by the AGD and subsequently made available to a resident external auditor in the MOFEA. Delays in the monthly reconciliation and the size of the un-reconciled transactions make this process less effective, even in the end-of-year reconciliations. The 2006/07 NAO report disclosed such un-reconciled items noting that payments were recorded in bank statements but not recorded in cash books (government accounting records). According to the Accountant General's office, reconciliation is monthly and the level of un-reconciled items is reducing, but the timeliness of reconciliation of central government accounts, both Treasury managed accounts and commercial bank accounts, is not known.

Bank reconciliation is a major challenge facing the AGD. This is true on both the expenditure side and the revenue side. On the expenditure side the bank reconciliation module of the IFMS (EPICOR) has not worked as planned for the last 11 years. Some accounts are not fully reconciled beyond 2000. Currently around 95 percent of all transactions between MOFEA and BoT are reconciled through the reconciliation module of the IFMS and the rest are reconciled manually.[17] A major effort by the software vendor and AGD continues to improve the situation. While the vendor is trying to implement a software solution, AGD is conducting training for staff in line ministries to minimize data entry errors and improve record maintenance.

On the revenue side, MOFEA is unaware of revenues collected by line ministries and transmitted to the GoT Exchequer Account in BoT. The many revenue retention schemes (see Table 3.7) complicate the situation further, raising serious fiduciary issues regarding the proper accounting and transmission of these receipts.

[17] IMF Sixth Review, December 2009. In addition, there are many transactions that have not been reconciled from the time that the chart of accounts was changed in 2001..

Table 3.7: Retention of Revenue by Line Ministries

Vote	Ministry/Department	Retention %ge
28	Public Security and Safety	60
29	Home Affairs & Prison Services	60
34	Foreign Affairs	100
37	PMO - Government Printer	70
41	Justice - Adm Gen	85
46	Educational & Vocational Training	100
48	Lands	67
49	Water	70
51	Home Affairs	33
52	Health	100
58	Energy & Minerals	25
64	Commercial Court	50
96	Natural Resources	Various
93	Immigration Services	52
94	Information, Culture & Sports	90
98	Infrastructure -Gvt Stores	85
98	Infrastructure –TAA	100
98	Infrastructure – Policy & Planning	50
99	Livestock Development	75

Regularity of reconciliation and clearance of suspense accounts and advances. Reconciliation of suspense accounts and clearance of advances is also a long process, done monthly and annually. Suspense accounts are normally reconciled within two months of the end of the year, but the size of un-reconciled items is not known nor does the reconciliation exercise happen in a comprehensive and timely manner. Advances such as travel advances and imprests are small in size, but their clearing time varies.

Indicator	Scores	Brief Explanation and cardinal data used
PI-22 Timeliness and Regularity of Accounts Reconciliation	**NR**	(i) Insufficient information to rate this dimension **(NR)**. (ii) Suspense accounts are reconciled and advances are cleared annually, but there are many un-reconciled/uncleared items **(C)**.

No comparison can be made with the position in 2005.

<u>Recent developments</u> Work has continued on clearing unreconciled items in seven bank accounts, together with further training of staff in MDAs, regional administrations and sub-Treasuries in bank reconciliation.

Availability of Information on Resources Received by Service Delivery Units (PI-23)

Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made

available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units. In the last three years, MOFEA has carried out a number of expenditure tracking surveys on LGAs and their Direct Service Delivery Units, most recently in 2008. None of the reports has been finalized and cleared in the MOFEA for publication. As a result the coverage, methodology and presentation of the findings of these reports are unknown. In 2004 a donor-supported Public Expenditure Tracking System (PETS) was undertaken in the education sector, but its findings and results were not published because of non-agreement between the government and the donors who helped carry out the exercise. Presently a PETS is being undertaken for the water sector with help from the World Bank.

Indicator	Scores	Brief Explanation and cardinal data used
PI-23 Availability of Information on Resources Received by Service Delivery Units	**D**	Information on resources received by front line service delivery units is mostly lacking. Special surveys were undertaken within the last three years, but their results and methodologies used have not been seen.

This was rated C in 2005 but without access to the surveys undertaken it is not possible to confirm this rating or compare with 2009.

Recent developments An Expenditure Monitoring and Tracking Unit has been established under MOFEA. A new PETS was completed in the education sector and published in February 2010.

Quality and timeliness of in-year budget reports (PI-24)

In-year budget execution reports are produced by the AGD on a monthly basis, called "flash reports", mainly for internal use, and by the Policy Analysis Department on a quarterly basis for revenues, expenditures, deficit and financing (a fiscal table) and published on the MOFEA's website.

Scope of reports in terms of coverage and compatibility with budget estimates. The IFMS has the capacity to produce timely central government expenditure reports (including transfers to the LGAs) with any coverage that may be needed. However, the actual coverage of flash reports is limited to the vote level (total expenditures of a MDA) with no information on its sub votes, economic classification, operations, etc. These flash reports show original and revised budgets, funds made available by the MOFEA to each MDA, commitments and payments. The flash reports are mainly for total cash management purposes, as there is no further detailed information on the MDA votes. This mainly stems from the vote appropriation structure of Tanzania (total budget of each MDA), by which the executive branch has full authority to introduce changes and reallocations within any MDA's total budget. Flash reports do not cover the revenue side of the budget. The quarterly reports, on the other hand, include all fiscal data as mentioned above.

Timeliness of the issue of reports. Since the State House and the Ministry of Defence are using the IFMS on a stand-alone basis outside the network, they provide data to the AGD on backup tapes which are restored in the AGD's main server. As a result the consolidated expenditure flash reports are not produced until around two weeks after the end of the month. Quarterly budget execution reports are published on MOFEA's website usually within three months after the end of each quarter.

Quality of information. Because flash reports are prepared before reconciliation of government accounts with the corresponding bank transactions, by their nature they cannot provide a full picture, but mostly serve as a timely indication of commitments and payments and the status of overall budget execution. The weakness of the quarterly reports on the other hand is that the data is classified in very broad categories. That is mainly because the MOFEA needs to collect data from different sources on grants, revenues, domestic and external financing, fiscal/monetary data gaps, etc. The assessment is made on the flash reports: this gives a better rating (C+) than the quarterly reports (D+) due to the delay on the latter.

