

Fostering Accountability

Sub-National (Local Government) PEFA
Assessment in Tanzania

Bunda District Council- Final Report

July 2016

Contents

Contents	2
Acronyms	4
1. Summary assessment	7
1.1. Overview of ratings	7
1.2. Context of the assessment- Data issues	8
1.3. Integrated Assessment of PFM performance	8
1.4. Assessment of the impact of PFM weaknesses	14
1.5. Prospects for Reform Planning and Implementation	15
2. Introduction	16
2.1. Objectives	16
2.2. Process of preparing the report	17
2.2.1. Methodology	19
2.3. Scope of the assignment and rationale for sample	19
2.4. Dependency of Bunda DC on the Central Government	20
3. Country background	21
3.1. Country economic situation	21
3.1.1. Country context	21
3.2. Budgetary outcomes	24
3.3. Legal and institutional framework for Public Financial Management	25
3.3.1. Legal framework	25
3.3.2. Institutional Framework	27
3.3.3. Key Features of the PFM System	29
4. District Background Information	34
4.1. Economic situation	34
4.1. Institutional Structure of LGA	35
4.2. Fiscal performance of LGA	37
5. Assessment of the PFM systems, processes and institutions	39
5.1. Predictability of central transfers	39
5.2. PFM-out-turns: Budget credibility	41
5.3. Key Cross-Cutting Issues: Comprehensiveness and Transparency	47
5.4. Budget Cycle	60
5.4.1. Policy-Based Budgeting	60
5.4.2. Predictability and Control in Budget Execution	65

6. Government Reform Process	121
6.1. Recent and On-going Reforms	121
6.2. Institutional Factors Supporting Reform Planning and Implementation	123
Annexure.1 Data Issues	126
Annexure.2 Mapping of Key Weaknesses	127
Annexure.3 Disclosure of the Quality Assurance Mechanism	129
Annexure.4 Scoring Methodology under the PEFA Assessment Framework	132
Annexure.5 Organisational Structure of Ministry of Finance and PMO-RALG, Government of Tanzania	142
Annexure.6 Revenue and expenditure calculations	144
Annexure.7 Screenshots for HLG-1 dim (ii), PI-1 and PI-2	145
Annexure.8 Performance indicators summary	150
Annexure.9 List of people met	156
Annexure.10 List of Documents Referred to	159

Acronyms

Acronym	Definition	Acronym	Definition
ACGEN	Accountant General	LGFM	Local Government Financial Memorandum
AFROSAI	African Organisation of Supreme Audit Institutions	LGLB	Local Government Loans Board
AFS	Annual Financial Statements	LGRP	Local Government Reform Programme
AIDS	Acquired Immune Deficiency Syndrome	LGUA	Local Government (Urban Authorities) Act
ALAT	Association Local Authorities of Tanzania	LLG	Lower Level of Government
ASDP	Agriculture Sector Development Programme	LPO	Local Purchase Order
CAG	Controller Auditor General	MDA	Ministries, Departments and Agencies
CBO	Community Based Organization	MoF	Ministry of Finance
CDCF	Constituency Development Catalyst Fund	MSD	Medical Store Department
CDG	Capital Development Grant	MTEF	Medium Term Expenditure Framework
CFR	Council Financial Reports	NA	Not Applicable
CHF	Community Health Fund	NAOT	National Audit Office of Tanzania
CIA	Chief Internal Auditor	NHIF	National Health Insurance Fund
CMT	Council Management Team	NMB	National Microfinance Bank
COFOG	Classification of Functions of the Government	NR	Not Rated
DASIP	District Agriculture Sector Investment Programme	NRWSSP	National Rural Water Supply and Sanitation Programme
DC	District Council	NWSDP	National Water Sector Development Programme
DED	District Executive Director	OSR	Own Source Revenue
DFID	Department for International Development	PAA	Public Audit Act
DPLO	District Planning Officer	PCCB	Prevention and Combating of Corruption Bureau
EGPAF	Elizabeth Glaser Pediatric AIDS Foundation	PEDP	Primary Education Development Programme
GDP	Gross Domestic Product	PEFA	Public Expenditure and Financial Accountability
GFS	Government Finance Statistics	PETS	Public Expenditure and Tracking Survey

Acronym	Definition	Acronym	Definition
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit	PFA	Public Finance Act
GOT	Government of Tanzania	PFM	Public Financial Management
GPG	General Purpose Grant	PFMRP	Public Financial Management Reform Programme
HCMIS	Human Capital Management Information System	PMG	Paymaster General
HIV	Human Immunodeficiency Virus	PMO	Prime Minister Office
HLG	Higher Level of Government	PMORALG	Prime Minister Office- Regional Administration and Local Government
HRO	Human Resource Officer	POPSM	President Office-Public Sector Management
HSBF	Health Sector Basket Fund	PPA	Public Procurement Act
IAF	Internal Auditor's Office	PPAA	Public Procurement Appeals Authority
IAG	Internal Auditor General	PPP	Public Private Partnership
IASB	International Accounting Standards Board	PPR	Public Procurement Regulations
IAU	Internal Audit Unit	PPRA	Public Procurement Regulatory Authority
ICT	Information and Communication Technology	PSM	Public Sector Management
IFA	International Federation of Accountants	RAM	Regularity Audit Manual
IFMS	Integrated Financial Management System	RAS	Regional Administrative Secretariat
IIA	Institute of Internal Auditors	RCMIS	Revenue Computerised Management Information System
IMF	International Monetary Fund	RWSSP	Rural Water Supply and Sanitation Project
INTOSAI	International Association of Supreme Audit Institutions	SAI	Supreme Audit Institution
IPSAS	International Public Sector Accounting Standards	SDU	Service Delivery Unit
ISA	International Standards on Auditing	SEDP	Secondary Education Development Programme
ISSAI	International Standards of Supreme Audit Institutions	SWOT	Strengths, Weaknesses Opportunities And Threats
KRA	Key Result Areas	TACAIDS	Tanzania Commission for AIDS
LAAC	Local Authorities Accounts Committee	TASAF	Tanzania Social Action Fund
LAAM	Local Authorities Accounting Manual	TB	Tender Board
LGA	Local Government Authority	TCI	Confederation of Tanzania Industries

Acronym	Definition	Acronym	Definition
LGAM	Local Government Accounting Manual	TIN	Tax Identification Number
LGCDG	Local Government Capital Development Grant	TRA	Tanzania Revenue Authority
LGDA	Local Government District Authorities Act	TZS	Tanzania Shilling
		USD	United States Dollar
LGFA	Local Government Finance Act	VAT	Value Added Tax

Fiscal Year	1 July to 30 June
Exchange rate	1 USD= 2019 Tanzanian Shilling (4th of June, 2015) Symbol “TZS” indicates Tanzania Shillings and “USD” indicates United States Dollar
Financial period	2011-12 to 2013-14

1. Summary assessment

1.1. Overview of ratings

Table 1: Overall ratings

Summary Ratings		
Performance Indicators	Description	PEFA 2015 rating
HLG-1	Predictability of transfers from a Higher Level of Government	NR
A. PFM Out-Turns: Budget Credibility		
PI-1	Aggregate expenditure out-turn compared to original approved budget	D
PI-2	Composition of expenditure out-turn compared to original approved budget	D+
PI-3	Aggregate revenue out-turn compared to original approved budget	D
PI-4	Stock and monitoring of expenditure arrears	D
B. Key Cross-Cutting Issues: Comprehensiveness and Transparency		
PI-5	Classification of the budget	C
PI-6	Comprehensiveness of information included in budget documents	C
PI-7	Extent of unreported government operations	B
PI-8	Transparency of inter-governmental fiscal relations	D
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C
PI-10	Public access to key fiscal information	B
C. Budget Cycle		
(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the budget process	C+
PI-12	Multi-year perspective in fiscal planning, expenditure policy, and budgeting	D
(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	D+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D
PI-15	Effectiveness of collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	D
PI-17	Recording and management of cash balances, debt and guarantees	C
PI-18	Effectiveness of payroll controls	D+
PI-19	Competition, value for money and controls in procurement	D+

Summary Ratings		
PI-20	Effectiveness of internal controls for non-salary expenditure	D+
PI-21	Effectiveness of internal audit	D+
(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	B+
PI-23	Availability of information on resources received by service delivery units	B
PI-24	Quality and timeliness of in-year budget reports	C+
PI-25	Quality and timeliness of annual financial statements	B+
(iv) External Scrutiny and Audit		
PI-26	Scope, nature, and follow-up of external audit	C+
PI-27	Legislative scrutiny of the annual budget law	D+
PI-28	Legislative scrutiny of external audit reports	D+
D. Donor Practices		
D-1	Predictability of Direct Budget Support	NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	NA
D-3	Proportion of aid that is managed by use of national procedures	NA

**NR signifies indicator has been assessed but not rated due to no/insufficient documentation or information provided to the PEFA team, "NA: Not Applicable" implies that the PFM transaction/system/process required for the assessor to assess the indicator/dimension does not exist in the LGA.*

1.2. Context of the assessment- Data issues

The variation in data between various source documents referred to in some detail in this assessment is an area of concern. While the basis of compilation of each document is standardized and well established, reconciliation of different figures from documents such as the MTEF, the National Budget, the Audited Annual Financial Statements and others quoted by relevant departments and ministries proved to be challenge. However it needs to be mentioned that this phenomena does not apply to Bunda alone but to all the LGAs assessed as a part of the current assignment.

Summarized details of the data issues and the solution adopted for this report appear in Annexure.1, which are within the stipulations of the PEFA framework and the related instructions in the PEFA Field Guide. It may be mentioned that the PEFA assessment of seven LGAs in 2006 had also referred to enormous variability in numbers between certain key financial documents.

1.3. Integrated Assessment of PFM performance

Bunda DC has been able to take advantage of the existing institutional structures for public financial management (PFM) in Tanzania to operate in a challenging environment. These structures include a defined legal and regulatory environment for PFM; well understood planning and budgeting framework; operations through EPICOR - the Integrated Financial Management System; accounting statements drawn up in line with IPSAS and the national requirements and audited by the Controller

and Auditor General (CAG), an independent oversight authority. The Council Officials, in general, are aware of policies and procedures as well as expectations. Our assessment has also shown that Bunda DC has also performed reasonably well in areas such as transparency, classification of budget (allowing analysis as per the development objectives of the Council), and accounting/reconciliations. However, many critical challenges remain. Out of these, some are within LGA's control and while others are extraneous but affecting its operations.

A summary of the key high level weaknesses observed by the Assessment Team and their main causes appear in Annexure.2. The summary also presents the interlinkages between them as also the agencies having policy, supervisory or oversight responsibilities related to such deficiencies which are therefore to that extent not within the control of Bunda DC. The most important of PFM weaknesses in Bunda DC are discussed here.

Predictability of Fund Flows

The dependency of Bunda DC on the funds transferred by the Central Government was nearly 95% of its total inflows in 2013-14. The uncertainties in their timing and actual availability is a serious impediment to the overall planning and budget execution process at the LGA level. The problems are further aggravated due to the relative non transparency of rule based transfers which do not always work effectively in practice in a situation of cash rationing and resource crunch. These uncertainties in cash flows also impacts commitment controls which is further aggravated by lack of any reliable information on payment arrears.

Quality of Budgeting and Executions

While budgeting processes have been formalised, instructions to LGAs are received much after the actual processes have begun on the ground. Much of the groundwork for budgeting at grassroot levels is based on ceilings of the previous year for specific expenditure heads which have to be reworked once the final ceilings are available after discussions at the departments/ministry concerned. Forward planning and estimates are distorted due to the propensity of extrapolating the past figures into future years through the MTEF and the projections do not appear to be taken seriously thereby undermining structures for medium term fiscal planning. The revenue forecasting requires improvement as reflected by large variations planned and actuals. The uncertainties in the tax base for critical items such as produce cess coupled with the absence of a credible system for recording tax receivables and arrears on a comprehensive basis show weaknesses in the underlying systems for revenue which need to be handled to ease the over dependence of the LGA on central finances.

Controls over Budget Execution

The commitment controls systems are in disarray in spite of availability of EPICOR, the accounting system that can accommodate ceilings to pre-empt expenditures beyond budgets. This is because of purchase orders that are raised outside the system and other expenditure control weaknesses pointed out by the auditors including procurements not budgeted for, over or unsupported payments etc In addition, the absence of a comprehensive system to record all arrears does not provide the degree of confidence on overall systems of controls over commitments.

Accountability Structures and Internal Controls

Though overall accountability structures are well established for LGAs in general, there are several areas of concern in Bunda DC referred to by both the internal auditors as well as the CAG. These include compromise of basic financial controls in critical areas as shown by instances of lack of

authorisation of expenditure, unsupported payments, the absence of a comprehensive tax registration system, inadequacies in revenue management etc. The failure of the Audit Committee to meet in this context is an area of key concern. Absence of a structured system of follow-up of audit observations reflects the general weaknesses in overall accountability structures related to PFM functions.

Summarised Assessment by Indicators

Credibility of the Budget (PI 1-4 & HLG-1)

Local Governments' dependence on the Central Government fund transfers is high in Tanzania. The per capita income of Bunda DC is nearly 2/3rd of the national per capita income. This leads to low revenue base for the Council. In 2013-14, the Council earned 95% of its total revenues from the Central Government grants.

The total Central Government transfers were lower than budgeted in all of the last three years (18%, 2011-12; 8%, 2012-13 and 16%, 2013-14). On own revenue side, unrealistic forecasts combined with lack of effective revenue administration to ensure optimal revenue collection (as highlighted by CAG) led to low collections in the last three years. In 2012-13 and 2013-14, actual own source revenue collection was only 64% and 74% of the related budget respectively which further reduced the resource availability. Apart from the lack of resources to spend, issues such as vacancies leading to HoDs handling multiple departments impacted budget execution. Bunda improved its performance from expenditure outturn of 80% in 2011-12 to 84% in 2012-13 and 87% of the budget in 2013-14.

The impact of poor own source revenue collection and the Central Government transfers resulted in changing priorities in expenditure by the LGA during the financial year. The compositional variance of expenditure was 26%, 12%, 19% in 2011-12, 2012-13, and 2013-14 respectively.

In case the government entity excessively delay payments to the creditors, the aggregate expenditure outturn compared with original budget may not reflect the actual credibility of the budget. Therefore, the monitoring of expenditure arrears is essential to assess the budget credibility. The Central Government has directed the LGAs to submit the payment arrears to the Internal Auditor General as per the definition prescribed in December 2014. At the time of assessment, the Bunda DC was yet to operationalise the process. However, based on ageing analysis of the payables, it is found that the arrears increased significantly to 10% of the total expenditure in 2013-14 from 0.9% in 2012-13.

Comprehensiveness and Transparency (PI 5-10)

Bunda DC has moved towards Government Finance Statistics (GFS) 2001 based classification of the Budget. However there is no clear evidence of functional classification in line with Classification of the Functions of the Government (COFOG). Though budget documents broadly follow the guidelines mentioned under the Central Government directives, they do not provide all the good practices information expectations mentioned in the PEFA framework such as assumptions used for annual as well as medium term forecasts, forecasts of current year budgetary outturn for the unexpired tenure, and budgetary implications of new initiatives undertaken. However, these are matters at present determined by central directives and hence not within the full control of the LGA.

As per the MoU between the council and the local water authority, the Council is required to provide financial support to the Water Authority. The Council pays electricity bills of the Authority on an annual basis. Although fiscal reporting is in place at least on an annual basis but a consolidated

position of overall fiscal risks posed by the Authority to the LGA is not available. Overall transparency norms are well followed and the majority of the fiscal information is available for the general public. A substantial part of transfers made to lower levels of governments are not rule based arising out of the uncertainties in fund availability from the Central Government. Therefore in spite of a system of formula based transfers of funds, it cannot be fully implemented in a transparent manner.