Indicator	Scores	Brief Explanation and cardinal data used
PI-24 Quality and timeliness of in-year budget reports.	**C+**	(i) Scope of flash reports is compatible with the budget estimates for both commitments and payments, but only at the vote level **(C)**. (ii) Flash reports are provided monthly within two weeks for expenditures and quarterly for all fiscal components, including revenue, expenditure deficit, and financing **(A)**. (iii) Flash reports are not reconciled with bank statements, but this does not undermine their usefulness for cash management **(C)**.

Compared with 2005, overall performance remains at a C+ level. However, this conceals improvements in their timeliness. The wider coverage of IFMS has contributed to this improvement.

Quality and Timeliness of Annual Financial Statements (PI- 25)

Completeness of the financial statements. The financial statements for the central government transactions (including its transfers to the LGAs) include revenue, expenditure and bank balances, but not complete assets and liabilities. The 2008/09 financial statements include information on most financial assets and liabilities since changing the accounting standards (see below) but physical assets are not yet reported.

Timeliness of submission of the financial statements. All MDAs are required to submit their final accounts within three months after the end of the fiscal year to MOFEA and NAO. The consolidated government financial statements are then prepared by the AGD and submitted to the NAO within an additional month. For the last three fiscal years these were produced and submitted to the NAO within the statutory four months period, with a slight delay in 2007/08 due to changing the accounting standard.

Accounting standards used. Until the end of fiscal year 2006/07 accounts were prepared using national modified cash basis. Beginning 2007/08 the government has adopted the internationally recognized cash-basis IPSAS standard, and 88 percent of MDA financial statements complied with this standard (Audit Report on 2008/09). According to this standard, assets and liabilities are an encouraged disclosure, though not mandatory.

Indicator	Scores	Brief Explanation and cardinal data used
PI-25 Quality and Timeliness of Annual Financial Statements	**B+**	(i) Central government final accounts include revenue, expenditure and bank balances, and since 2007/08 data on most financial assets and liabilities **(B)**. (ii) Financial statements are submitted for external audit within 6 months of the end of the fiscal year **(A)**. (iii) Cash-basis IPSAS standard has been applied since 2007/08 **(B)**.

The conversion of the annual financial statements to meet the international cash-basis IPSAS standard is a major reform. This dimension was rated B in 2005, but it is not known whether this was justified Overall, a B+ rating has been maintained.

III.6. External Scrutiny and Audit

Scope, nature and follow-up of external audit (PI-26)

Scope and nature of audit. The mandate of the Auditor General covers all bodies using public funds. Annual reports of the National Audit Office (NAO) are in three volumes. The first covers all central government MDAs (including Executive Agencies), Regional Administration Secretariats, and Embassies. The second covers the LGAs. The third (since 2006/07) covers parastatals (including public enterprises), water and sewerage authorities, higher learning institutions and other public authorities. All bodies that submit their financial statements on time are included in each year's report. For 2008/09, 52 MDAs were audited out of a total of 57 (91 percent), and 51 out of 166 public authorities and other bodies (31 percent). Overall expenditure coverage is estimated at 88 percent.

The audits of MDAs comprise primarily transaction level testing, and the audit report is primarily of a financial nature (i.e. whether accounts have been properly kept, rules and procedures followed, resources expended for the purposes appropriated, and records maintained). Audit reports also mention various aspects of the PFM processes such as compliance with the Public Procurement Act, internal controls, internal audit functions and audit committees, etc. Further, the audit report analyzes major findings of the accounts audited, mainly in the form of organizational cross-cutting issues with examples from the MDAs to substantiate its findings. Performance audits have been completed recently on flood prevention, primary health care and road works.

The audits broadly adhere to appropriate auditing standards (INTOSAI) and the international standards on auditing issued by the International Federation of Accountants. However, there are still some deficiencies in terms of meeting international standards and full compliance is expected to be achieved after 2010. The passage of the new Audit Act is considered an important factor in improving the independence of the NAO as it addresses staffing issues, budget allocations and audit coverage .

Timeliness of submission of audit reports to legislature. Audit reports of the last three years, including government financial statements, have been submitted to the legislature within nine months of the end of each year, that is within five months of receipt of financial statements by the NAO. The audit reports are made available to the public through NAO's website (www.nao.go.tz).

Evidence of follow-up on audit recommendations. Follow-up on addressing the external audit recommendations by the executive branch has generally been weak. The NAO reports that a considerable number of cases of previous years' audit issues remain unresolved. During the last two years MOFEA has prepared a structured response to NAO findings and made it available around the end of the calendar year. This structured response is to be submitted to the PAC and discussed during their review of NAO reports. There is clear direction from the Executive to MDAs to comply with NAO recommendations. In 2007 the President of Tanzania convened two meetings with Accounting Officers to reiterate the need to increase fiduciary compliance, and fully comply with the recommendations of NAO. This has been followed up subsequently with further directions on the need to improve adherence to regulations and to improve PFM outcomes.

Indicator	Scores	Brief Explanation and cardinal data used
PI-26 Scope, nature and follow-up of external audit	**B**	(i) The audit report covers almost all MDAs and about a third of AGAs. Financial audits are performed, including compliance audits, and some performance audits. The reports identify systemic issues that need to be addressed. **(B).** (ii) In the last three years, the audit report, including consolidated financial statements of government, was presented to the legislature five months after the receipt of financial statements **(B).** (iii) Formal responses by MDAs and MOFEA on the audit reports are submitted to the NAO. There is also evidence of a structured response to audit findings, and some evidence of systematic follow up by the MDAs **(B)**.

The assessment reflects the overall improvement since 2005 in the scope and standards of external audit and management responses.

A new external audit law passed the National Assembly and was gazetted in September 2008, which is expected to bring about further wide-ranging improvements in the external auditing task, including further independence of the National Audit Office (NAO), and response of the executive government to the NAO's findings.