Policy based budgeting (PI 11-12)

Though a clear budget calendar is issued by the Central Government for adherence by the LGA and compliance timelines are tightened for timely budget presentation to the Parliament, the present systems allow budgets to be prepared and approved by the Council without consideration of the ceiling requirements for the financial year. We noted from our discussions with Bunda DC that no specific ceilings were issued prior to the budget preparation by the Departments and the final expenditure ceilings were only available once the Budget at the LGA level were approved by the Full Council. This necessitates recasting and revision of the budget which may again be subject to changes at the time of the Parliament approvals. Based on feedback from the LGA, we noted that the budget approvals for the last three years were obtained before the start of the financial year.

Linkages between grass root planning processes, budgeting and medium term expenditure forecasts are unstructured and weak. Though there are clear guidelines for MTEF preparations, based on available feedback during our discussions at Bunda DC, we understand this has often become an academic activity of extrapolation of figures. Therefore, recurrent cost implications of the investments budgeted in the ensuing financial year are not considered in the forward budget estimates for the sector.

The MTEF projections are not taken seriously enough and does not constitute the base for the next years' budget exercise nor are the differences between the forecasts and the budgets explained. There is a strategic plan reflecting the development priorities of the LGA. However, cost estimates for various projects under the strategic plan is available but it is not linked with the objectives/targets/activities outlined in the strategic plan.

Predictability and control in budget execution

Revenue Administration Systems (PI 13-15)

Based on the GFS (2001) manual, the relevant sources of revenue which can be classified as taxes for Bunda DC are (i) Service Levy, (ii) Cotton crop cess (iii) rice crop cess and (iv) other produce cesses. These are governed by Local Government Finance Act, 2002 and the local by-law called "Bunda Council Bylaw, 2010". Though full council meetings as well as Ward Executive Officers endeavour to inform taxpayers on the nature of taxes, levies, lack of focused efforts and absence of any dedicated information desks are setbacks in improving general low awareness levels of the nature and nuances of each tax and their methods of collection.

The Council has a I-tax system which has an electronic database of taxpayers covering taxes such as service levy. But it is not linked to any other databases such as that for business licenses for better monitoring of tax compliance. The lack of a comprehensive database of potential taxpayers for certain key taxes such as produce cess is a serious constraint for a rational assessment of revenue. Even for those levies where such database exists such as in case of service levy, clarity on its completeness is an

issue especially for small businesses that do not have tax identification numbers linked to the national system. Bunda DC by law states that in case the service levy collector feels that the financial returns do not reflect the true picture, he/she can assess the liability using their own judgment (Clause 12 (ii) of the Bylaw). This makes the assessment of service levy somewhat discretionary. The revenue collected under service levy and produce cesses once collected are transferred to treasury on an average within a week. Currently, there is no system for recording tax arrears for any revenue sources. Therefore, no reconciliation is done among tax assessments, collections, and arrear records. However, reconciliation between tax collected and amount transferred to treasury is done on a monthly basis.

The legislative framework does not provide for any penalty for non-registration with the district council, but there are penalties for declaration obligations. However, in light of other control weaknesses in tax collection as well as CAG observations on poor effectiveness of the penalties by the DC raises doubts over effectiveness of these measures.

A quick comparison of actual against budgeted tax collections indicates that there has been a high volatility of collections over the last 3 years. On an aggregate basis, collections against budget were 90%, 65% and 75% for years from 2011-12 to 2012-13 and 2013-14 respectively. The overall situation is complicated further with the absence of any independent tax appeals mechanism in the Council.

Cash and debt management (PI 16-17): The general uncertainty in the availability and timing of cash flows from the central government makes any credible cash forecasting a difficult task. The District Council is also not in a position to provide in-year information on ceilings to departments for expenditure commitments.

From the assessment, the team confirmed that Bunda DC had a debt of 0.1% of its total liabilities which is negligible. Large number of bank accounts that were used previously were later consolidated to seven accounts only. End year balances for each account is available in the AFS.

Payroll Controls (PI-18): With the implementation of Human Capital Management Information System (HCMIS) payroll systems have improved. The Central Government has conducted a major payroll cleaning exercise through which substantial leakages have been corrected. However, there are some areas which still need to be strengthened. CAG in its management letter for 2013-14 has highlighted various weaknesses relating to payroll management in Bunda DC including existence of employees with unrealistic date of births. The internal controls over the payroll are still weak. There are cases of pending arrears related to promotion. The absence of documented verification at LGA level on changes made to the personnel database and the absence of focused periodic payroll audits reflect the absence of suitable oversight mechanisms in this important functional area.

Procurement (PI-19): Although 97% of the procurement is done through competitive bidding, the CAG has reported cases of procurement of goods and services without following appropriate procurement methods. With the implementation of the Public Procurement Act 2011, Public Procurement Regulation 2014, and Local Government Authorities' Tender Boards (Establishment And Proceedings) Regulations, 2014 (LGA TB), the legislative framework has significantly strengthened. Procurement plans are published in the local newspaper but the size of the procurements are not provided. Procurement notices are published on the Council's notice boards as well on the Public Procurement Regulatory Authority's (PPRA's) website. However, the appeal mechanism needs to be improved.

Other Internal Controls (PI-20): Effective commitment control through budgetary ceilings cannot be implemented due to cash rationing with cash limits being fed into the EPICOR system until notification of actual fund releases is obtained from the Central Government. Though this helps expenditures to be booked in line with available cash, there are distortions in practice due to local purchase orders for certain activities being raised manually outside the system. The internal audit as well as CAG audit reports has referred to weaknesses such as unbudgeted payments, unsupported payments, lack of evidence of services delivered. The CAG has also reported various cases of non-compliance with rules in revenue management, expenditure management, cash management, accounting, and asset management. These include lack of clarity of remittance of revenue collected, delay in banking of revenues, breach of contract by the revenue collectors, absence of supporting documents for payments, inadequate follow-up on debtors' collection and improper management of asset register. Overall operational controls therefore appear to be requiring appreciable improvements considering the nature of deficiencies observed by the auditors.

Internal Audit (PI-21): The quality of the internal audit has been strengthened through ongoing capacity building initiatives by the Local Government Audit Section at the Internal Auditor General (IAG) Office. Internal audit in Bunda DC is conducted as per the annual risk based audit plan. The Internal Auditor prepares quarterly audit reports and submits these to the auditees, the CAG and the Internal Auditor General. The time allocation for internal audit is planned with appropriate allocation for audit of various projects, transactions and activities. Audit of bank reconciliations and visit to service delivery units take place on an ongoing basis. It was difficult to segregate the age of past pending issues as the internal audit reports did not provide an aging of pending recommendations.

Accounting, Recording and Reporting (PI 22-25)

Bank reconciliations are performed on all the seven active bank accounts and are available by the 15th of the following month for the previous month. There was no backlog as bank reconciliations were complete up to the month of February 2015. There were no unresolved differences between the Council's cash account and the bank statements for all the seven accounts. There are no significant accounts with recoverable balances existing for more than one year.

Information is available at the Council level in terms of resources (both cash and in-kind) that are transferred to the lower level service delivery units. However, the accounting systems do not capture all the information at the individual service delivery unit level since each unit of the service delivery is not defined as a cost center. Quarterly reports are available for health, primary and secondary education.

The EPICOR system is not fully operational in Bunda DC. Although the information for preparing financial reports is generated through EPICOR, the final reports are prepared manually on Microsoft Excel. The report provides information on actual expenditure as well as the revenues collected for the month as well as cumulatively. Information on commitments is not provided in the report. The reports are in line with GFS 2001 classification used for the annual budget. These reports are prepared on a monthly basis for discussion by the Finance Committee and consolidated on a quarterly basis for discussions by the Full Council.

Bunda DC prepares its AFS, as confirmed by the CAG, based on the International Public Sector Accounting Standards (IPSAS) and the provisions of the LGFA. Para 31(3) of the LGFM prescribes the composition of the AFS. The external audit reports showed Bunda DC to be generally in

compliance with IPSAS accrual basis of accounting and the LGA obtained unqualified opinions from the auditors for FY 2012-13 and FY 2013-14.

External Scrutiny and Audit (PI 26-28)

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

The Laws and Regulations governing external audit includes The Constitution of Tanzania, Local Government Finance Act 1982, Public Audit Act 2008 and Public Audit Regulations 2009. The external audit of the LGA covers financial audit as well as the review of internal control systems. The CAG observations on the control weaknesses are provided in the Management Letter to the District Executive Director of the Council. The external audit employs a risk based approach and uses systematic sampling to cover transactions in such a way as to cover major as well as other areas. The National Audit Office is a member of the International Organisation of the Supreme Audit Institutions (INTOSAI) and adheres to international auditing standards. The emphasis of the audit is financial in nature and Performance audit per se is yet to start on a noticeable basis. Responses to management letters are available but systematic follow up is absent as evidenced by repeat comments in subsequent years.

Legislative review of the Budget and Audited Financial Statements (PI-27 & 28)

Available evidence points to consideration of budgets and audited financial statements by the Finance Committee and the Full Council of the LGA. However, the time available for approval of the budget to the Finance Committee appeared to be very short and it was not clear whether informal deliberations preceded such formal approval.

Scrutiny of external audit findings by the Audit Committee is weak. The repetitiveness of the nature of comments made by the CAG reports and delays in acting on Local Authorities Account Committee (LAAC) recommendations are pointers to the general deficiencies in follow up mechanisms and operating internal controls in this area.

1.4. Assessment of the impact of PFM weaknesses

Fiscal discipline

Overall, fiscal discipline is maintained by the LGA due to planning for balanced budget and the presence of well-established structures for in-year budgetary controls. However, specific risks remain due to (i) poor recording/ monitoring of arrears; (ii) unrealistic revenue forecasts; and (iii) inability to undertake cash forecasting due to the uncertainties in fund flows and high dependence on funds from the central government.

Strategic allocation of resources

In spite of the existence of comprehensive budgeting guidelines, a policy based system of formula based fund transfers and an IFMS to record and report on resource flows, strategic allocation is undermined due to: (i) lack of a medium term perspective in planning and budgeting, (ii) absence of annually updated, well defined and costed sector strategies, (iii) weak integration of recurrent and investment costs for capital projects, and (iv) uncertainties related to the implementation of rule based transfers of resources on which the LGAs are substantially dependent

Service delivery and value for money

Regular reporting by service delivery units and use of open procurement methods by the LGAs contribute to efficient service delivery. However, the following factors deter achieving value for money (i) inadequate dissemination of information on key fiscal information to public, (ii) sub-optimal follow-up on audit observations, (iii) weakness in application of internal control rules and regulations, and (iv) lack of transparency in devolution of funds to lower levels of government (LLGs).

1.5. Prospects for Reform Planning and Implementation

The genesis of the current reform environment at the local government level can be attributed to the Government of Tanzania's 1998 Policy on Local Government Reform which led to the roll-out of the Local Government Reform Programme (LGRP) in the same year. This Programme was supplemented with another large scale reform initiative – the Public Finance Management Reform Programme (PFMRP) – which targeted improvements in the overall PFM systems and practices in the country to increase effectiveness and efficiency in public spending and included LGAs in its ambit. The first three phases of PFMRP (1998-2011), have succeeded in introducing and institutionalising international good practice tools in budgeting, accounting, monitoring and reporting and procurement, amongst others, across all levels of the Government.

Phase IV of PFMP is currently in its fourth year of implementation and is scheduled for completion at the end of the next financial year (i.e. June 2017). With the successful enactment of the new Value Added Tax (VAT) Act and the Budget Act, notification of the Public Procurement Regulations and preparation of a 5 year plan for migration towards the International Public Sector Accounting Standards (IPSAS) accrual accounting amongst its other achievements, the Programme appears to be overall on track in completing the identified outputs under its key result areas. A special component (key result area 6) focussing on PFM Reforms in LGAs was introduced under PFMRP IV in its third year of implementation. This component includes various activities for roll-out in LGAs targeting improved (i) resource allocation, planning and budgeting, (ii) budget execution and financial reporting, and (iii) oversight and financial accountability.

GoT and implementing agencies at all levels have demonstrated commendable ownership and commitment in roll-out activities, as is evidenced by the findings of the Mid Term Review of PFMRP IV as well as by the Joint Supervision Mission for PFMRP held in Sept-Oct 2015. Progress in the LGA component of reforms has been found to be good with most of the milestones on track. However, some of the key challenges faced in effective roll-out of reforms include (i) inadequate capacity amongst existing staff and widespread vacancies across key positions in the implementing agencies, (ii) existence of multiple financial systems for recording, accounting and monitoring of fiscal data, (iii) constrained financial autonomy of the LGAs due to the continued and significant dependence on grants from the Central Government, and (iv) delay in counterpart disbursement from the Government for PFMRP leading to a delay in completion of programme activities.

2. Introduction

2.1. Objectives

The Government of the United Republic of Tanzania (the GoT) is in the process of improving Public Financial Management (PFM) systems across the public sector. Various reforms have been implemented since 1998, as part of the Public Financial Management Reform Programme (PFMRP). The Programme is currently in its fourth phase, with some of the programme targets also relating to systems at the local government level. With the support of European Commission, the GoT conducted a Public Expenditure and Financial Accountability (PEFA) assessment at the Central Government level in 2013. The assessment revealed that significant progress had been made in PFM systems, largely reflecting the impact of the PFMRP. Some issues were also highlighted that directly impact the credibility of the budget such as fiscal risks to the budget posed by some public sector enterprises; and weaknesses in non-salary internal control systems.

Reforms are currently underway to bridge the gaps identified in the PEFA assessment of the United Republic of Tanzania. Local Government Authorities (LGAs) have become increasingly important both from public service delivery perspective as well as magnitude of resources spent at that level.

A fiduciary assessment of local government public financial management systems was undertaken for selected LGAs in 2006. The assessment was conducted in the following seven councils: (i) Arumeru District Council; (ii) Rombo District Council; (iii) Mtwara-Mikandani Town Council; (iv) Muleba District Council; (v) Karatu District Council; (vi) Bagamoyo District Council; and (vii) Mwanza City Council.

Some of the key issues outlined in the assessments included, among others, the following:

- Poor predictability of fund flows
- Lack of commitment controls
- High variations in budgetary performance
- Data integrity
- Poor quality of bank reconciliations
- Limitations in monitoring of fiscal risks
- Lack of public access to key fiscal information

As a consequence of that assessment, a second phase of Local Government Reform Programme (LGRP II-2009-14) was initiated at the local government level by the GoT. In parallel to the LGRP, and as part of wider efforts, the GoT recently, with support from development partners, has taken the reform agenda forward with the PFMRP Phase IV. In 2013-14, an additional component (Key Result Area (KRA) 6: LGA Reform Sub Programme) targeted towards local governments was added. The Component is entirely funded by Department for International Development (DFID). The Sub-Programme includes strengthening PFM systems in 10 regions (67 LGAs), Prime Minister's Office-Regional Administration and Local Governments (PMO-RALG, the nodal ministry for local governments) and other relevant MoF institutions. DFID has also procured technical assistance comprising of 7 staff to render PFM related technical support and advice to PMO-RALG and Regional Administrations/LGAs. The component caters to:

1. Strengthened capacity of local government authorities to collect revenue by 2015;

2. Strengthened capacity of LGAs for Medium Term Expenditure Framework (MTEF) preparation by 2015;
3. LGA and Lower Level of Government (LLGs) receive 40% of development budget allocation within five months of financial year and 90% of development budget within 10 months of financial year by June 2017;
4. Own revenue mobilization by LGAs doubled in three years by June 2017;
5. PFM capacity of Regional Administration strengthened;
6. Budget execution by LGAs improved by June 2017;
7. Improved financial reporting by LGAs by June 2017;
8. 95% of LGAs get unqualified opinion from CAG by June 2017;
9. 80% of LGAs meet benchmarks set by Internal Auditor General (IAG) by June 2017;
10. Fraud prevention and anticorruption measure undertaken; and
11. Key fiscal information made available in public domain.