Legislative scrutiny of the annual budget law (PI-27)

Scope of the legislature's scrutiny. The National Assembly is provided with information on macro-fiscal policy mostly in the form of the previous calendar year's economic performance (though not as budget documentation series) and detailed revenue and expenditure data. Planning and Budget Guidelines are presented by MOFEA in February. In May the Sectoral Committees of the National Assembly meet with MDA officials and scrutinize their draft budgets. When the government budget is formally tabled, normally mid-June (two weeks before the start of the budget year), approval is given to the appropriation bill, which is a very brief document containing the total budget of each MDA.

Extent to which the legislature's procedures are well-established and respected. In addition to the PAC, the Local Authority Accounts Committee and the Parastatal Committee, there are 11 Sectoral Committees associated with the review of the budget prior to its submission to the National Assembly. There are some established internal procedures for committee meetings, which are respected, but since the nature of debate is mostly in the form of briefings, their effectiveness is limited.

Adequacy of time for the legislature to respond to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined). In practice the legislature has only two weeks or less to approve the government's proposed budget, but additional time is spent in committees. Overall time is at least a month. The ability of the National Assembly to question or influence sectoral allocations and to ensure that they follow sectoral policies is therefore very limited. The technical capacity of the sectoral committees is also limited.

Rules for in-year amendments to the budget without ex-ante approval by the legislature. Rules exist for in-year amendments within the appropriation structure and total budget of a MDA. The MDA must submit a request to the MOFED by completing a standard form. Such requests are discouraged within the first half of the fiscal year as they reflect poor planning, though they do still arise. The requests are submitted and approved as and when needed. These virements are consolidated into a Reallocation Warrant publication and submitted to the National Assembly for its ex-post information, normally during the second half of the fiscal year. No specific limits are set on the extent of the virements. However, if the total appropriation of a MDA needs to be increased, approval by the National Assembly is required in the form of a supplementary budget.

Indicator	Scores	Brief Explanation and cardinal data used
PI-27 Legislative scrutiny of the annual budget law	**C+**	(i) Legislative scrutiny covers details of revenue and expenditure for the coming year. MDAs brief the National Assembly's Sectoral Committees on their estimated expenditures in advance and before the budget is submitted **(C)**. (ii) The legislative committees have established rules for debating the government budget. **(B)** (iii) Legislature's time for a meaningful debate of official government budget is at least a month **(B)**. [18] (iv) Clear rules exist for in-year amendments but they allow unlimited and extensive re-allocation within the budgets of MDAs **(B)**.

The rating of this indicator is unchanged since 2005.

Legislative Scrutiny of external audit reports (PI-28)

Timeliness of examination of audit reports by the legislature (for reports received within the last three years). The scrutiny of audit reports takes a very long time in the PAC, simply because they begin the exercise 11 months after they receive the NAO report. In none of the last three years has the PAC issued its reports within 12 months of receipt of the NAO's reports.

Hearings on key findings undertaken by the legislature. For the preparation of the PAC report, in depth hearings take place with a selection of responsible officers from the audited entities, usually at a pace of one or two entities per day. The hearings commence with entities in receipt of audit queries or qualified reports. However, those with clean reports are also selected at random and asked what improvements they want to undertake in their MDAs, which often reveals some weaknesses despite a clean audit report.

Issuance of recommended actions by the legislature and implementation by the executive. A substantial weakness within the accountability process is the lack of response from MDAs to the recommendations of the PAC. MOFEA makes a formal response but there is no evidence to show that recommendations are acted upon by the respective MDAs.

Indicator	Scores	Brief Explanation and cardinal data used
PI-28 Legislative scrutiny of external audit reports	**D+**	(i) Examination of audit reports begins 11 months after their receipt, and takes another 4 months to complete (**D)**. (ii) In depth hearings take place with responsible officers from the audited entities **(B)**.

[18] A clarification to the Framework allows a B rating where the legislature has a month to review the budget proposals, and other dimensions also get B ratings, as in this case. An A rating would require two months.

		(iii) Actions are recommended by the PAC, but they are not acted upon by the executive (**C**).

Since 2005, there appears to have been a falling off in the timeliness of PAC reports, formerly rated A. Other dimensions have not changed, but the lateness of PAC review brings down the overall indicator rating.

III.7. Donor Practices

Predictability of Direct Budget Support (D-1)

Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature. Provision of information on direct budget support by donors is quite timely, and in the last three years all donor agencies engaged in direct budget support have provided information several months before the submission of the government budget to legislature. Small deviations in actual disbursements occur due to changes in exchange rates. According to data from MOFEA External Finance Department, forecasts and disbursements from the 14 budget support partners were as follows:

Table 3.8: Direct Budget Support Performance

	2006/07	**2007/08**	**2008/09**
Donor forecast disbursements (USD millions)	660.6	665.3	665.7
Actual disbursements received (USD millions)	668.9	673.0	712.7
% actual/forecast	101.3%	101.2%	107.1%

In-year timeliness of donor disbursement of direct budget support. All donors have agreed to provide their annual direct budget support in the first quarter of the fiscal year and in one installment to provide a further cash facility to the government early in the fiscal year; and most have done so in the last three years.[19] The weighted disbursement delay was 17 percent in 2006/07, nil in 2007/08 and 20 percent in 2008/09.

Indicator	**Scores**	**Brief Explanation and cardinal data used**
D-1 Predictability of Direct Budget Support.	**A**	(i) In none of the last three years has direct budget support outturn fallen short of forecast **(A)**. (ii) Most direct budget support is paid in the first quarter in one installment to enhance the government's cash position at the beginning of the fiscal year **(A)**.

[19] Some of the direct budget support for fiscal year 2008/09, exceptionally, was delayed due to the external audit issues in the BOT.

This is a big improvement on the performance in 2004/05 when direct budget support was rated only C.

Financial Information Provided by Donors for Budgeting and Reporting on Project and Programme Aid (D-2)

Completeness and timeliness of budget estimates by donors for project support. Most donors provide estimates of their support for programmes and projects, and baskets in a timely manner and in line with the government budget cycle to help budgeting and secure government counterpart funds, where applicable. This process is specifically linked to the MTEF exercise, but the estimates need annual adjustment, as the MTEF itself is regarded as a rolling plan. It is also possible that a new project, which was not known to the parties at the time of the budget preparation, may be initiated in the course of the fiscal year, and similarly a grant may be agreed, or the negotiations of a loan may be concluded during the fiscal year.

Frequency and coverage of reporting by donors on actual donor flows for project support. The MOFEA has noted a number of difficulties related to the financial information on projects and basket support funds. Moreover, it is difficult for MOFEA to compile and aggregate data from different projects from MDAs. According to MOFEA officials, some donors do not provide quarterly reports within two months of the end of the quarter in which the disbursements were made, which is the main concern of this indicator. On the other hand, since most donor project and basket funds use national budget execution procedures, MDAs are required to provide timely information on using these funds, which also faces some problems. Unlike direct budget support, project and basket funds have serious data reporting gaps. A low budget implementation rate in donor project and basket fund activities in part indicates the lack of proper reporting. A World Bank policy note of September 2008 concludes that in 2006/07 the implementation rates for project and basket supported activities were as low as 62 percent and 52 percent respectively, which the study attributed mainly to under-reporting.[20]

Indicator	**Scores**	**Brief Explanation and cardinal data used**
Donor 2. Financial information		(i) At least half the donors provide complete budget

[20] According to this policy note, in some instances poor budget execution performance is largely a problem of under-reporting rather than non-expenditure. For instance, whilst donor-funded infrastructure projects are reported in the budget books, release, allocation and spending data are not integrated in IFMS for 84 percent of the projects. This results automatically in a very low level of recorded spending for the development budget of Ministry for Infrastructure Development (MfID). This is naturally considered a major problem by both MOFEA and the MfID, as more than Tsh. 100 billion is – wrongly - left unaccounted. This problem of reporting is directly linked to the disbursement procedures used for donor projects: the dummy exchequer system. A recent study has concluded that this system is not functioning well and that very little data is captured through the dummy exchequer. Discussions with MoID suggest that this is partly correct. The dummy exchequer system appears to be a sound system from a technical perspective, but the main actors in charge of its implementation, in particular Tanzania Roads Authority and the MoID, don't appear to have the incentives to apply it adequately. This specific issue will be the subject of a separate report financed by Japan International Cooperation Agency on the exchequer system in the road sector. Notwithstanding the poor implementation of the dummy exchequer system, it does report on a quarterly basis on the physical and financial execution performance of these projects. However, financial execution information is limited to approximately 25 percent of the projects. Therefore, it is difficult to reconcile the list of projects completed with those planned for in the budget.

provided by donors for budgeting and reporting on project and programme aid.	**C+**	estimates for disbursement of project and programme aid in line with the government budget calendar, with a breakdown that could be transformed to the government budget classification, which is very broad for accommodating classification of any project or programme **(B)**. (ii) Most donors provide quarterly disbursement reports within two months of end of quarter for at least 50 percent of externally-financed project estimates in the budget **(C)**.

There has been an improvement in the completeness of budget estimates by donors since 2004/05, and in the overall indicator rating.

Proportion of aid that is managed by use of national procedures (D-3)

The use of national procedures means that the banking, authorization, procurement, accounting, audit, disbursement and reporting arrangements for donor funds are the same as those used for government funds. All direct budget support and some sector–support will by definition use national procedures in all respects. Other types of donor funding (such as project and basket funds and other specific funds) use some or no elements of the national procedures.

In response to the government's strong request to channel support through the national systems, some donors have converted significant shares of their annual aid to budget support or basket funding for sector-specific activities. In 2006/07, such support accounted for 68 percent of the total assistance (56 percent budget support and 11 percent basket fund compared to just 31 percent in 2001/02. Consequently, reporting on donor-funded activities using national systems and procedures has significantly improved during the past few years although there are still considerable amounts of funds that bypass government systems.

In 2008 a survey monitoring the implementation of the agreements made under the Paris Declaration on using government systems was undertaken. This found that aid using the country PFM systems was on average 71 percent.

Table 3.9: Aid flows using national systems: 2007 (%)

National process	Percentage of total aid
Aid using budget systems	69 %
Aid using financial reporting systems	74%
Aid using audit systems	72%
Aid using procurement systems	69%
Average of above	71%

Source: OECD Survey Results on Tanzania's Progress on Paris Declaration Indicators, 2008

Since 2007, the proportion of budget support in total aid has slightly reduced, so the proportion of total aid using national procedures will also have slightly reduced.[21] According to MOFEA, in 2008/09 71 percent of project aid used the Exchequer system, which channels aid through the Exchequer and allows better tracking of expenditure. Coincidentally this is the same as the overall use of national procedures in 2007 (Table 3.9).

Indicator	Scores	Brief Explanation and cardinal data used
Donor 3. Proportion of aid that is managed using national procedures	**C**	Between 50% and 75% of aid funds to central government are managed through national procedures.

In 2003/04, 45 percent of aid funds to central government were managed using national systems, for which a D rating would have been appropriate. Since then there has been an increase in use of national systems.

IV. GOVERNMENT REFORM PROCESS

IV.1. Recent and on-going reforms

Tanzania has for several years initiated reform measures in a number of PFM components, some of which are continuing. These mainly include: macro-fiscal analysis, central payment and recording system, forward looking expenditure forecasting, tax policy and administration, external auditing, procurement, and to a certain degree internal auditing and internal controls. In February 2008 a new PFM reform plan was adopted by the government called: Public Financial Management Reform Programme (PFMRP-III), which calls for further reforms in the areas of policy analysis and development, external resource management, budget management, treasury management and accounting, procurement, information technology services, investment management, administrative support services, external audit services, and programme leadership coordination, monitoring and evaluation.