As a part of the on-going reform agenda for LGAs, the GoT with financial assistance from the German Development Bank (KfW), has decided to undertake a local government PEFA assessment covering twelve (12) LGAs. This report is for Bunda District Council. This is the first assessment of Bunda DC using PEFA methodology. The financial assistance for this PEFA exercise is provided through KfW from a special fund by the German Ministry for Economic Cooperation and Development.

As outlined in the Terms of Reference, the overall objectives of this assignment are to:

1. Provide a quantitative and qualitative analysis of the PFM performance of twelve (12) LGAs in Tanzania in accordance with the PEFA Performance Measurement Framework and associated Sub-National (SN) guidelines identifying the following:
 - a. Any specific strengths and weaknesses at each of the individual LGAs;
 - b. Any clear patterns or trends which are common across the selected LGAs.

It should be noted that apart from the 31 performance indicators, the sub national guidelines include an additional indicator – Higher Level of Government (HLG)-1 on predictability of transfers from a Higher Level of Government which will be applicable to the LGAs to be covered as part of this assignment.

2. Describe clearly the weaknesses that are attributable to the specific LGA and those that can be attributed to the Central Government. These constraints and weaknesses can then be incorporated as one input into specific reforms at the Local Government level and as one input into reform planning at the Central Government level.

2.2. Process of preparing the report

The coordination of this assessment is done by the GoT through the Ministry of Finance (MoF) as it did for the national level assessment in 2013. The overall assessment is being managed by the PEFA Task Force Committee who acts as an oversight team of the assessment in the 12 LGAs. The Committee composed of members from the MoF, PMO-RALG and the PFM Development Partners Group (DPG). The PFM DPG is a subgroup under Cluster working group 4 of the DPG main. The Group's role is to coordinate harmonization and alignment of Development Partner's efforts for effective dialogue with the GoT in the area of Public Financial Management. PFM DPG is currently co-chaired by DFID and Denmark. The Group comprises of DFID, KfW (German Development Bank),

the World Bank and includes other donors providing technical or financial assistance on PFM reforms in Tanzania. DFID, World Bank and KfW are the three independent reviewers of the PEFA reports besides the government and the PEFA Secretariat.

The assessment was conducted by PricewaterhouseCoopers Limited (PwC), Tanzania in collaboration with PricewaterhouseCoopers Pvt. Ltd., India. The technical leadership for the team was provided by Anjan Kumar Roy (Team Leader) and the other assessors were Bimal Gatha, and Salum Lupande.¹

The MoF has established two counterpart teams comprising in total of six members². Out of these six members, two are from PMO-RALG, two from Regional Administrative Secretariat (RAS), and the remaining two are from LGAs (exclusive of the LGAs assessed under this project).

Field visits to the LGAs were preceded by a project kick-off meeting, stakeholder discussions at the central level and followed up by a training workshop on PEFA methodology contextualized to the local governments. The broad scope of the assignment was finalized in the kick-off meeting. PFMRP Office, MoF played a critical role in facilitating meetings with the concerned stakeholders. These included key officials in PFMRP Office (MoF), the Office of the Internal Auditor General (IAG) together with the National Auditor General Office of Tanzania (NAOT), the Accountant General (ACGEN), the President's Office-Public Service Management (PO-PSM) and various other departments of the MoF concerning local government budgeting, planning, and payroll. These interactions were followed up by meetings with key staff of PMO-RALG in Dodoma (the capital of Tanzania) to understand the functioning of the LGAs in general and to collect preliminary data and information relevant for the assignment. Thereafter, the consultants organized a two-day training workshop facilitated by PMO-RALG which was attended by representatives from PFMRP, PMO-RALG, RASs, PEFA Task Force, Council Treasurers and Council Accountants and the Counterparts.

In compliance with the PEFA Secretariat's requirements of a balanced PEFA exercise and as required by the terms of reference, the consultants have also held discussions with the Association of Local Authorities of Tanzania³ (ALAT) which is a registered civil society organization, Twaweza and Sikika⁴ (non-government organizations operating in the health and education sectors respectively in the Country) and Confederation of Tanzania Industries (TCI) to corroborate and supplement findings from field visits with information from non-state actors.

Field visit to the Bunda DC was carried out on the 9th and 10th March 2015. Subsequently, an individual draft LGA report was prepared and submitted to the following stakeholders for review and comments on 15th July 2015: (i) PEFA Task Force Committee; (ii) PEFA Secretariat; and (iii) three independent reviewers from the PFM Development Partner Group: KfW; DFID; and the World Bank.

Based on a study of the comments received from stakeholders on the draft report for Bunda DC and consideration of further information and explanations received, a Draft Consolidated Report (DCR) was prepared and submitted on 11th November, 2015 containing our findings relating to all the 12

¹ The Team was also supported by a technical backstopping group from India and local support staff. This Group was led by Ranen Banerjee who was responsible for quality assurance with technical support provided by Neha Gupta and Mehul Gupta. Martin Kinyaha was the local support staff.

² Counterpart Team Members included Chausiku Nyanda, Dariya J Bajiku, Steven Benedict, Munguatosha Macha, Waziri Ali, Fulgene Luyagaza

³ ALAT is an autonomous membership based organization of all the urban and district councils in Tanzania Mainland

⁴ Twaweza means "we can make it happen" in Swahili. Twaweza works on enabling children to learn, citizens to exercise agency and governments to be more open and responsive in Tanzania, Kenya and Uganda.

LGAs under this assignment, including our consolidated observations on Bunda DC. This DCR was presented and discussed with the stakeholders at the Verification/Validation workshop held in Morogoro on 17th November 2015 and feedback obtained at the workshop as well subsequently. The final draft report for Bunda DC was submitted on 24th February, 2016 taking into account all relevant comments of the LGA, the GoT, independent reviewers and other stakeholders and incorporated the impact of all such comments as appropriate. This final report incorporates the follow-up comments on the final draft report.

The disclosure of Quality Assurance Mechanism adopted for planning and preparation of this PEFA Assessment Report is shown in Annexure.3. The draft version of the template on the Sub National (LGA) profile was earlier appended to the Draft Consolidated Report submitted on 11th November, 2015 as required by the terms of reference for this assignment. The final version of the profile has been included in the Final Consolidated Report.

2.2.1. Methodology

The assessment has been conducted in line with the PEFA PFM Performance Measurement Framework, and associated sub-national guidelines. The Framework includes a set of high level indicators which measures the performance of PFM systems, processes and institutions. These high level indicators are categorized across six core dimensions of an open and orderly PFM system, i.e. (i) Credibility of the Budget, (ii) Comprehensiveness and Transparency, (iii) Policy-Based budgeting, (iv) Predictability and Control in Budget Execution, (v) Accounting, Recording and Reporting, and (vi) External Scrutiny and Audit.

Some of the indicators/dimensions are “Not Rated (NR)” or “Not Applicable (NA)”. When the indicator/ dimension is not rated, it signifies that available relevant data/information does not allow the assessor to assign a rating to the dimension/indicator. Similarly, “Not Applicable” implies that the PFM transaction/system/process required for the assessor to assess the indicator/dimension does not exist in the LGA.

The high level indicator can be single dimensional or multi-dimensional. The overall score to the indicator is based on the assessments for the individual dimensions. The Framework provides two approaches (M1 and M2) for assigning an overall score to an indicator. The assessor has assigned overall ratings in line with the PEFA Framework.

Details on the scoring methodology under the PEFA PFM Performance Measurement Framework have been given in Annexure.4.

2.3. Scope of the assignment and rationale for sample

The scope of the present assignment is to conduct a PEFA assessment of 12 select LGAs as specified in the Terms of Reference.

This report records the results of our findings of a PEFA assessment of Bunda DC. It does not cover the PFM performance of entities under the Central Government including the ministries, departments and agencies as well as the Regional Secretariat. Any autonomous or semi-autonomous Public Authorities and Other Bodies (PA&OB) owned by the GoT or the LGA are also excluded from this assessment, as it reflects the performance of the Local Government Authority only.

2.4. Dependency of Bunda DC on the Central Government

The intergovernmental transfers are the largest source of financing for Bunda DC (accounting on an average more than 95% of LGA financing) as shown in Table 2. This reflects high dependency of the LGA on the Central Government funding.

Table 2: Bunda LGA dependency on Central Government, 2011-2013, TZS million

<i>Item</i>	2011-12	2012-13	2013-14
<i>Total revenue</i>	25557	27920	31567
<i>Recurrent grants</i>	20181	24111	26761
<i>Development grants</i>	4405	2537	3257
<i>Total grants</i>	24586	26648	30019
Grants as % of Total Revenues	96.20%	95.45%	95.10%

Source: Audited Annual Financial Statement, 2011-12, 2012-13, 2013-14

In addition to the financial dependency of the LGA on the Central Government, there are other Central Government's policies which impacts PFM performance of the LGA. For example, the GoT revised its budget cycle to ensure that the budget is approved by the month of June of the current year as compared with previous practice of approving the budget by the month of August. The budget therefore is now expected to be prepared between August to December of the preceding calendar year as compared to previous practice of preparing the budget between February to March of the current calendar year. With the implementation of new planning and budgeting guidelines issued in the last two years, the budget proposal is finalized by the month of April, put before the Parliament in the month of May and passed in the month of June.

Although it will help in reducing delays of funds transfers to the LGAs, it has implications on the LGA's budget cycle since LGAs need to be able to adjust their budgeting process in line with the Central Government's Budgeting Cycle. LGAs' budget can only be finalized once the Central Government communicates the approved grants for the ensuing financial year. On the other hand, section 46(1) of the Local Government Finance Act (LGFA) (CAP 290 R.E. 2002) mandates LGAs to approve the budget at least two months before the beginning of every financial year. Therefore, it would be important that the Central Government provides transfers ceilings to the local government in time so that realistic budget proposal is submitted to the Council for approval.

Secondly, one of the key components of the inter-government transfers is Local Government Capital Development Grants (LGCDG) from the Central Government. As per the guidelines, the annual resources to be transferred can be finalized only after annual assessment results have been completed. One of the key inputs in these assessments is the previous year's audited financial statements by CAG. However, given the present statutory CAG auditing cycle and budgeting timelines, the annual assessment results may not be produced in time for such grants to be reflected correctly in budgetary estimates.

Thirdly, with regard to planning, LGAs are mandated to prepare a Medium Term Expenditure Framework (MTEF) on a rolling basis. The credibility of the framework is crucially dependent on the forecasts of inter-governmental transfers given by the Central Government. This is significantly important given the share of inter-governmental transfers in total revenues of the LGA as reflected in Table 2 for Bunda DC.

3. Country background

3.1. Country economic situation

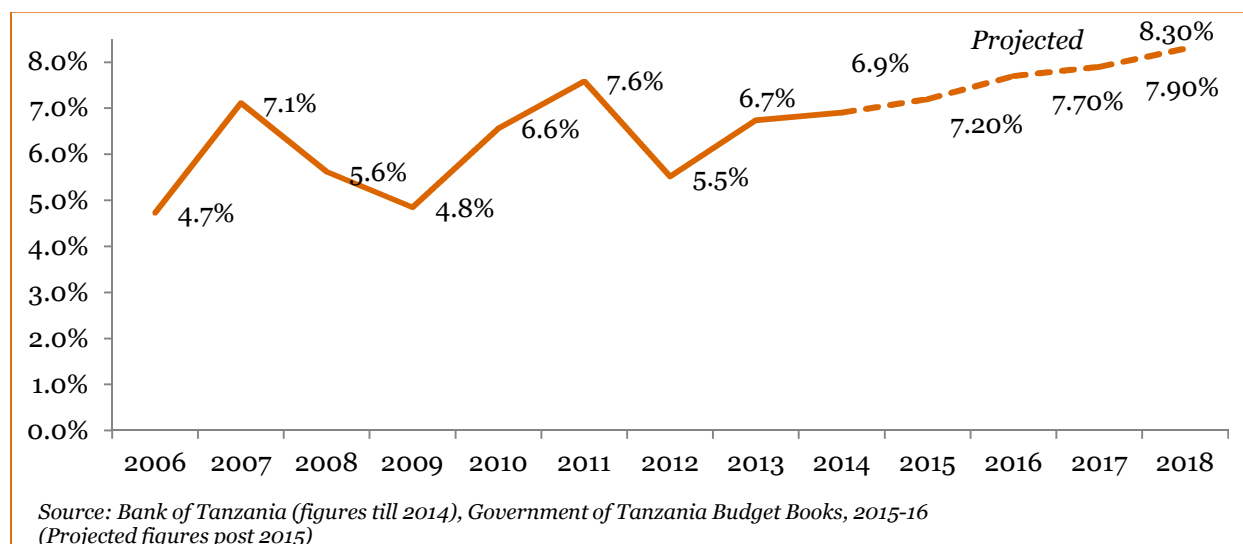
3.1.1. Country context

The United Republic of Tanzania got independence in 1961. The Country boasts of a long coastline and shared borders with eight countries, five of which are landlocked. It is rich in biodiversity and natural resources, including sizable deposits of natural gas. More than a quarter of Country's territory is protected, leading to one of the largest and most impressive protected areas in the World. The Republic has a history of political stability and a multiparty political system.

Gross value added

Tanzania has made impressive economic growth in the last decade and is expected to transit from “low income” category⁵ to “lower middle income” category in 2015. Figure 1 shows growth rate of Tanzania's Gross Value Added (GVA). The economy has been growing at an average annual growth of 6.2% since 2006 as compared with growth rate of 4.7% for developing countries in Sub-Saharan Africa as a group. As per the Government of Tanzania's projections, the economy is expected to achieve 8.3% growth by 2018. In comparison with its eight bordering countries, Tanzania's performance has been better than Kenya, Burundi, and Malawi. Though economies such as Rwanda, Uganda, Mozambique and Democratic Republic of Congo are growing at a higher rate relative to Tanzania, it should be noted that these economies are at earlier stages of economic development and are therefore, at a smaller base of GVA in comparison with Tanzania

Figure 1: Gross Value Added Growth, 2006-2018



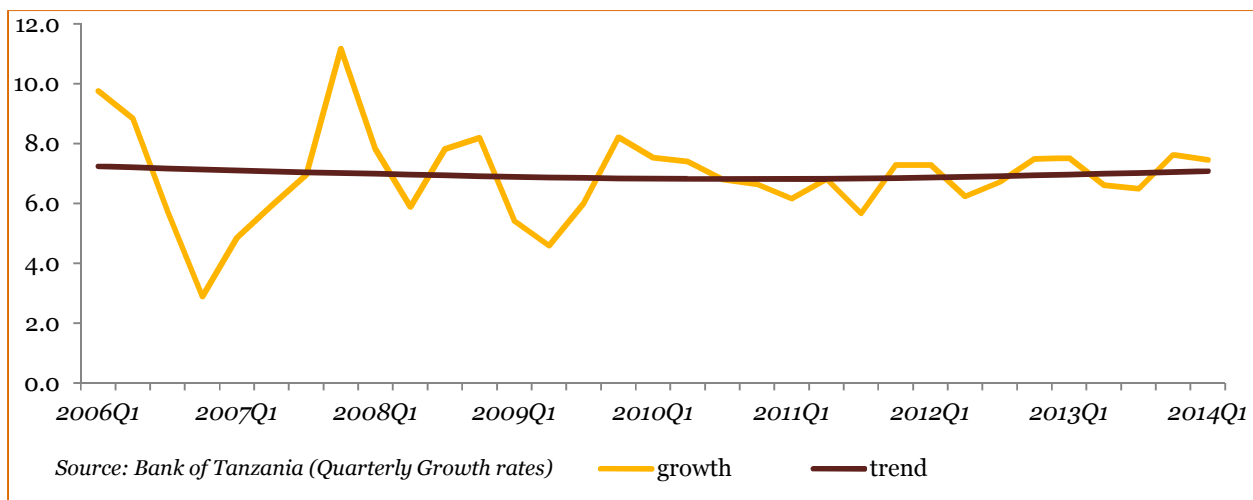
Apart from high growth, Tanzania has also achieved greater economic stability within the year, i.e. quarterly growth rates closely revolve around “trend growth rates (or average sustainable growth rate)”⁶. Figure 2 shows quarterly growth rates for the Country since 2006. It can be inferred that post

⁵ With per capita income of \$1,045 or less, (World Bank)

⁶ The average sustainable rate of economic growth over a period of time estimated through Hodrick-Prescott filter method.

third quarter of 2009, volatility in quarterly growth declined sharply and it closely revolved around the “trend growth rate”. Lower volatility in economic growth improves predictability in government revenues and strengthens the ability of government to implement policy reforms.