An evaluation of the degree of success of the PFMRP II was conducted in 2006 and some modalities of the reform process were changed. The PFMRP III has now broadened its scope to include the BOT, the National Assembly, MDAs and LGAs. The new reform plan needs to be implemented by first addressing the basics and then ensuring that they are firmly in place before expanding the reforms. For example, accurate, transparent and improved cash forecasting, enhanced control over all public investments, improved credibility of MTEF, a reformed budget calendar and comprehensive budget classifications should be addressed as soon as possible. Moreover, in the plan there is little narrative to understand why certain outputs and activities have been included, and there is little sense of prioritization among outputs. The calendar to achieve these outputs (three years) may also appear ambitious.

[21] Source: IMF Sixth Review, December 2009, using actual data for 2007/08 and preliminary data for 2008/09. Program grants and loans, including basket grants and loans, and MDRI grant relief, are counted as budget support.

Additionally, and perhaps as significantly, the reform plan addresses what appears to have been an important obstacle to reform implementation: poor capacity within MOFEA and the PFMRP Secretariat to coordinate or steer the reform process. The new plan envisages a much stronger coordination structure than in the past. The success of PFMRP III will be determined by the quality of MOFEA leadership of the overall program and also the extent to which various component managers take leadership and ownership of this program.

IV.2. Institutional factors supporting reform planning and implementation

Whilst there has been ownership of some specific reforms and piecemeal actions have been proceeding, government leadership in the coordination of PFM reforms, in particular of the PFMRP as the coordinating vehicle for reforms, has been problematic in the past. It is believed that some basic reforms in accounting and reporting have been lagging compared to reforms in, say, macro-fiscal analysis or tax administration. The budget preparation process clearly needs to address the issues of budget classifications, timely preparation and submission of the budget, etc. The dissemination of the government vision in reform strategy documents has been an area of strength, with the production of an annual progress report on PFM reforms, although there is scope for improving the analysis, and the absence of a forward looking action plan is a matter of concern. While the allocation of funds to PFM reforms is substantial, the procurement of resources by government for this purpose is rather weak as government has been unable to spend the allocated funds. It is believed that some of these problems relate to the ownership of the reforms.

The reform design process is generally led by the President's Office and MOFEA. The involvement of line ministries is limited unless the reforms concern that particular sector in which case they take the lead role. The PFMRP series represent an example of a coordination structure that supports a set of reforms and serves as a focal point within government for coordination of donor support for PFM reforms. The successful establishment of the coordination structure has been problematic and prolonged, and a number of challenges remain, though the institutional framework has been put in place through the establishment of a coordination unit, a steering committee and a management committee. It was particularly challenging to clarify the roles and responsibilities for implementing the reforms, though the formalisation of the institutional structures can be viewed as a success. The main challenge remains the buy-in of the most relevant and directly responsible units for the proposed reforms.

A clear priority for the Government of Tanzania has been to minimize dependence on external consultants and to develop in-house capacity that is more sustainable in the long term. While this is a strategic priority, in the near term there is clearly need for short term technical support to be provided to various component managers to ensure that there is adequate capacity to complement the ambitious PFM reform program that has been specified by the Government in the PFMRP III strategic document. The key to the success of PFMRP and all other reform programs is longer term civil service reform, which is a priority for GoT, but which is taking longer than expected to be operationalized.

ANNEX 1

Performance Indicators Summary Table

Indicator	Score June 2009	Brief Explanation and cardinal data used	Score May 2005	Comment
PI-1 Aggregate expenditure out-turn compared to original approved budget	**A**	In the last three years only in 2006/07 did the actual total expenditure deviate from budgeted expenditure by more than 5 percent.	**A**	No change
PI-2 Composition of expenditure out-turn compared to original approved budget	**D**	In 2007/08 and 2008/09 variance in expenditure composition exceeded overall deviation in primary expenditure by more 10 percentage points.	**D**	No change
PI-3 Aggregate revenue out-turn compared to original approved budget	**C**	In the last three years domestic revenue collection was below 92 percent of budget in no more than one year..	**A**	Deterioration caused by shortfall in 2008/09, due to global crisis.
PI-4 Stock and Monitoring of Expenditure Payment Arrears	**C**	(i) The stock of expenditure payment arrears is slightly below 10 % of total MDA expenditure (excluding foreign funded development expenditure) **(C)**. (ii) Data on the stock of arrears is currently being consolidated through merging the different databases in MOFEA and BoT. However this database is still to be verified. It also lacks an age profile **(C)**.	**A** A A	Deterioration in performance
PI-5 Classification of the budget	**C**	The 2008/09 budget documentation and execution is based on administrative and GFS-compatible economic classifications. There is no functional classification in the budget documentation and reporting system.	**C**	No change
PI-6 Comprehensiveness of information included in budget documentation	**A**	2009/10 budget documentation fulfils 8 out of 9 benchmarks of the required information.	**A**	No change

PI-7 Extent of unreported government operations	**C+**	(i) Extra budgetary spending is estimated to be between 5 and 10 percent of total government expenditure **(C).** (ii) Complete income/expenditure information is included in the fiscal reports for all loan-financed operations and at least 50 percent of grant-financed operations **(B).**	**B** B B	Not possible to compare with 2005 for lack of data No change
PI-8 Transparency of inter-governmental fiscal relations	**C**	(i) The horizontal allocation of almost all transfers is guided by certain measures. However actual transfers cannot be predicted by the receiving LGAs except for a general-purpose grant amounting to 12 percent of the total grants. **(C)**. (ii) Information to LGAs is issued three months before the start of the fiscal year, but this is unreliable **(C)**. (iii) Fiscal information is collected quarterly and consolidated annually for all LGAs, but data integrity is doubted (**C)**.	**C+** A D C	Basis for dimensional ratings not known: no comparison possible
PI- 9 Oversight of aggregate fiscal risk from other public sector entities	**NR**	(i) Lack of data to score **(NR)**. (ii) The PFM system at LGAs suffers from deep-rooted institutional challenges that have not been adequately addressed to date. LGAs do not have borrowing power, unless approved by the MOFEA, which is not done. Their budget execution reports are of variable quality and cannot be relied upon as an accurate reflection of the fiscal position of the LGAs, which is significantly incomplete. **(D)**	**C** C C	Lack of data: not comparable
PI-10. Public access to key fiscal information	**B**	The government makes available to the public, 5 out of from 6 types of information, but two of them are not complete.	**B**	No change
PI-11 Orderliness and participation in the annual budget formulation process		(i) A comprehensive budget calendar exists, but delays are sometimes experienced. MDAs have 6-8 weeks to submit their budgets. **(B)**	**B** B	Deterioration in performance due to increasing delay in passing the budget

	C+	(ii) A comprehensive budget circular and budget preparation guidelines are issued, but the MDA ceilings are not always approved by the Cabinet before issue. **(B)** (iii) The Legislative approves the budget with more than two months delay in 2 of the last 3 years. **(D)**	B C	
PI-12 multi-year perspective in fiscal planning, expenditure policy and budgeting	**C**	(i) Forecast of fiscal aggregates, on the basis of main categories of administrative and economic classification for recurrent expenditures and project or sector-based for development expenditures, are prepared for two years in addition to budget year. **(C)** (ii) DSA for external and domestic debt has been undertaken twice in the last three years. **(B)** (iii) Sector strategies exist but they are inconsistent with aggregate fiscal forecasts. **(C)** (iv) Linkages between investment budgets and sector strategies and recurrent budgets are weak. **(D)**	**B** B B B C	Insufficient evidence in 2005 assessment to make a comparison
PI-13 Transparency of Taxpayer Obligations and Liabilities	**NR**	(i) There are relatively new and comprehensive income tax and VAT laws. **(B)** (ii) Taxpayer access to information on tax liabilities and administrative procedures. There is good taxpayer education but no call centre or central information system. **(B)** (iii) There is an independent disputes resolution system funded separately by government, though it needs further capacity enhancement. **(NR).**	**B** B C B	No change Improvement in taxpayer access to inform Not possible to compare
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	**C+**	(i) Taxpayers are registered in a database with an identification system but there are no links to other systems, and no surveys of potential taxpayers. **C**	**C** C	Improvement due to real progress in tax a

		(ii) Penalties exist but they are insufficiently specific and in some cases too low to impact on compliance. **(C)** (iii) There is a good tax audit operation in the LTD (the main tax collection department), but a mixed performance in DRD. **(B)**	C C	
PI-15 Effectiveness in collection of tax payments	**NR**	(i) Not rated for lack of information on collection of arrears (NR) (ii) Revenue collected is transferred to the main account in the Bank of Tanzania within a week **(B).** (iii) Reconciliation between tax assessments, collections, arrears records and receipts by the Treasury takes place as a matter of routine **(A).**	**D+** D C D	Significant improvement in dimensions (i) and (iii), but overall rating cannot be compared for lack of information on collection of arrears
PI-16 Predictability in the Availability of Funds for Commitment of Expenditures	**C**	(i) An annual cash flow forecast for government budget and each MDA is prepared, but is neither adhered to nor updated in a credible manner throughout the year. **(C)**. (ii) MDAs are provided with reliable information for their commitments but only for each month and with relatively short notice **(C)**. (iii) Significant in-year budget adjustments are frequent, but undertaken with some transparency **(C)**.	**C+** A C C	Lack of evidence for 2005 rating of dimension (i). No comparison possible.
PI-17 Recording and management of each cash balances, debt and debt guarantees	**C**	(i) The various databases containing debt data are currently in the process of being merged. Data quality is considered fair and minor reconciliation problems occur. For the data entered in CS DRMS statistical reports are regularly produced. **(B)** (ii) The balances of several government bank accounts in commercial banks are not consolidated, though	**B** B	Lack of evidence for 2005 rating: no comparison possible

		there is a plan to do so. **(D)** (iii) Contracting of loans and issuing guarantees is approved by the Minister of MOFEA in line with rules, but there are no ceilings. **(C)**	C B	
P1-18 Effectiveness of payroll controls	**NR**	(i) Personnel records and payroll data are stored in the same database and are fully integrated and reconciled. **(A)** (ii) Lack of data to score **(NR)** (iii) Some internal controls exist to data entry for changes on personnel records and payroll data, but are not adequate to ensure the integrity of data, which originate in the MDAs. **(C)** (iv) Quarterly payroll audits with limited coverage have been undertaken during the last three years, but no comprehensive survey has been conducted since 1994. **(C)**	**C+** A B C NR	No change. Not possible to compare No change Not possible to compare
PI-19 Competition, value for money and controls in procurement	**B**	(i) 66 percent of tenders under open tendering process were advertised in fiscal year 2006/2007 **(B)**. (ii) Using less competitive procurement methods is allowed with justification. PPRA audits in 2008/09 show that the great majority of contracts now use the correct method. **(B)**. (iii) A comprehensive complaints mechanism operates, but for unknown reasons the number of complaints has declined **(B)**.	**D+** D C C	Significant improvement since 2005
PI-20 Effectiveness of internal controls for non-salary expenditure	**C+**	(i) The use of IFMS with a commitment control feature is relatively effective, but cannot provide a full guarantee for all transactions **(B).** (ii) Other internal rules and procedures cover major sets of controls that are generally understood but in	**C+** A	No overall change Difference due to different assessment of materiality of exceptions

		some areas these are excessive and compliance rate varies. **(C)** (iii) Rules are observed in majority of transactions, but there are some evidences of misconduct. **(C)**	B C	Adverse CAG reports suggest less understanding of controls in 2009 No change
PI-21 Effectiveness of internal audit	**C**	(i) Internal audit function exists in most MDAs, and it is estimated that 20 percent of the staff time is allocated to system-based reviews and high risk areas. **(C)** (ii) Reports are issued for most MDAs but these are not copied to the NAO. **(C)** (iii) To some degree actions are taken by management on major issues but often with delay. **(C)**	**C** C C C	No change.
PI-22 Timeliness and Regularity of Accounts Reconciliation	**NR**	(i) Lack of information for rating **(NR)** (ii) Suspense accounts are reconciled and advances are cleared in monthly periods, but there are many un-reconciled/uncleared items. **(C)**	**B** B B	No comparison possible No change.
PI-23 Availability of Information on Resources Received by Service Delivery Units	**D**	Information on resources received by front line service delivery units is mostly lacking. Special surveys were undertaken within the last three years, but their results and methodologies used have not been published.	**C**	No comparison possible
PI-24 Quality and timeliness of in-year budget reports.	**C+**	(i) Scope of flash reports is compatible with the budget estimates for both commitments and payments, but only at vote level. **(C)** (ii) Flash reports are provided monthly within two weeks for expenditures and quarterly for all fiscal components, including revenue, expenditure deficit, and financing. **(A)**	**C+** C B	No overall change. No change No comparison possible