Figure 2: Quarterly GVA growth rates, Q1 - 2006 to Q1- 2014



Similar to most developing countries in this era, the economic activity in Tanzania is concentrated in service sector (52% of the GVA, 2014) followed by industrial sector (24% of the GVA, 2014) and agriculture sector (24% of the GVA, 2014). However, the agriculture sector remains the mainstay of the Tanzanians, employing majority of the workforce in the country. Although, the share of the services sector has been growing, the overall economic base of Tanzania has also become more diversified in the last decade. An increase in economic diversification also hints at greater resilience of the economy to withstand external/internal shocks.

Growth inclusiveness

While the Country has managed to sustain economic growth over the years, this trend has not translated into accelerated poverty reduction⁷. The spatial inequalities are high, reflected by significant disparities between rural and urban areas, and between geographical advantaged and disadvantaged regions. Nearly 70% of the population lives in rural areas with rest 30% living in urban areas. Growth has been concentrated in sectors such as telecommunications, financial services, retail trade, mining, tourism, construction and manufacturing. Except for mining, activities in these sectors are largely concentrated in urban areas and are relatively capital intensive (other than construction). The labour intensive agriculture sector has achieved dismal growth in the last ten years. Average growth recorded in agriculture sector during 2005-14 was only 3.8% as compared to 8% and 7% in industrial and services sectors respectively.

Social-economic profile

Fertility rate in rural areas (6.1) is nearly double that of the urban areas (3.7). With lack of economic opportunities in rural areas, mainly due to stagnation of the agriculture sector, the population pressure in the rural areas has thus fueled rural-urban migration. The percentage of population living in urban areas has gone up from 22% in 2002 to 29% in 2012. While quality as well as access to infrastructure is impressive in urban areas (specifically Dar es salaam), the population in rural areas

⁷ In 2012, nearly 28.2% of population was below basic needs poverty line.

is severely deprived of similar services. For example, in 2012, nearly 64% of households in Dar es salaam had access to electricity while rural regions such as Kigoma, Geita and Mtwara had less than 10% coverage. The percentage of households using piped water in urban areas was 59%, nearly double than the 26% in rural areas. With respect to education, the 2012 population and housing census notes that education levels have improved over the last 10 years but gender and geographical gaps in literacy and enrollment need to be checked.

Price movements

On price movements, similar to any developing country, since food is the major part of the consumption basket of the households in Tanzania, the share of food in the price index is also significant (47%). Overall inflation is guided by movements in food inflation. The Government has managed to bring down inflation to single digit levels, mainly due to prudent monetary policy, favorable world commodity prices and decline in oil prices. The monthly inflation rate (on year-on-year basis) has consistently been less than 10% since March 2013. It should be noted that ability to predict inflation is more important than the actual level of inflation since it reflects how prudent and timely decisions can be made by stakeholders in response to expected inflation. In case of Tanzania, intra-year predictability of the inflation rate has been high in the past. While months such as December, January and February normally record high inflation the months of May, June and July are normally disinflationary time periods.

Savings and external sector

The savings rate in Tanzania is nearly one-third of investment rate, requiring substantial capital inflows from the rest of the world. The current account deficit (CAD) widened from 7% in 2010 to 13% in 2011. In 2014, CAD was 11% of GDP. The gains of a positive balance of trade in services have been out-weighted by the negative balance on trade in goods.

Since 2011, there has been a decline in gold exports which constituted 24% of total exports of goods in 2014. This has adversely impacted the overall growth in exports of goods. A similar downward movement is experienced in growth of goods imports. More than 50% of total exports of goods and services are made to four countries, i.e. South Africa (17.3%), India (17%), Switzerland (9.2%) and China (7%). The remaining portion of exports are scattered across different economies. Since 2011, all of the four mentioned economies have been experiencing downfall in economic growth resulting to subdued demand for Tanzania's goods and services.

Worsening of current account has impacted the foreign exchange reserves but ability to meet foreign obligations remains high. This is majorly due to accumulation of foreign exchange reserves in the first decade of 21st century. Import adequacy of reserves (measured by months of imports of goods and services that foreign exchange reserves can serve) was 4.2 months in 2013-14, higher than the target set by Bank of Tanzania⁸. Ability of foreign exchange reserves to meet short term external debt obligations has improved. Short term debt as percentage of foreign exchange reserves has gone down from 50% in 2005 to 35% in 2013.

Financial sector

The Bank of Tanzania has been successful in meeting its principal objective as set out in Bank of Tanzania Act, 2006, i.e. the primary objective of the Bank shall be to formulate, define and

⁸ June 2005, Monetary Policy Statement, Bank of Tanzania

implement monetary policy directed to the economic objective of maintaining domestic price stability conducive to a balanced and sustainable growth of the national economy". While inflation has been at a mid-single digit level, economic growth was nearly 7% in 2014. This has been achieved through injecting liquidity in the system, foreign exchange operations, repurchase agreements and stand-by facilities.

Although financial sector in Tanzania has grown significantly in the past, penetration is still low in comparison with other economies. The ratio of financial assets to GDP in Tanzania was 40.9% as on December 2014 relative to 108% in Kenya. The household debt to disposable income is relatively low compared to other countries after including informal sector earnings in the disposable income. However, debt servicing ratio is relatively high majorly due to high nominal interest rates and short term nature of loans. As per the Financial Stability Report (March 2015), the banking sector which accounts for 70% of the total assets of the financial system remained resilient as reflected by adequate levels of capital and mitigated liquidity risks in the provision of banking services.

3.2. Budgetary outcomes

On fiscal side, the fiscal deficit increased from 6.2% in 2011-12 to 7.8% in 2012-13 only to decline to 5.1% in 2013-14. Nearly 90% of the debt is financed from external sources of which large portion are on concessional terms. This is reflected in low share of interest payments in total expenditure.

Dependence on grants has declined from 20% in 2011-12 to 13.5%. Tax to GDP ratio in Tanzania in comparison with its border countries is one of the lowest. While tax to GDP ratio in Tanzania was 11.2% in 2012, the average for developing countries in Sub-Saharan Africa was 13.8%. Government of Tanzania is implementing various measures to improve revenue mobilization by widening the revenue base, strengthening the tax administration and efficient management of tax exemptions. This includes signing of performance contracts with Tanzania Revenue Authority senior staff to incentivize meeting of revenue collection targets. Other interventions include enforcement of EFD machines for business transactions, introduction of Tanzania Customs Integrated System and Centralized Price Based Valuation System.

Table 3: Fiscal performance of the Government of Tanzania, as % of GDP

In TZS million	2011/12	2012/13	2013/14
Total Revenue	16.0%	15.5%	15.8%
<i>Own Revenue</i>	12.7%	12.9%	13.6%
<i>Grants</i>	3.3%	2.6%	2.1%
Total Expenditure	18.9%	20.6%	24.0%
<i>Non-interest expenditure</i>	18.2%	19.5%	22.7%
<i>Interest expenditure</i>	0.8%	1.2%	1.3%
Aggregate deficit	-6.2%	-7.8%	-5.1%
Expenditure float	-0.3%	-0.5%	-0.8%
Adjustment to cash	-0.3%	0.7%	0.4%
Primary deficit	-3.6%	-5.0%	-3.3%
Net financing	3.6%	5.0%	3.3%
<i>external</i>	3.1%	3.4%	3.0%
<i>domestic</i>	0.6%	1.6%	0.3%

Source: Ministry of Finance, Government of Tanzania

Article IV consultation report on Tanzania in May 2014 established that Central Government faces low risk from both external debt and domestic debt majorly due to fiscal consolidation measures adopted by the Government. However, the Report also notes that fiscal consolidation measures need to be continued to stabilize the public debt in future.

Expenditure information by sector is not available. Table 4 shows total expenditure by economic classification.

Table 4: Expenditure by economic classification (as % of GDP)

Expenditure Item	2011/12	2012/13	2013/14
Recurrent Expenditure	12.3%	13.8%	18.7%
Personnel Emoluments	5.6%	5.9%	6.1%
Goods and Services (Other Charges)	5.9%	6.7%	11.3%
Transfers	0.3%	0.5%	0.5%
Other recurrent expenditure	5.6%	6.2%	10.8%
Interest Payments	0.8%	1.2%	1.3%
Capital Expenditure	6.6%	6.9%	5.3%
Total Expenditure	18.9%	20.6%	24.0%

Source: Ministry of Finance, Government of Tanzania

The share of recurrent expenditure has gone up from 65% in 2011-12 to 78% in 2013-14 in the last three financial years. This is majorly due to increase in spending on goods and services from 5.9% of GDP in 2011-12 to 11.3% IN 2013-14. Consequently, capital expenditure has gone down in the last three financial years from 6.6% in 2011-12 to 5.3% in 2013-14.

3.3. Legal and institutional framework for Public Financial Management

3.3.1. Legal framework

The foundations for the legal and regulatory framework for the Local Government in Tanzania are determined by The Constitution and other laws that operationalize its pronouncements. These are backed up by relevant policy prescriptions that are issued from time to time and the byelaws issued by the LGAs themselves.

The Constitution of the United Republic of Tanzania (Article 145) provides for the establishment of LGAs in each region, district, urban area and village of such type and nature as prescribed and enactment of a law that would determine their structure, composition, revenue sources and manner of conduct of business. Article 146 clarifies that the purpose of LGAs is to transfer authority to the people and facilitate their participation in planning and implementation of development programmes, ensure law and public safety and consolidate democracy.

Since a significant part of the LGA finances constitute of fund transfers from the Central Government (reported to be around 80% of total revenues), an understanding of the following Articles of the Constitution are relevant:

- Para 137 – covers the preparation and submission of the annual estimates for the revenue and expenditure that are included in the annual budget;
- Article 138-prescribes no imposition of taxes unless approved by law;

- Article 139-deals with authorisation of expenditures from the Consolidated Fund in case the Appropriations Act has not yet come into operation;
- Article 141-mentions securing of all public debt on the Consolidated Fund;
- Para 143 – describes the role of the CAG and related responsibilities to ensure proper use of public funds and to give an audit report.

Apart from the constitution, an overview of other laws and regulations influencing governance and PFM at the LGA Level include the following:

Table 5: Overview of laws and regulations

Name	Functional area
Local Government (Urban Authorities Act) 2002	Establishment of Urban Councils, composition, functioning of Wards, rules for meetings, committees, powers, legal proceedings etc.
Local Government (District Authorities) Act 2002	Establishment of District Councils, Township and Village authorities, composition, rules for meetings, functions, duties and powers
Regional Administration Act (1997)	Functions and organization structure of the Regional Secretariats – issued by the President’s office, Public Service Management in June 2011 reflects the updated position on this subject.
Local Government Finance Act, 1983	Funds and resources of LGAs, power to levy rates, financial management, accounting and audit and provisions related to the Local Government Loans Board
Urban Authorities (Rating) Act, 1983	To enable Urban and Township Authorities to levy and collect rates
Local Authority Financial Memorandum, 2009	Responsibilities for financial administration, Processes of budgeting, accounting, borrowings, investments, inventories, tendering and contracting, personal emoluments etc.
Local Authority Accounting Manual, 2010	Framework of Accounting including basic concepts, documents, primary and secondary books and details of accounting for items including payroll, capex, inventories, fund accounting and also budgeting
Public Procurement Act (2011)	Establishment and functions of Public procurement policy division, Public Procurement Regulatory Authority, procurement principles, institutional arrangements for procurement, methods and processes of procurement, dispute settlements etc.
Local Government Authorities Tender Board (Establishment & Proceedings) Regulations (2014)	General principles of procurement, establishment and proceedings of the Tender Board, functions of various authorities related to procurement and asset disposals, authority limits, investigations, review of procurement decisions and dispute resolution mechanism
Public Procurement Regulations (2013)	Detailed regulations on the entire procurement cycle from principles to detailed procedures.
Government Loans, Grants and Guarantees Act (1974)	Elaborates on the authority and modalities relating to foreign and local loans, grants and guarantees.
Public Audit Act (2008)	Defines the office of the Controller and Auditor General and his mandate, responsibilities, functions, powers, status and also the functions of the National Audit office, types of audit, reporting etc.
Public Finance Act (2001)	Provisions for control and management of public finances including the Consolidated fund and other Public funds, revenue and expenditure, accounts and audit
Public Private Partnership Act 2010	The institutional framework for PPP transactions.
Standing Orders of the National Assembly	Such as the Standing Orders for Public Service 2009 containing instructions for all public servants that include also those for LGAs

Though the institutional structures of PFM are in general well understood, the legislative framework is characterized by a multiplicity of laws at central, sectoral and LGA levels as also related policies that require to be harmonized. This is a necessity keeping in mind the government policy on Decentralization by Devolution (D by D). The Legal Sector Reform Programme (LSRP) in two phases between 2000 and 2013 focussed on developing tools, systems and process and capacity enhancements. Though initiatives have already been taken under the LGRP and LGRP II through a Legal Harmonization Task Force and supporting Ministerial Task forces much work still remains undone. Some of the areas of relevance include unifying a comprehensive local governance legislative framework, alignment of various sector legislation/guidelines in areas such as education, water, land etc., embedding the D by D in the Constitution itself, and clear provision in the law of the principle of legal autonomy of the LGAs by stipulating the principles of accountability of the LGAs to the Central Government as well as to the people. None of these are achievable on their own and the whole process is of continuous consultation and perseverance. This assessment report in relevant parts have also referred to some of the triggers that point to the need to rationalise statutes/guidelines in certain areas such as (i) LGA reporting timelines which are impacted and need to be aligned to the new budget schedules for the central government; (ii) allocation of LCDG grants which are meant to be determined based on the availability of past years annual audited statements but whose availability is at present not synchronised to this requirement; (iii) revised processes for consideration of audit reports by the national assembly arising out of recent amendments to the Public Audit Act which call for consideration of such reports only after comments by the auditees and the need to ensure changes to the underlying schedules to enable this to happen.

3.3.2. Institutional Framework

An understanding of the basic operating structures for local government in Tanzania is important to understand its impact on PFM responsibilities.

The overarching structure of PFM in Tanzania is provided in Chapter 7 of the Constitution (Articles 135 -144), which covers the stipulations for management of finances and their oversight. The key bodies described in the Constitution for management of public funds include: (i) The National Assembly; (ii) the President (Executive) and (iii) CAG.

The Ministry of Finance (MoF)⁹ provides an oversight at the apex level of the Public Financial Management in the country, including that for the LGAs. Its roles include issue of Annual Planning and Budgeting Guidelines, scrutiny of the LGA budgets through inter-ministerial committees, making transfers to the LGAs through its Treasury, ensuring appropriate recording of transactions through its Accountant General (ACGEN)'s division and monitoring of funds utilization through its Internal Auditor General (IAG)'s division. The MoF also supports integration of the LGA's financial affairs through the Integrated Financial Management Information System. At the District level, there is a sub-treasury. However, the sub-treasury deals mainly with the Central Government matters and only occasionally is used to disburse funds to the LGA for emergency expenditure that were originally not budgeted for and subsequently released from the Consolidation fund. This is a rare occurrence, which is not within the LGA operational and financing arrangements.