		(iii) Flash reports are not reconciled wih bank statements, but this does not undermine their usefulness for cash management. **(C)**	B	No comparison possible
PI-25 Quality and Timeliness of Annual Financial Statements	**B+**	(i) Central government final accounts include revenue, expenditure and bank balances, and since 2007/08 data on most financial assets and liabilities **(B)**. (ii) Financial statements are submitted for external audit within 6 months of the end of the fiscal year **(A)**. (iii) Cash-basis IPSAS has been applied since 2007/08. **(B)**.	**B+** B A B	No overall change.
PI-26 Scope, nature and follow-up of external audit	**B**	(i) The audit report covers almost all MDAs and about a third of all AGAs. Financial audits are performed, including compliance audits and some performance audits. The reports do identify systemic issues that need to be addressed. **(B).** (ii) In the last three years, the audit report, including consolidated financial statements of government, was presented to the legislature within 5 months of their receipt **(B)** (iii) Formal responses by MDAs and MOFEA on the audit reports are submitted to the NAO. There is also evidence of a structured response to audit findings, and some evidence of systematic follow up on the findings by the MDAs **(B)**.	**D+** C C D	Substantial improvements since 2005.
PI-27 Legislative scrutiny of the annual budget law	**C+**	(i) Legislative scrutiny covers details of revenue and expenditure for the coming year. MDAs brief the National Assembly's Sectoral Committees on their estimated expenditures in advance and before the budget is submitted. **(C)** (ii) The legislative committees have established rules	**C+** C	No change.

		for debating the government budget. **(B)** (iii) Legislature's time for debate of the official government budget is limited, but is supplemented by the time spent earlier in committees **(B)** (iv) Clear rules exist for in-year amendments but they allow unlimited and extensive re-allocation within the budget of a MDA. **(B)**	B B B	
PI-28 Legislative scrutiny of external audit reports	**D+**	(i) Examination of audit reports begins 11 months after their receipt, and takes another 4 months to complete **(D).** (ii) In depth hearings take place with responsible officers from the audited entities **(B).** (iii) Actions are recommended by the PAC, but they are not acted upon by the executive **(C).**	**C+** A B C	Apparent deterioration due to lateness of PAC review.
Donor 1. Predictability of Direct Budget Support	**A**	(i) In none of the last three years has direct budget support outturn fallen short of forecast **(A).** (ii) Most direct budget support is paid in the first quarter in one instalment to help boost (enhance) the government cash position at the beginning of the fiscal year **(A).**	**C** (dimen-sions not rated)	Improvement since 2004/05.
Donor 2. Financial information provided by donors for budgeting and reporting on project and programme aid	**C+**	(i) At least half the donors provide complete budget estimates for disbursement of project and programme aid in line with the government budget calendar, with a breakdown that could be transformed to the government budget classification, which is very broad for accommodating classification of any project or programme **(B).** (ii) Most donors provide quarterly disbursement reports within two months of end of quarter for at least 50 percent of externally-financed project estimates in the budget **(C).**	**C** C C	Improvement in donor project reporting.

Donor 3. Proportion of aid that is managed using national procedures	**C**	Between 50% and 75% of aid funds to central government are managed through national procedures.	**C**	Appears to have been over-rated In 2006 as 45 percent would rate a D. Real improvement.

Note: the assessment in 2005 included a non-standard indicator “Ethics and corruption measures are in place and effective”, which was rated C on calibration based on the fiduciary risk assessment for 2004. This indicator was not used in subsequent assessments.

ANNEX 2

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ANNEX 3 **Budget Credibility Calculations** **TShs millions**

2006/07

MDA	Approved Estimates-Recurrent	Approved Estimates-Dev't-Domestic	Approved Estimates-Total	Actual Expenditure-Recurrent	Actual Expenditure-Dev't-Domestic	Actual Expen-diture-Total	Absolute Variance-Current Meth'y
Accountant General's Department	81,228	454	81,682	80,014	150	80,164	1,518
M/Home Affairs - Police Force	141,776	5,645	147,421	135,253	4,835	140,088	7,333
M/Home Affairs - Prison Services	64,025	2,517	66,542	63,877	2,459	66,336	206
Pres. Office & Cabinet Secretariat	112,360	10,300	122,660	111,713	10,295	122,008	652
Vice President's Office	31,679	1,077	32,756	31,254	907	32,161	595
M/Foreign Affairs & Int Coopn	72,154		72,154	70,834		70,834	1,320
Defence	190,413	0	190,413	189,362		189,362	1,051
M/Agriculture	59,884	8,354	68,238	58,447	6,861	65,308	2,930
M/Education & Voc Training	122,953	41,594	164,547	123,266	8,842	132,108	32,439
M/Water & Irrigation	20,186	101,865	122,051	19,309	99,754	119,063	2,988
M/Finance & Economic Affairs	140,305	5,023	145,328	135,915	5,089	141,004	4,324
M/Health & Social Welfare	181,208	7,123	188,331	178,822	7,123	185,945	2,386
PM Office-Reg Adm & Local Gov't	45,254	4,324	49,578	44,907	3,414	48,321	1,257
M/Defence & National Service	8,082	49,845	57,927	7,579	49,845	57,424	503
M/Energy & Minerals	51,241	224,982	276,223	51,121	6,320	57,441	218,782
President's Office-Planning Commission	18,658	12,354	31,012	18,313	12,188	30,501	511
M/Communication, Science & Techn'y	164,899	25,176	190,075	163,986	20,277	184,263	5,812
M/Natural Resources &Tourism	31,470	2,049	33,519	30,272	21,346	51,618	18,099
Tanz Commission on AIDS	4,335	0	4,335	3,060		3,060	1,275
M/Infrastructure Development	181,233	136,668	317,901	177,623	164,768	342,391	24,490
All other votes	260,759	32,722	293,481	294,625	27,542	322,167	28,686
Total excl. debt service	1,984,102	672,072	2,656,174	1,989,552	452,015	2,441,567	357,157
PI-1 Variance						8.1%	
PI-2 Variance							5.4%
Domestic revenue - Estimate (bns)	2,461.0						
- Actual (bns)	2,739.0						
% of Estimate collected	111.3%						

2007/08

Accountant General's Department	96,235	367	96,602	149,200	4,600	153,800	57,198
M/Home Affairs - Police Force	141,379	5,252	146,631	138,500	5,200	143,700	2,931
M/Home Affairs - Prison Services	67,378	2,636	70,014	68,200	2,400	70,600	586
Pres. Office & Cabinet Secretariat	121,251	10,300	131,551	130,800	9,800	140,600	9,049
Vice President's Office	35,490	3,818	39,308	36,200	3,800	40,000	692
M/Foreign Affairs & Int Coopn	59,041		59,041	79,300		79,300	20,259
Defence	198,693	0	198,693	207,700		207,700	9,007
M/Agriculture	71,850	6,756	78,606	70,000	6,900	76,900	1,706
M/Education & Voc Training	155,447	14,376	169,823	138,600	13,800	152,400	17,423
M/Water & Irrigation	13,428	70,754	84,182	22,100	67,600	89,700	5,518
M/Finance & Economic Affairs	252,932	4,062	256,994	153,500	4,000	157,500	99,494
M/Health & Social Welfare	187,628	6,774	194,402	173,400	4,900	178,300	16,102
PM Office-Reg Adm & Local Gov't	89,362	4,535	93,897	181,500	6,000	187,500	93,603
M/Defence & National Service	8,859	54,028	62,887	9,300	54,000	63,300	413
M/Energy & Minerals	41,550	196,693	238,243	40,500	5,300	45,800	192,443
President's Office-Planning Commission	21,442	15,718	37,160	20,500	14,600	35,100	2,060
M/Communication, Science & Techn'y	240,443	28,359	268,802	243,600	24,000	267,600	1,202
M/Natural Resources &Tourism	30,818	1,657	32,475	32,000	1,300	33,300	825
Tanz Commission on AIDS	3,638		3,638	3,500		3,500	138
M/Infrastructure Development	208,582	125,516	334,098	197,500	214,000	411,500	77,402
All other votes	318,033	34,337	352,370	370,200	33,400	403,600	51,230
Total excl.debt service	2,363,479	585,938	2,949,417	2,466,100	475,600	2,941,700	659,281
PI-1 Variance						0.3%	
PI-2 Variance							22.1%

Domestic revenue - Estimate (bns)	3,502.6
- Actual (bns)	3,634.5
% of Estimate collected	103.8%

2008/09							
Accountant General's Department	109,039	400	109,439	106,607	1,397	108,004	1,435
M/Home Affairs - Police Force	164,835	5,300	170,135	165,815	7,899	173,714	3,579
M/Home Affairs - Prison Services	77,453	2,600	80,053	77,393	3,500	80,893	840
Pres. Office & Cabinet Secretariat	163,504	10,300	173,804	163,503	13,000	176,503	2,699
Vice President's Office	36,350	3,800	40,150	35,130	6,929	42,059	1,909
M/Foreign Affairs & Int Coopn	81,624		81,624	78,439	10,000	88,439	6,815
Defence	257,800		257,800	57,171	5,000	62,171	195,629
M/Agriculture	143,498	6,800	150,298	141,317	1,758	143,075	7,223
M/Education & Voc Training	486,638	14,400	501,038	475,455	63,291	538,746	37,708
M/Water & Irrigation	18,049	70,800	88,849	17,536	46,244	63,780	25,069
M/Finance & Economic Affairs	36,157	4,100	40,257	35,750	4,999	40,749	492
M/Health & Social Welfare	221,197	6,800	227,997	207,521	10,000	217,521	10,476
PM Office-Reg Adm & Local Gov't	95,593	4,500	100,093	95,586	32,000	127,586	27,493
M/Defence & National Service	14,242	54,000	68,242	13,137	74,200	87,337	19,095
M/Energy & Minerals	48,748	196,700	245,448	43,830	20,900	64,730	180,718
President's Office-Planning Commission	8,741	15,700	24,441	8,247	609	8,856	15,585
M/Communication, Science & Techn'y	24,034	28,400	52,434	23,726	20,962	44,688	7,746
M/Natural Resources &Tourism	43,902	1,700	45,602	33,996	300	34,296	11,306
Tanz Commission on AIDS	3,754		3,754	3,175		3,175	579
M/Infrastructure Development	221,151	225,500	446,651	219,307	273,023	492,330	45,679
All other votes	792,250	34,100	826,350	979,772	88,564	1,068,336	241,986
Total excl.debt service	3,048,559	685,900	3,734,459	2,982,413	684,575	3,666,988	844,061
PI-1 Variance						1.8%	
PI-2 Variance							20.8%

Domestic revenue - Estimate (bns)	4,781.6
- Actual (bns)	4,293.1
% of Estimate collected	89.8%

SUMMARY	**2006/07**	**2007/08**	**2008/09**	**Rating**
PI-1	8.1%	0.3%	1.8%	**A**

PI-2	5.4%	22.1%	20.8%	**D**
PI-3	111.3%	103.8%	89.8%	**C**