The President's Office is also part of the institutional framework for PFM through the Planning Commission and the Public Service Management Unit.

The Prime Minister's Office (Regional Administration and Local Government Authority)¹⁰ set up in December 2010 by a Presidential instrument is mandated to formulate, monitor and evaluate decentralisation by devolution, rural and urban development policies and its functions include supervision and administrative monitoring and control over the operations of Regional Secretariats and LGAs to enable them to provide quality

⁹ Organizational Structure for MoF has been given in Annexure.5

¹⁰ Organizational Structure for PMO-RALG has been given in Annexure.5.

services to the community. The Local Government Division headed by a Director handles the functions of (i) governance (ii) human resources (iii) finance (iv) inspections and (v) service delivery.

Other organs or bodies that play a critical role in the PFM in Tanzania and impact LGA performance, include:

- *Controller and Auditor General*: responsible for audit of LGAs published accounts and review of the periodic performance on routine basis through its residential Auditor based at the Regional level. All the quarterly Council reports together with the Internal Audit report are submitted to the residential auditor;
- *Association of Local Authorities in Tanzania (ALAT)*: provides a forum for exchange of views and experiences among members of the LGA and making representations to the government locally and in international forums;
- *Public Procurement Regulatory Authority (PPRA)*: regulates all procurement activities including those by the LGAs and undertakes capacity building activities to improve efficiency in procurement and compliance with the Public Procurement requirements;
- *Public Procurement Appeals Authority*: receives and guide on complains relating to procurement activities undertaken by the LGAs;
- *Parliament*: scrutinizes and approves the LGAs' budgets and the external audit reports. At the LGA level, the legislature function is executed through the councillors who meet on quarterly as well as on needs basis; and
- *Local Authorities Accounts Committee (LAAC)*: deliberates on the findings of the external audit report prior to submission to the Parliament; scrutinizes LGA accounts and expenses as necessary.

Geographically, local governments in Tanzania can include either urban or rural authorities. Urban authorities consist of City, Municipal and Town Councils. Rural authorities consist of district councils. Administratively, urban authorities are further divided into wards (kata) and neighbourhoods (Mitaa). On the other hand, rural authorities are divided into wards (kata), villages (Vijiji) and hamlets (Vitongoji) – the smallest administrative division.

The Council is the highest political decision making body in an LGA and comprises of at least one elected Member of the Parliament for the Constituency and other elected representatives including one from each ward, one out of the chairmen of village councils located in the area, two representing party organisations located in the area and civil servants at the Council level who are recruited directly by the Central Government or the Council itself. The role of the HLG governance body is to supervise the local government executive headed by the Council Director or the District Executive Director (DED). The councils execute their governance responsibilities through the standing committees and ad-hoc committees. In financial aspects, councils have powers to levy local taxes and collect other revenues from the local sources in line with the statutory provisions. Councils are also free to pass their own budget based on their own development and social priorities. The DED is the accounting officer for the LGA and plays a key role in council decisions pertaining to financial matters as well as in the area of planning, project evaluation, tendering and general administration. Below the ED, are the Heads of Departments (HoDs).

Lower level of LGAs consists of Village and Ward organs. Governance at the village level is executed through Village Assembly (VA) composed of all adults resident in a particular village; and Village Council (VC) composed of 15 – 25 elected village representatives. The VA's role in execution of democracy is limited to electing the village councils every five years. On the other hand, the VC is the body responsible for all the planning, and implementation of the development activities at the village level. It provides a link between the village and the ward. At the ward level, governance is executed through the Ward Development Committee

(WDC), which is responsible in coordinating development activities and planning at the ward level and linking the villages with the district level.

All LGAs are administratively under their respective Regional Administrative Secretariat (RAS) which is headed by a Regional Commissioner whose office is established under the provisions of Article 61 of the Constitution. RAS provides a link between the Local Governments and the Central Government through its LGA Management Section, with its set objective to provide expertise and service in developing good governance in LGAs. The LGA Management Section at the RS undertakes a number of functions of facilitation, capacity building, advice and oversight in areas that include fund management, budgeting, good governance, legal, HR and administrative issues, and routine inspections and acts as a link with the central ministries and departments. The Section undertakes these duties through its officers dedicated to the LGA on PFM matters. These include: (i) Financial Management Officer; (ii) Legal Officer; (iii) Administrative Officer; (iv) Auditing Officer; and (v) Planning Officer.

The Judiciary exercising jurisdiction over the LGAs is represented by District Courts that hold public hearings for all cases including those for violation of the bye-laws or non-payment of the respective council charges or taxes. However, the law in Tanzania does not provide for specific hearing against the LGA in the event of injuries caused to the public¹¹.

The Prime Ministers' Office – Regional Administration and Local Government (PMO-RALG) is the Ministry responsible for LGAs through its Local Government Division. The present functions and Organisation structure were approved by the President on 3rd June 2011. This Ministry is a catalyst in the process of LGA reforms and plays a leading nodal role in coordination, oversight as well as delivery of specific activities.

Functional responsibilities

Local Government District Authorities Act, 1982 and Local Government Urban Authorities Act, 1982 defines the general functions of the LGA in rural and urban area respectively. These include (i) maintenance of peace, order, and good government (ii) social welfare and economic well-being (iii) social and economic development in line with national policies (iv) regulation and improvement of agriculture, trade, commerce and industry (v) furtherance and enhancement of the health, education, and the social, cultural and recreational life of the people, and (vi) relief of poverty and distress, and for the assistance and amelioration of life for the young, the aged and the disabled or infirm.

At the apex of the LGA's organization structure are the people of the District/ City/ Municipality (citizens) who are represented by the Councillors (Full Council). The Councillors essentially work as an intermediary between the citizens and the Council relaying the messages both from the citizens to the council and from the Council to the citizens. Administratively, a typical LGA has nine departments, each headed by a Departmental Head. Council staff are recruited by the council with approval from PO-PSM and paid by the central government.

3.3.3. Key Features of the PFM System

All LGAs in Tanzania follow the country-wide PFM cycle although with varying strengths and weaknesses in the respective PFM elements as illustrated in the respective individual LGA reports. The PFM cycle includes the following features: (i) planning and budgeting; (ii) funds flow; (iii) procurement; (iv) accounting and financial reporting; (v) internal controls; and (vi) external audit and follow-up.

¹¹ Currently, although LGAs are autonomous legal entities, their accountability to the people down ward is only political because their governing bodies are elected and need to account to the electorate. However, as legal persons, LGAs were expected to be accountable for any loss or injury they may cause to any person. Unfortunately, in Tanzania, judicial review actions against LGAs in Tanzania are not well developed, hence LGAs are yet to be held liable in the public law (REPOA, Final Report on The oversight Process of Local Councils in Tanzania, July 2008).

Details of these features are illustrated as introductory notes to the assessment of the relevant performance indicators. Below is a summary description of the key features of the PFM systems, with emphasis on their application at the LGA level.

3.3.3.1. Planning and Budgeting

In Tanzania, LGAs prepare their budgets according to the MTEF and using the Opportunities and Obstacles to Development (O&OD) methodology focusing on bottom up budget preparation process whereby communities identify their development priorities which form the basis of the LGAs' MTEF.

The actual planning and budgeting cycle begins when the national planning and budgeting guidelines are issued. The guidelines provide a performance review of the previous Financial Year and highlights of the sector policies and areas that are accorded as priorities within the National Strategy for Growth and Reduction of Poverty (MKUKUTA) and Tanzania Development Vision 2025 (TDV 2025). The guidelines are prepared by MoF with close involvement of PMORALG. Along with the national guidelines, PMORALG also issues planning and budgeting guidelines which are circulated to all LGAs to inform them to start the planning process.

LGAs are supposed to translate the LGA guidelines into simple language and forward to the Lower Level Government units, especially the Village Councils (VCs) and Ward Development Committees where the planning process will be central to ensure community priorities and needs are effectively reflected. Once the community priority and needs are identified, the village assembly is required to approve the three year plan that is then submitted to the LGA for inclusion in the LGA's respective sector budget and later consolidated into the wider LGA's plan.

At the LGA, each sector prepares its sector plan reflecting its sectoral policy and strategy, which is also later incorporated into the LGA-wide plan.

The LGA's plan is approved at the full council and submitted to PMORALG for scrutiny and forward submission to the MoF. Once all the LGA plans are submitted to the MoF, they are further incorporated in a government plan and budget and submitted to the parliament for approval.

3.3.3.2. Funds Flow

Funds flows to the LGAs in Tanzania are mainly from three sources (i) Central Government transfers; (ii) own source revenue; and (iii) direct donor funding.

Central government transfer forms the largest proportion of the LGAs' financial support, followed by the own source revenue. Donor direct funding is not widely practiced, though during the assessment there were few instances of funds flowing directly to the LGA from the Elizabeth Glaser Pediatric AIDS Foundation (EGPAF), but these formed an insignificant proportion of the overall respective LGAs' funding. The assessment noted that funds from central level are transferred on availability rather than need basis. All LGAs did not maintain cash forecasts to inform timely disbursements due to their experience that disbursements are never determined by their needs but are made when the central government has funds, and when they are made, they are normally insufficient to meet all the required needs.

At the LGA level, funds flow to the lower level government constitutes transfers to service delivery units and villages for development projects. The transfers are made using specified formulae depending on the type of transfer. The transfers to lower level government units are significantly

dependent on funds received from the central government and often funds received are not adequate to meet the set priorities.

3.3.3.3. Procurement

Procurement in Tanzania is mainly governed by the Public Procurement Act (PPA), 2011 and the corresponding Public Procurement Regulations (PPR), 2013. LGAs are required to follow the guidelines in conducting all their procurement activities. Section 31 (1) of the Public Procurement Act, 2011 provides for establishment of tender boards at every LGA for procurement of goods, services, works and disposal of public asset by tender. Each LGA has a tender board composed of members selected by the council Director.

Section 37 (1) provides for establishment of Procurement Management Unit (PMU) in every procuring entity which consists of procurement and other technical specialists and other administrative staffs. Each LGA has Head of Procurement Unit and other support staff, the number of which varies from one LGA to another. The procurement unit is entrusted to ensure that there is fair competition and value for money is achieved for all items purchased for use by the council.

The assessment noted that LGA procurement units and their staff received technical support from PPRA through continuous evaluation and capacity building initiatives.

3.3.3.4. Accounting and Financial Reporting

At the time of this assessment, all LGAs were using the Integrated Financial Management System (EPICOR) to record and maintain LGAs' financial transactions albeit with varying limitations from one LGA to another. The commonly shared limitations of the EPICOR system include lack of comprehensiveness and inclusiveness of all the necessary accounting modules. Up to the time of assessment, the EPICOR system was yet to be wholly automated. Some accounting and reporting functions were still undertaken outside the system.

Financial reports, with their frequency, prepared by the LGAs include:

1. *Monthly reports:* LGAs prepare monthly reports indicating their income and expenditure for each month. These reports are submitted to the Council Director and later to the Finance Committee by 10th of the following month. The monthly reports are designed to include the necessary reconciliations for bank balances, imprest and staff advances, etc.;
2. *In-year budget reports: these are prepared on quarterly basis:* Councils prepare Council Financial Reports (CFR) and Council Development Reports (CDRs). The source for these reports is information recorded in the EPICOR system. CFRs summarize the financial performance of the council for the quarter and on cumulative basis comparing the actual revenue and expenditure up to the end of the reporting quarter against the respective annual budget. No comparison is made by all LGAs on actual and budgeted revenue and expenditure for the same reporting period because the budget for the year is not split into smaller period, i.e. months and quarters. CDRs present the councils achievement of its planned physical activities over and to the end of the reporting period.
3. *Annual Financial Statements:* these are prepared on annual basis according to IPSAS requirements. The financial statements are also prepared based on information contained in the EPICOR system, although the financial statement preparation is not automatic from the system. At the end of the FY, financial records are extracted manually and imported into the MS Excel reporting format. This process has led to enormous amount of errors leading to omissions in the financial statements submitted for external audit to the office of CAG. LGAs are required to complete preparation of the financial statements and submit to the office of

CAG within three months after the end of the financial year. Prior to submission to the CAG, AFS need to be authorized by the Council Director as the accounting officer and approved by the Full Council. Para 31(4) of the LGFM mentions that the LGA statement of financial position and statement of financial performance shall be in the "formats" prescribed by International Accounting Standards Board applicable to the public sector. The notes to the financial statements mention that they have been prepared based on the IPSAS and the provisions of the Local Government Finances Act. The notes also describe all the significant accounting policies applicable to the financial statements.

LGAs receive support from the office of Accountant General (ACGEN) of the Central Government on all accounting and reporting matters.

3.3.3.5. Internal Controls

Internal controls at the LGA level in Tanzania are overseen by presence of the Internal Audit Functions (IAFs) and Audit committees.

While the Council Director is responsible to ensure presence of effective internal controls through preparation of the necessary guidelines and orientation of all council staff, the IAF is responsible to continuously assess efficiency of the internal controls. The IAF reports on the effectiveness of the council's internal controls on quarterly basis through their IA reports which is submitted administratively to the council director and for technical review and considerations to the Audit Committee, which is later submitted to the finance committee and the full council.

The Internal Audit teams receive support from the office of Internal Auditor General (IAG) at the Central Government level.

3.3.3.6. External Auditing and Follow up of Audit Recommendations

The regulatory basis for the audit of accounts of LGAs is provided by the Constitution, certain statutes and other regulations of the CAG. These include Constitution of the United Republic of Tanzania 1997 (revised 2005); The Local Government Finances Act 1982 (amended in 2002); The Public Audit Act 2008; and The Public Audit Regulations 2009.

The National Audit Office of Tanzania (NAOT) is the Supreme Audit Institution (SAI) of the country and headed by the Controller and Auditor General (CAG). Section 18 of the Public Audit Act prescribes that the CAG shall determine which auditing standards should apply and may issue auditing standards and code of ethics as applicable. NAOT is a member of the International Organization of Supreme Audit institutions (INTOSAI), the Africa Organization of Supreme Audit Institutions (AFROSAI) and Organization of Supreme Audit Institutions-English Speaking countries (AFROSAI-E). Being a member of these, the NAOT is obliged to follow the International Standards of Supreme Audit Institutions (ISSAI) and International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFA). This is a matter also reaffirmed by the CAG in his report for the LGA.

The presentation of audited accounts is at 2 levels-the Council or local legislature of the LGA and finally at the National Assembly. Section 48(4) of the LGFA requires completion of audit not later than six months after the close of the financial year. Furthermore, Section 34(1) of the Public Audit Act mentions that the CAG shall express his professional opinion and submit the audit report to the President and Minister within a period of nine months or such longer time as the National Assembly may permit from the date of closing of the financial year.

In October 2012, the GoT issued a Bill Supplement (Subsidiary Legislation) amending various sections of the Public Audit Act No. 11 of 2008. The Bill has introduced a revised, orderly and chronological process by which the response by the GoT and the CAG report will be laid and discussed in the National Assembly.

The National Assembly then discusses the POC/LAAC report together with the Paymaster General's Annual Consolidated Report and the action plan submitted by the Minister.

Once the audit recommendations are issued, it is the responsibility of the Council Director to ensure a follow up and implementation of all the audit recommendations. Para 7 of the LGFM defines the responsibilities of the Council Director who is the Accounting Officer of the LGA, and mentions timely response to queries of the CAG and the LAAC as one of his tasks. The Audit Committee which is supposed to meet at least once a quarter as per para 12 of the LGFM is expected to also review the external audit reports particularly involving matters of concern to the Council

4. District Background Information

4.1. Economic situation

Bunda district is a part of Mara region, and has 4 divisions, 28 wards and 106 villages and 572 hamlets. Its economy is primarily dependent on agriculture as it employs 44% of the population along with other sources of income being such as raising livestock, beekeeping, forestry, wildlife and fishing. The district is famous for both its food and cash crop farming, with availability of 84,627 hectares land size present for that activity.

Table 6 depicts broader economic situation of Bunda District and since relevant data for district wise detailed comparison is not available, an attempt for comparison of Mara region with other regions (as part of PEFA assessment) has been made in Table 7.

Table 6: Factsheet-Bunda District

Item	Value
Area	3,088 km ²
Share in Region's Area	21.1%
Population (2012 census)	335,061
Population growth rate	2.9% per annum
District Income	TZS 382,499,554,500/- (for the year 2013)
Per Capita Income	TZS 946, 107/ -
Leading sector	Agriculture
Agriculture share in GDP	90%
Agriculture share in employment	44%

Source: Preamble, Medium Term Expenditure Framework, Bunda District Council

Table 7: Broad Development Indicators (region wise)

Category	Indicator	Total	Arusha	Kilimanjaro	Tanga	Morogoro	Lindi	Mtwara	Kigoma	Mwanza	Mara
Economy	Share in GDP (Market prices)- 2013	39.1%	4.7%	4.5%	4.7%	4.8%	1.8%	2.5%	2.9%	9.4%	3.7%
Land Share	Land Area (Sq. km)	885803	37576	13250	26677	70624	66040	16710	37040	9467	21760
	Share in total land	33.8	4.2	1.5	3.0	8.0	7.5	1.9	4.2	1.1	2.5
	Population (2012) in "000"	43625	1694	1640	2045	2218	1377	941	2458	1425	702

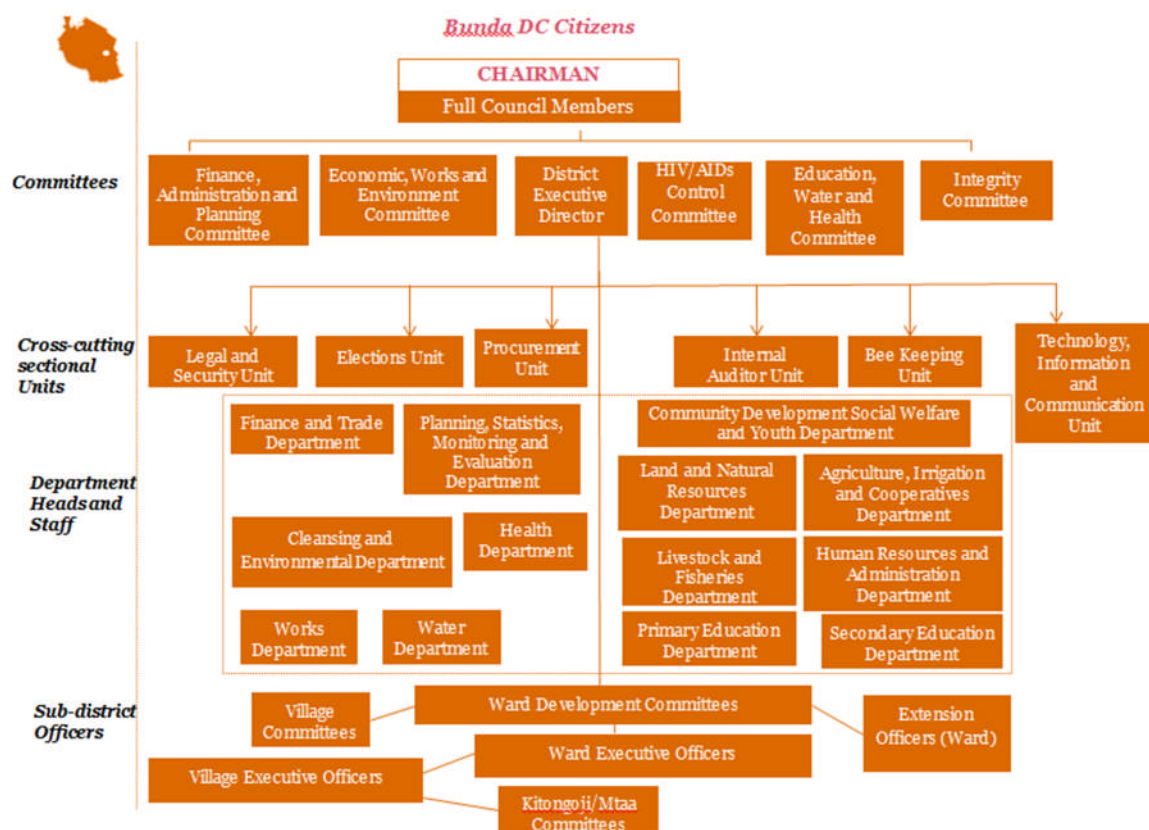
Category	Indicator	Total	Arusha	Kilimanjaro	Tanga	Morogoro	Lindi	Mtwara	Kigoma	Mwanza	Mara	
Size of serving population	Share in National Population (2012)	33.2%	3.9%	3.8%	4.7%	5.1%	3.2%	2.2%	5.6%	3.3%	1.6%	
	Median years of schooling completed (Male-2010)	4.6	4.7	6.2	4.7	4.9	3.4	4.6	3.5	4	4.7	
Public awareness	Median years of schooling completed (Female-2010)	3.6	4.7	6.1	4	3.9	2.2	3.5	3.2	3	3.8	
	% of women (15-49 yrs, 2010) reads newspaper at least once a week	18.8	21.4	17.8	11.8	27.8	15.9	20.3	17	13.7	9.6	
	% of men (15-49 yrs, 2010) reads newspaper at least once a week	29.9	15.5	43.5	40.9	38.6	21.3	24.4	40.4	10.5	7.8	
	Top occupation for men (2010)		Agri	Agri	Agri	Agri	Agri	Agri	Agri	Agri	Agri	Agri
Employment	Share of men (15-49 yrs.) in top occupation (2010)		40.7	46.7	58.8	61.7	81.8	77.3	57.1	68.7	69.4	
	Top occupation for women (2010)		Unskilled manual	Agri	Agri	Agri	Agri	Agri	Agri	Agri	Agri	Agri
	Share of women (15-49 yrs) in top occupation (2010)		44.2	40.2	47.8	69.2	92.9	92	71	75.7	86	

Source: National Bureau of Statistics, Tanzania

4.1. Institutional Structure of LGA

Figure 3 shows the organizational structure of Bunda DC. At the apex of Bunda DC's organization structure are the people of Bunda District (citizens) who are represented by the Councillors (Full Council). The Councillors essentially work as an intermediary between the citizens and the Council relaying the messages both from the citizens to the council and from the Council to the citizens. Administratively, Bunda DC has thirteen departments headed by a Departmental Head. Council staff are recruited by PO-PSM and paid by the central government.

Figure 3: Organization Structure of Bunda DC



Additionally, Bunda DC has six units namely: Legal and Security, Elections, Procurement, Internal Audit, Bee Keeping, Technology, Information and Communication. Staff within these sections has the responsibility for ensuring that the departments perform as required by the law and provide assistance in the efficient operation of council.

Externally, there are five standing committees in Bunda DC that also assists in the operations of the council. The committees are:

- Finance, Administration and Planning Committee;
- Economic, Works and Environment Committee;
- HIV/AIDS Control Committee;
- Education, Water and Health Committee;
- Integrity Committee.

Functional responsibilities

Local Government District Authorities Act, 1982 and Local Government Urban Authorities Act (LGUA), 1982 defines the general functions of the LGA in rural and urban area respectively. These include (i) maintenance of peace, order, and good government (ii) social welfare and economic well-being (iii) social and economic development in line with national policies and (iv) regulation and improvement of agriculture, trade, commerce and industry (v) furtherance and enhancement of the health, education, and the social, cultural and recreational life of the people, and (vi) relief of poverty and distress, and for the assistance and amelioration of life for the young, the aged and the disabled or infirm.

4.2. Fiscal performance of LGA

As shown in Table 2, the Central Government grants constitutes significant portion of LGA's total revenues (on an average 95%). Table 8 shows trend of revenues of the Bunda DC for the last three years. The total domestic revenues have increased by 23% during last three years while own source revenues increased by 58% over the same period. This led to increase in share of own source revenues in total revenues of the LGA from 3.8% in 2011-12 to 4.9% in 2013-14.

Table 8: Revenue performance, 2011 to 2013, TZS million

Items	2011-12	2012-13	2013-14
Local Taxes	310	880	477
Fee, fines, penalties and licenses	388	360	563
Other own revenue	263	0	481
Total Own Revenue	961	1239	1521
Land Rent	10	32	27
Recurrent grant	20181	24111	26761
Development grant	4405	2537	3257
Total Revenues	25557	27920	31566

Source: Audited Annual Financial Statement, 2011-12, 2012-13, 2013-14

It should be noted that there has been substantial variability in own source revenues over the last three years. Table 9 shows total expenditure by functions for 2011-12, 2012-13 and 2013-14. Similar to other LGAs, the education, primary health services and finance were the top three functions in 2011-12 to 2013-14. Other leading functions were works and agriculture.

Table 9: Function wise expenditure, 2011-12, 2012-13, 2013-14, TZS million

Function	2011-12	2012-13	2013-14	Average Share
Human resource management and development	38	69	0	0.1%
Finance and Administration	2562	3392	4822	12.1%
Trade and economic affairs	149	410	13	0.7%
Livestock	298	459	115	1.0%
Agriculture	774	1324	430	3.0%
Education	13771	15719	22023	58.1%
Primary health services	2879	3809	3617	11.8%
Water	557	1722	553	3.3%
Works	3231	1036	1819	7.3%
Lands	257	33	65	0.4%
Natural resources	16	82	74	0.2%
Community development, gender and children	334	133	91	0.7%
LGCDG	417	761	0	1.4%
Total Expenditure	25283	28949	33622	100.0%

Source: Audited Annual Financial Statement, 2011-12, 2012-13 and 2013-14

Table 10 shows total expenditure of Bunda DC for the last three years by economic categories. Total expenditure of Bunda DC increased by 15% in 2012-13 and 16% in 2013-14. Largest component of total expenditure is “wages, salaries and employee benefits” constituting on an average 70% of total expenditure. This component has gone up in the last three years.

Table 10: Total expenditure by economic classification, 2011-12 to 2013-14, TZS million

Item	2011-12	2012-13	2013-14	Average Share
Wages, salaries and employee benefits	17262	20853	23533	70.10%
Supplies and consumables used	2495	3833	2404	10.09%
Maintenance expenses	1346	1061	1881	4.86%
Finance costs	0	0	0	0.00%
Impairment of other financial assets	0	0	2458	2.44%
Capital Expenditure	4180	3201	3346	12.51%
Total Expenditure	25283	28949	33622	100.0%

Source: Audited Annual Financial Statement, 2011-12, 2012-13, 2013-14

Table 11 shows deficit/surplus for Bunda DC. Out of the last three years, the LGA had deficits in two years (2012-13 and 2013-14).

Table 11: Deficit/surplus, Bunda DC, TZS million

Item	2011-12	2012-13	2013-14
Total Revenue	25557	27920	31566
Total Expenditure	25283	28949	33622
Surplus	274	-1029	-2056

Source: Audited Annual Financial Statement, 2011-12, 2012-13, 2013-14

5. Assessment of the PFM systems, processes and institutions

5.1. Predictability of central transfers

HLG-1 Predictability of transfers from higher level of Government

Transfers from the higher level of Government (i.e. GoT) constitute a significant source of revenue for the local governments. As given in Table 2, on an average in the last three completed financial years (i.e., 2011-12, 2012-13, and 2013-14), Central Government transfers were 95% of total revenues of the Bunda DC.

(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget

Table 12 shows transfers from the higher level of government to the local government for the period 2011-12 to 2013-14. Across the last three completed years (2011-12 to 2013-14), actual Central Government transfers were lower than budgeted. In 2011-12, 2012-13 and 2013-14, actual transfers were 18%, 8% and 16% lower than budgeted transfers respectively. Although CAG has identified issues regarding personnel emolument transfers to the LGA, the predictability of amount of transfers was further lower in case of development grants. In 2011-12, 2012-13 and 2013-14, actual development transfers were 40%, 41% and 50% lower than budgeted. Our discussion with the District Council officials indicates that such low predictability in quantum of transfers is impacting efficiency in project implementation.

Table 12: Transfers from the higher level of government, 2011-12 to 2013-14, TZS million

<i>In TZS million</i>		<i>Recurrent Grants</i>	<i>Development Grants</i>	<i>Total Grants</i>
2011-12	Budget	22517	7291	29808
	Actual	20181	4405	24586
	Deviation	-10%	-40%	-18%
2012-13	Budget	24671	4283	28954
	Actual	24111	2537	26648
	Deviation	-2%	-41%	-8%
2013-14	Budget	29056	6556	35612
	Actual	26761	3257	30019
	Deviation	-8%	-50%	-16%

Source: Audited Annual Financial Statement, 2011-12, 2012-13, 2013-14

(ii) Annual variance between actual and estimated transfers of earmarked grants

In case of Tanzania, all transfers are earmarked in nature. Under this dimension, variance between estimated and actual transfers from the higher level of government across various transfer items needs to be assessed. As mentioned before, there are two kinds of grants, i.e. recurrent and development which comprises of various project grants. There are nearly 21 different heads/schemes

under which the LGA receives funding from the Central Government. Top three heads include, (i) Personnel emoluments (79%)¹², (ii) Other Charges (10.4%) (iii) Road Fund (4.1%). The variance in central government grants across heads in the last three years is provided in Table 13.

The variance in central government transfers in the last three financial years (2011-12, 2012-13 and 2013-14) was 33%, 21% and 21% respectively.

Table 13: Variance in central government transfers¹³

Year	for HLG-1 (ii) composition variance
2011-12	32.3%
2012-13	20.3%
2013-14	21.4%

Source: Audited Annual Financial Statement, 2011-12, 2012-13, 2013-14

(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within of month of the start of the SN fiscal year)

At the start of the financial year, GoT does not provide a schedule of transfers to be made during the financial year. As per the subnational guidelines (page 10, footnote 4), in the absence of disbursement timetable, a default of a quarterly distribution is to be used. Reliable information on dates of actual transfers across the financial year is not available to rate the dimension¹⁴.

Table 14: Summary rating for HLG-1

Indicator	Rating	Brief explanation
HLG-1: Predictability of Transfers from a Higher Level of Government	NR	
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget	D	In two of the last three years, the HLG transfers have fallen short of the estimate by more than 15%.
(ii) Annual variance between actual and estimated transfers of earmarked grants	D	Variance in provision of earmarked grants exceeded 10 percentage points in at least two of the last three years.

¹² In parenthesis, average share during 2011-12 to 2013-14 is shown.

¹³ The computation is shown in Annexure.7.

¹⁴ The information shared with dates of transfers from the central government varies with the dates of transfers given in the Annual Financial Statement. The deviation was 51%, 75% and 57% in 2011-12, 2012-13 and 2013-14 respectively.

Indicator	Rating	Brief explanation
(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within of month of the start of the SN fiscal year)	NR	Sufficient information for rating the dimension is not available.

5.2. PFM-out-turns: Budget credibility

PI-1 Aggregate expenditure out-turn compared to original approved budget

Government's ability to deliver the public services as promised in the financial year depends on its overall budgetary performance. In case of local governments such as Bunda DC which is highly dependent on Central Government transfers, the budgetary performance is dependent on not just its ability to spend the resources but also on the predictability of Central Government.

Subject to our comments on data issues, the comparison of aggregate actual total expenditure with the original budgeted expenditure shows negative deviation of 19.4% in 2011-12, 15.6% in 2012-13 and 13% in 2013-14.

CAG in its management letter for 2013-14 has pointed out that there are four key positions with no confirmed heads of departments including key department such as procurement management unit and planning department. This affects the budget execution.

Table 15: Aggregate expenditure outturn as compared with budget 2011-12 to 2013-14, TZS million¹⁵

Item ¹⁶	2011-12		2012-13		2013-14		Deviation		
	Budget	Actual	Budget	Actual	Budget	Actual	2011-12	2012-13	2013-14
Total Expenditure	31376	25283	34289	28949	38667	33622	-19.4%	-15.6%	-13.0%

Source: Audited Annual Financial Statement, 2011-12, 2012-13, 2013-14

Table 16: Summary rating PI-1

Indicator	Rating	Brief explanation

¹⁵ PEFA Field guide requires comparison of aggregate primary expenditure outturn as against the budget. Firstly, in case of Bunda District Council, there was no interest payment made on the borrowings in the last three years. Secondly, donor funded expenditure as mentioned in the Data Note has been included in the analysis. Therefore, aggregate expenditure has been used. Additionally, the Audited Financial Statements has been used as the source for analysis under HLG-1 dimension (i), PI-1, PI-2 and PI-3. Annual financial statement contains original budget data as well as actual outcomes.

¹⁶ Details on our method for calculating revenues and expenditure is provided in Annexure.7.

<p>PI-1 Aggregate expenditure out-turn compared to original approved budget</p>	<p>D</p>	<p>Expenditure outturn in Bunda DC for 2011-12 to 2013-14 deviated from originally approved budget (excluding interest on LGA's debt) by 19.4%, 15.6% and 13% respectively.</p>
<p>(i) The difference between actual primary expenditure and the originally budgeted primary expenditure.</p>		

PI-2 Composition of expenditure out-turn compared to original approved budget

(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items

Variation in the aggregate expenditure needs to be supplemented with an analysis of the variation in each major component of expenditure to present a complete picture with respect to the budgetary performance of the LGA. The objective of this indicator is to analyze the variation in the composition of the total expenditure after controlling for variation in the aggregate expenditure.

The PEFA framework recommends analysis of expenditure outturn by each of the main functional classifications. In case of Bunda DC, expenditure is classified by 13 functions: (1) Human resource management and development, (2) Finance and Administration, (3) Trade and economic affairs, (4) Livestock, (5) Agriculture, (6) Education, (7) Primary health services, (8) Water, (9) Works, (10) Lands, (11) Natural resources, (12) Community development, (13) gender and children, and (14) LGCDG.

Table 17: Variation in the composition of aggregate expenditure, 2011-12 to 2013-14¹⁷

Year	for PI-2 (i) composition variance
2011-12	26.1%
2012-13	11.2%
2013-14	19.1%

Source: Audited Annual Financial Statement, 2011-12, 2012-13, 2013-14

Analysis of the composition of total expenditure on functional basis reveals variation of 26% in 2011-12, 11.2% in 2012-13, and 19.1% in 2013-14. The corresponding data and the calculations is shown in Annexure.7. Table 18 shows department wise deviations in actual expenditure from the budget. Key functions of the LGA are Education, Primary Health Services and Finance and Administration together contribute on average 81% of the total actual expenditure in the last three financial years. Deviations in these functions across the years have been reflected in overall expenditure composition as shown in Table 17.

Table 18: Function wise deviation in actual expenditure from budget, 2011-12, 2012-13, and 2013-14

¹⁷ It should be noted that in the absence of department names against each capital expenditure, the assessor has mapped the capital expenditure items to various departments based on supplementary information. In case the project can't be mapped to a specific department, the Project has been taken as a separate department.

Department Name	Average Share	2011-12	2012-13	2013-14
Human resource management and development	0.1%	-4.5%	-12.7%	#DIV/o!
Finance	12.1%	-35.5%	-35.9%	-8.4%
Trade and economic affairs	0.7%	-47.8%	-10.2%	-15.3%
Livestock	1.0%	-56.1%	-8.8%	-24.2%
Agriculture	3.0%	-67.7%	-5.0%	-38.9%
Education	58.1%	-3.2%	-9.5%	-0.4%
Primary health services	11.8%	-4.1%	-9.7%	-9.2%
Water	3.3%	-63.5%	-15.4%	-46.2%
Works	7.3%	-6.2%	-44.5%	-52.5%
Lands	0.4%	-15.4%	-9.4%	-90.9%
Natural resources	0.2%	-91.2%	-9.4%	-80.1%
Community development, gender and children	0.7%	-4.3%	-9.4%	-75.8%
LGCDG	1.4%	-57.3%	-5.1%	-100.0%

Source: Audited Annual Financial Statement, 2011-12, 2012-13, 2013-14

(ii) The average amount of expenditure actually charged to the contingency vote over the last three years

It is understood that at the LGA there is no contingency fund in the budget in which contributions are made to meet expenditure during any unforeseen circumstances. The assessors did not, prima facie, come across any related accounting of expenditure towards contingencies. .

Table 19: Summary rating for PI-2

Indicator	Rating	Brief explanation
PI-2 Composition of expenditure outturn compared to original approved budget.	D+	
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	Variance in expenditure composition was more than 15% in at least two of the last three years.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years	A	There is no contingency fund in the budget in case of Bunda DC and neither is there any prima facie evidence of accounting for such expenditure. Hence rated in line with clarification 2-1 of the PEFA Field Guide.

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

Robust revenue forecasting is essential for preparation of a credible budget. In case of too much optimistic revenue forecasts for the financial year, the government commits to spending higher amount in comparison with revenues which results in high fiscal deficit or commitments which cannot be met. On the other hand, in case of too much pessimistic revenue forecasts, proceeds from over-realization are then used for spending on items of expenditure which has not been subjected to budget scrutiny.

The Own Source Revenue data in the annual financial statements is sufficiently disaggregated by major revenue heads. The Estimates are prepared by the District Treasurer taking inputs from various departments in the District Council.

Own Source Revenue of the Council can be clubbed into four categories (i) Local Taxes (45%), (ii) Fee, fines, penalties and licenses (35%)¹⁸, (iii) revenue from exchange transactions and (iv) other own revenue (20%). Table 20 shows revenue performance of Bunda DC in the last three completed financial years.

Table 20: Summary of Bunda DC domestic revenue, 2011-12 to 2013-14 (in TZS million)

Revenue sources	2011-12		2012-13		2013-14		Actual as % of budgeted		
	Budget	Actual	Budget	Actual	Budget	Actual	2011-12	2012-13	2013-14
Local Taxes	355	321	1336	912	867	504	90.5%	68.2%	58.1%
Fee, fines, penalties and licenses	405	388	629	360	798	563	95.7%	57.2%	70.5%
Revenue from exchange transactions	0	0	0	0	19	0	-	-	0.9%
Other own revenue	327	263	0	0	390	481	80.3%	-	123.2%
Total Own Source Revenue	1087	971	1965	1271	2074	1548	89.4%	64.7%	74.6%
Deduct Land rent	9	10	16	32	18	27	116.5%	199.8%	149.9%
Adjusted Own Source revenues	1078	961	1949	1239	2056	1521	89.1%	63.6%	74.0%

Source: Audited Annual Financial Statements, 2011-12, 2012-13, 2013-14

As shown in Table 20, the Council's revenue realisation has been significantly volatile in the last three completed financial years. Actual realisation of 64% in 2012-13, 74% in 2013-14 shows that annual targets set for domestic revenues are unrealistic, or/and inefficiencies on the part of the LGAs.

The CAG in its audit report for 2013-14 highlights that TZS 13 million of revenues collected by the agents were not remitted to the Council. The CAG also points out that the LGA delayed in banking the revenue collections amounting TZS 96 million.

Local taxes as shown in the table above include land rent, produce cess, service levy and other levies on business activity. Land rent is collected by the local government authorities but the rate, structure, frequency of payment, penalty for non-compliance are decided by the Ministry of Lands, Housing and Human Settlements Development, Government of Tanzania. In case of Bunda DC, actual land rent

¹⁸ Figures in parenthesis are average share in 2011-12, 2012-13 and 2013-14.

collection was 1.7% of the total own source collections in 2013-14. The LGAs only receives 30% commission on the amount collected. The Commission fee is reimbursed by the Central Government post transfers of collection receipts to the Central Government. Since land rent is not fully in the control of the LGA, it should not be included in the analysis. It should be excluded from the budget as well as actual own revenue collections. Hence, the land rent has been excluded from the total own source revenue.

Table 21: Summary rating for PI-3

Indicator	Rating	Brief explanation
PI-3 Aggregate revenue out-turn compared to original approved budget	D	Actual own source revenue (excluding land rent) was 89%, 64% and 74% of the budgeted revenue in 2011-12, 2012-13, and 2013-14 respectively.
Dimension (i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget		

PI-4 Stock and monitoring of expenditure payment arrears

(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock

Existing legislation and regulations relating to arrears

Relevant legislation, such as LGFA 1982 (Revised 2002), LGFM 2009, Public Finance Act (PFA) 2001, Local Government Accounting Manual (LAAM) 2009, does not define payment arrears.

On 08th of December 2014, MoF, United Republic of Tanzania issued a circular relating to arrears for the goods/services rendered. The circular defines payment arrears as “...*overdue expenditure obligations on goods and services, salaries and pensions, rents and debt services*”. *As a rule of thumb, if payments for goods and services have not been made within 30 days after the receipt of invoice, it will be treated as payment in arrears; salary and pension obligations that are outstanding after the date for the payment of the payroll will be in arrears*”.

It is noted that the above guideline is in line with the internationally accepted best practice as also referred to in the National PEFA Assessment of 2013 and the PEFA Field Guide 2012.

Based on feedback obtained during our discussions it was observed that Bunda DC does not have any organised system of recording arrears. The annual financial statements only provide details on payables unlike “arrears”. It should be noted (i) all payables overdue for more than a month (i.e. more than 30 days) have been considered as payment arrears for rating under this dimension, (ii) the DC did not provide a detailed breakup of the total payables in the AFS.

Table 22: Stock of payables, 2012-13, and 2013-14 (TZS million)

Outstanding for	2012-13	2013-14
1-3 months	0	23

3 to 12 months	304	2895
Over 1 year	0	0
As % of Total Expenditure	0.9%	10.1%

(ii) Availability of data for monitoring the stock of expenditure payment arrears

Government of Tanzania monitors accumulation of payment arrears through quarterly reports compiled by the Accountant General on outstanding payment liabilities submitted by MDAs and Regions (RAS). However, local government authorities are presently outside the scope of this process. Hence, there is no reliable data at the Central Government level on payment arrears of the LGAs.

In February, 2014, the Ministry of Finance and Economic Affairs initiated “Public Expenditure Review (PER) Study on the Prevention and Management of Payment Arrears” to identify the causes of and recommend measures to prevent future arrears. The Study covered six RAS and seventeen LGAs¹⁹. With respect to recording of arrears, the key findings for LGAs were²⁰:

- There were difficulties in accessing data from the entities surveyed. Some entities did not even have a list of payment arrears but prepared them after the survey teams had commenced the audit.
- The aging profile was a weak link in the reporting process as the ‘overdue period’ was not being recorded by the entities on a consistent basis. In cases where these have been recorded, most were more than 90 days old.
- The reported figures did not appear to be reliable in terms of coverage and classification as only in case of 50% of entities, the summary totals for arrears reported agreed with the survey results.

As per new guidelines, accounting officers have now been directed to submit information of payment arrears first to the Chief Internal Auditor of the Local Government Authority who verifies the same on a monthly basis. The Auditor is then required to submit the signed report of arrears to the Internal Auditor General on or before the 10th of the following month. On receiving the verified arrears from LGAs, the Internal Auditor General verifies them on his behalf and submit the final arrears report to the Accountant General in the mid of the following quarter. After this process, the Accountant General compiles and consolidates for submission to IMF.

Table 23: Summary rating for PI-4

Indicator	Rating	Brief explanation
PI-4 Stock and monitoring of expenditure payment arrears	D	
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal	D	Arrears contributed to 10.1% of the total expenditure in 2013-14. The total payables in 2011-12 was 0.1%. This points towards substantial increase in arrears in 2013-14.

¹⁹Three common LGAs were covered by the PER Study and this assessment, namely Kasulu DC, Sengerema DC and Mwanza CC

²⁰ Source: Final Report of the Study dated November 2014

year) and any recent change in the stock

(ii)	Availability of data for monitoring the stock of expenditure payment arrears	D	There is no reliable data on stock of arrears from the last two years.
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5.3. Key Cross-Cutting Issues: Comprehensiveness and Transparency

PI-5 Classification of the budget

The Central Government (Mainland Tanzania) migrated to the classification as per the 2001 Government Finance Statistics (GFS) Manual in its budget for 2009-10. For those MDAs, regions and LGAs still using the classification as per the 1986 GFS manual, bridge tables are prepared for converting accounts to the classification as per the 2001 GFS manual.

The budget for Bunda DC is presented following an administrative, economic and project wise classification. There is no clear evidence for functional classification of budget in line with COFOG (or at least 10 main COFOG functions). Administrative classification is presented as cost center at 4 digit level. Economic classification is at the six digit level.

We note that there are no specific stipulations for coding/classification in line with the GFS either in the Local Authorities Accounting manual (LAAM) or in the Local Government Financial Memorandum (LGFm). However, local government annual budgets are prepared as per the annual planning and budgeting guidelines issued by the Ministry of Finance. As per these guidelines issued for 2013-14, the plan and budget committees in the LGAs are responsible for ensuring that activities are accounted for in accordance with the classification of the GFS manual 2001.

As per PMO-RALG, two kinds of chart of accounts are prepared, (i) main chart of account (ii) warrant to Cost Centre. The main chart of account consists of eight segments complying fully with classification in the 2001 GFS manual, as given in Table 24.

The main chart of accounts extends to 28 digits. The linkages flow from region (vote) to council (sub-vote) to objectives to targets to activities and to costs of these activities on a detailed line item basis. The chart of accounts coding structure is provided in Table 24. The warrant to cost centers has four segments - (i) GFS account code, (ii) vote (iii) council codes, and (iv) cost centers.

Table 24: Chart of accounts

S. No.	Code	No. of digits	Type	Example
1	Vote	2	Vote	Represents the region. For example Vote No. 77 stands for Mara region
2	Council	4	Council	Each council has its own code. e.g. 3033-Bunda DC

S. No.	Code	No. of digits	Type	Example
3	Cost center	4	Cost center	Represents sector/department, for example 500A stands for General Administration
4	Fund Type	1	Fund Type	Denotes nature of grants/ expenditure, e.g. 1 stands for recurrent and 2 for development
5	Fund Source	1	Fund Source	Classifies the source of funding, e.g. block grants, LGCDG, RWSSP
6	Project	4	Project	Stands for national projects, e.g. road rehabilitation, construction of irrigation schemes
7	Activity	6	Activity	Generated for each target in MTEF for which inputs are identified. Depicted as a combination of objective, target, target type and activity, e.g. B01S03
8	GFS	6	GFS Codes	Represents Government Finance Statistic (GFS) Codes, e.g. 210101-salaries/civil servant

Source: PMO-RALG

As per the CAG management letter for 2013-14, there are instances of wrong booking of expenditure under GFS codes. For example, nearly TZS 9.5 million was charged to wrong GFS codes. Incorrect booking of expenditure distorts the information necessary for planning and reporting related to expenditure management.

Current and planned activities:

With assistance from IMF, the GoT has prepared a road map for the introduction of formal programme based budgeting within the medium term framework. This will require significant simplifications of the budget classification system so that programme managers have the flexibility to manage their inputs effectively to meet the programme objectives.²¹

Table 25: Summary rating for PI-5

Indicator	Rating	Brief explanation
PI-5 Classification of the budget	C	

²¹ PEFA (National) 2013

Indicator	Rating	Brief explanation
(i) The classification system used for formulation, execution and reporting of the local government's budget.	C	LGAs prepare budgets based on the classification in the 2001 GFS manual. A roadmap for introduction of formal programme based budgeting has been prepared. However, there is no clear evidence of functional classification in line with COFOG.

PI-6 Comprehensiveness of information included in budget documentation

Annual budget documents presented to the Legislature ('Full Council' in case of Local Government Authorities) should include sufficient information on the financial health of the government, its forecast for the future, the assumptions used for forecasting. This is essential both from a transparency as well as accountability perspective.

The assessment of Bunda DC is based on the budget presented to the Full Council for the financial year 2014-15.

Guidelines for preparation of budget estimates were issued by the Ministry of Finance, Government of Tanzania. Based on these instructions, the DC submitted a consolidated budget book named "Medium Term Expenditure Framework and Budget for 2014-15" to the Full Council. The document can be divided into three sections (i) Introduction (Environmental Scan), (ii) Budget performance review for FY 2012-13 and Mid-Year Review for 2013-14, (iii) Estimates for MTEF (2014-15 to 2016-17).

The first section "Introduction" provides an overview of the council and policy statements by the District Council Chairman and Council Director. The section also provides a brief profile of the Bunda DC.

The second section, "Environmental Scan" provides an analysis of needs and expectations of various stakeholders from the budget. The stakeholders include Bunda DC employees, residents of Bunda District, lower level government authorities of Bunda DC, Bunda Regional Secretariat, Development partners, Political parties, and NGOs/CBOs. The Council also conducts a SWOC analysis (Strength, Weaknesses, Opportunities and Challenges) analysis related to the general environment of the district. The section also explains the key issues faced by the district. This is followed by an analysis of Opportunities and Obstacles to Development (O&OD) dealing with poverty and socio-economic status.

The third section on "Budget performance review" outlines the fiscal performance of the city as well as the achievement of physical targets in the preceding completed year (2012-13). It also provides a mid-year performance review in the current financial year (2013-14) till December. The comparison between budgeted and the actual performance is provided at an aggregate level. Performance against the physical targets is also provided. The council also states key challenges in implementing the plan for the ongoing financial year and strategies for overcoming them.

The fourth section "Estimates for MTEF" provides the projected revenues and expenditure for three years 2014-15, 2015-16, and 2016-17 at a detailed level. In 2014-15, MTEF document there are 17 forms outlining different information on revenue and expenditure. Table 26 provides assessment on each of the required information benchmarks.

The budget documentation evaluated under this indicator includes the consolidated budget book which was presented to the Full Council for 2014-15.

Table 26: Information provided in budget documentation

S. No.	Dimension	Availability	Notes
1.	Macroeconomic assumptions: including at least estimates of aggregate growth, inflation and exchange rate;	NA	Macroeconomic assumptions, economic growth, exchange rate and inflation are included in the Central Government budget documentation and are hence, not applicable at the LGA level.
2.	Fiscal deficit: defined according to GFS or other internationally recognized standard;	NA	Given the high dependence of LGAs on transfers from the Central Government and in the absence of reliable information from MoF/ PMO-RALG on expected transfers during the year, LGAs are not in a position to accurately estimate financing gaps and the consequent need for raising borrowings for the ensuing/ current financial year. Consequently, this dimension is not applicable to LGAs.
3.	Deficit financing: describing anticipated composition;	NA	Given the non-applicability of the previous dimension on fiscal deficit, this dimension is also not applicable.
4.	Debt stock: including details at least for beginning of the current year	No	Bunda DC did have an outstanding debt at the beginning of the financial year 2013-14. However, there were no details on the debt stock included in the consolidated budget book.
5.	Financial assets: including details at least for the beginning of the current year;	No	Information on the stock of LGA's financial assets (such as bank balances) is not provided in the budget for FY2014-15.
6.	Prior year's budget out-turn: presented in the same format as the budget proposal;	Yes	Prior year's budget outturn is provided at an aggregate level and for specific items of expenditure in the consolidated budget book. These include items such as recurrent expenditure on local government block grant, HSBF, and recurrent revenue collections.

S. No.	Dimension	Availability	Notes
7.	Current year's budget out-turn: presented in the same format as the budget proposal;	Partially complied	Budget guidelines require LGAs to present actual performance for first half of current year's budget and likely outturn for remaining part. In case of Bunda District Council, performance up to December of the current financial year is provided with no forecasts for the remaining year.
8.	Summarised budget data: for both revenue and expenditure according to the main headings, including data for the current and previous year;	Partially complied	Summarized budget data for both revenue and expenditure as per the main headings is provided for the prior year. But in case of current year, information is provided only till December.
9.	Explanation of budget implication of new initiatives: with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	No	The budget document does not provide any statement/section listing down new policy initiatives in ensuing financial year and their budgetary implications. The policy statement by the Council Chairman outlines the broad development goals of the council in the medium term and specific goals for the ensuing budget. The statement by the Council Director also mentions focus areas for the ensuing budget. However, the expected budgetary implications of these are not articulated.

Table 27: Summary of rating under PI-6

Indicator	Rating	Brief explanation
PI-6 Comprehensiveness of information included in budget documentation		
(i) Share of the above listed information in the budget documentation most recently used by the local government	C	Of the six benchmarks applicable to Bunda DC, one is provided in the budget documentation.

PI-7 Extent of unreported government operations

(i) Level of extra-budgetary expenditure (other than donor-funded project), which is unreported, i.e. not included in fiscal reports

The purpose of this indicator is to assess whether there are any extra budgetary operations and if so the extent to which they are not included in fiscal reports.

The assessment team ascertained that specific drugs are being supplied by the Medical Store Department, Government of Tanzania directly to hospitals/health centers. These transfers are accounted in the financial statement.

The Ministry of Water, United Republic of Tanzania has entered into a Memorandum of Understanding with the Bunda District Council to implement the Lake Victoria Environmental Management Project (LVEMP) - Phase II. The Ministry of Water receives funding for the Project from International Development Association, no direct donor funds are provided to the Bunda DC. Therefore, in line with sub-national guidelines, such support is being discussed under this dimension. As per our discussion with the LGA, the estimates on funds received in 2013-14 are prepared. In 2013-14, nearly TZS 85.13 million was received under LVEMP-II. Although information on such funding is available with the LGA, these are not included in any of the fiscal reports.

Under various projects, the community contribution is also provided. As per the discussions with the Council, the community contributions ranges from 10% to 20% of the project costs. These expenditure are not included in the MTEF book.

Table 28: Extra budgetary expenditure for Bunda DC

Category	Reported in			Meets eligibility for extra-budgetary expenditure	Expenditure, 2013-14 (TZS million)	As % of LGA's total expenditure, 2013-14
	MTEF 2013-14	AFS 2013-14	QFR, 2013-14			
Drugs/ Equipment from MSD	No	Yes	No	Yes	112.454	0.33%
LVEMP	No	No	No	Yes	85.14	0.25%
Community Contribution	No	No	No	Yes	501 ²²	1.5%

(ii) Income/expenditure information on donor-funded projects included in the fiscal reports

As per feedback obtained during our discussion, all donor funded projects expenditure (cash) is routed through the central government's budget till the time of assessment.

PMO-RALG, Ministry of Education and Vocational Training, United Republic of Tanzania has signed a Memorandum of Understanding with Project Concern International (a non-governmental organisation) to implement "Food for Education" grant. There are no contractual obligations on the Bunda District Council. All in-kind support is provided to the selected schools directly by Project

²² The assessor has been informed that community contributions contributed 10%-20% of the project cost. Given the non-availability of actual expenditure, 15% of the development expenditure (project cost) has been assumed as community contributions.

Concern International. These include rice, beans, cooking oil, and sorghum in schools to improve access and quality of education in United Republic of Tanzania. In line with the clarification 7-j of the PEFA field guide, the Bunda District Council cannot be held accountable for such support. Therefore in line with the sub-national guidelines issued for PEFA Assessment, this dimension therefore is not applicable to Bunda DC.

Table 29: Summary of rating under PI-7

Indicator	Rating	Brief explanation
PI-7 Extent of unreported government operations	B	
(i) Level of extra-budgetary expenditure (other than donor-funded project), which is unreported, i.e. not included in fiscal reports	B	Contributions under Drugs, Community Contributions and the LVEMP constitute less than 5% but more than 1% of total expenditure in 2013-14.
(ii) Income/expenditure information on donor-funded projects included in the fiscal reports	NA	All donor funds are routed through the central budget and no direct donor funding is provided.

PI-8 Transparency of inter-governmental fiscal relations

This indicator assesses the transparency of transfers from local governments to lower levels of government (i.e., wards) during the last completed financial year 2013-14. As per MTEF 2013-14, Bunda DC comprises of four divisions, 28 wards, 106 villages and 38 Mitaa which constitute Bunda Township, and 537 sub villages.

Majority of the expenditure at the lower level government is financed by transfers from the LGA or some in-kind transfers (such as drug supplies) from the Central Government. The council in turn finances its expenditure through own sources of revenue as well as grants from the Central Government.

(i) Transparent and rules based systems in the horizontal allocation among lower levels of governments of unconditional and conditional transfers from local government (both budgeted and actual allocations)

Table 30 shows projects under which transfers were made to LLG in 2013-14 and corresponding criteria:

Table 30: Funds transfer to lower levels of governments and criteria, TZS million

S. No.	Transfer item	Purpose	Rationale for transfer
1.	Health Sector Basket Fund (HSBF)	Renovation of health facilities, procurement of medicines and administrative cost for health facilities	Transfers to health centers are determined through local participatory planning and budgetary processes. A significant portion of these funds are retained at the LGA level.
2.	Road Fund	Construction and maintenance of roads	Construction and maintenance of feeder roads.
3.	Primary Education Development Programme (PEDP) and Secondary Education Development Programme (SEDP)	Funds for overall development of primary and secondary education	Capitation grant: 100% distributed across units by equal amount for each student in primary schools. Construction of classes, toilets, and staff offices: Not all procurement is done at the LGA level.
4.	Capital Development Grants (CDG)		50% of the transfers are to be spent at the council level and 50% to be transferred to lower level governments. Distribution across LLGs is through local participatory planning and budgetary processes
5.	National Rural Water Supply and Sanitation Programme (NRWSSP)	Construction of water systems	100% utilization at the council level
6.	Agriculture Sector Development Programme (ASDP)	For Agriculture development	Funds are transferred only to communities. And these transfers are based on the budget/plan submitted by these communities. At the council, expenses include supervision cost, and in some cases procurement of goods.
7.	Medical Store Department (MSD)	Supply of drugs and medicines to health facility from the MSD at the central level	Transfers of drugs and medicines to the health facilities are made from MSD but selection of facility and quantum of supplies is decided by the Council.

S. No.	Transfer item	Purpose	Rationale for transfer
8.	District Agricultural Sector Investment Project (DASIP)	For increasing productivity and incomes of rural households in the project areas	Transfers to Village Councils determined through local participatory planning and budgetary processes
9.	National Multi-Sectoral Strategic Framework (NMSF), Tanzania Commission for AIDS (TACAIDS)	Fight against AIDS and HIV	Direct transfer to villages as per priorities listed in the MTEF.
10.	Other Charges (OC)	Operational cost	<ol style="list-style-type: none"> 1. General Purpose Grants from the Central Government- 20% of funds received are transferred in equal proportion to all LLGs 2. 20% of LGA's own source revenue is transferred based on budget proposals submitted by LLGs

Based on our discussions, we understand that except for few items such as the General Purpose Grant and the capitation grants for primary and secondary education, in general, all the balance resource flows to the LLGs depend on local assessments at the LGA level and are matters of prioritization and negotiation. Therefore even where formula/rule based systems exist in theory, they are not implemented in practice.

Moreover, as Table 12 shows, there is a variation of more 16% in the budgeted and actual development grants received by the LGA during 2013-14. Discussions with PMO-RALG reveal that there is no guidance for revising allocations across LLGs in case of shortfall in grants received from the Central Government. Consequently, re-allocation of programme grants across LLGs when actual funds received from the Central Government are less than budgeted estimates is not transparent.

Personnel emoluments are transferred based on the payroll maintained centrally and therefore, do not affect the rating of the LGA under this dimension.

(ii) Timelines of reliable information to lower levels of governments on their allocation from local government authorities for the coming year

As per discussions with Bunda DC officials, lower level governments (i.e., village authorities) start preparing their annual budget proposals in September for the next financial year. These proposals go through various levels of approval and reach the concerned Local Government Authority in December- January. The budget of the LGA is approved by Full Council in February and is subsequently submitted to the Central Government.

In the last completed financial year (2013-14), indicative planned figures were shared with the wards in the month September based on the ceilings for the preceding financial year. However, the indicative ceilings from the Central Government for select expenditure heads were received only in the month of February and actual approved transfers from the Central Government were only finalized by June.

It is to be noted that while LGAs do submit their cash flow plan at the beginning of the financial year, Central Government transfers are based only on the availability of resources. During the financial year, no advance notification is given to LGAs on actual transfers. Given the uncertainties in funds flows from the Central Government which impact transfers made by LGAs to LLGs, reliable information on transfers cannot be made available to LLGs even after the start of the financial year.

(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories

All transfers made by the LGA to LLGs are treated as expenditure in the District Council's accounts. However, all villages submit financial reports recording revenue received expenditure incurred to the District Council on a quarterly basis. These reports do not contain information on budget versus actuals and do not conform to the GFS classification adopted by the LGA.

In addition to these financial reports, village councils are also required to report on bank balances at the end of the financial year which are consolidated into the LGA accounts as cash and cash equivalents.

Table 31: Summary of rating under PI-8

Indicator	Rating	Brief explanation
PI-8 Transparency of inter-governmental fiscal relations	D	
(i)	D	Though there are / rule based principles for allocation of grants in theory, in the absence of a firm evidence for actual basis of allocations in the context of the funding uncertainties and non or partial availability of details of budgeted and actual transfer of funds to the LLGs, transfers on the whole do not appear to be determined based on transparent and rule based systems (with the exception of GPG and capitation grants).
(ii)	D	No ceilings/reliable estimates on allocations are provided ahead of finalization of budget proposals. During budget implementation as well, no advance information is provided to LLGs on expected transfer of funds.
(iii)	D	Fiscal information that is consistent with LGA fiscal reporting is not collected from LLGs.

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

(i) Extent of local government monitoring of autonomous government agencies and public enterprises

In May 2007, a Memorandum of Understanding (MoU) was signed among Ministry of Water, Bunda District Council and Bunda Urban Water Supply Authority (BUWSA). As per the discussion, the Authority is the only entity from which the LGA faces potential fiscal risks. The Memorandum

provides for BUWASA, the authority responsible for water services in urban areas, to submit the audited annual accounts to the Council before 31st of December every year.

The Memorandum also requires the Authority to submit reports on a weekly, monthly, quarterly and annually basis. The reports, inter alia, provides details on total revenue, total expenditure, and various other performance indicators. As per the discussion with the Council, the Authority submits quarterly collections and expenditure report with the Council.

As per the Memorandum, it is the responsibility of the Council to evaluate the performance of the Board and report the results to the Ministry and take necessary measures. The District Executive Director of the Council is also the board member in the BUWSA. Being a board member, the DED monitors the financial management in the Authority.

The Council is required to provide funds by way of subvention to the Authority which may be necessary for the performance of its functions. As per the discussion with the LGA, the Council pays off all electricity bills of the Authority annually. The MoU also states that all major expansions and rehabilitation of the Authority is the responsibility of the Council. However, in case the required cost is beyond the control of the Council, it may request for funds to the Central Government. As per our discussion with the LGA, it had paid TZS 25 million to the Authority for establishment of water systems in the hospitals.

Since the MoU requires the Council to provide financial support to the Authority in case it is unable to discharge its functions, there are fiscal risks to the Council. Although BUWSA submits fiscal reports on a regular basis, there is no clear evidence of any consolidation of fiscal risks from BUWSA.

As per the discussion with Bunda DC, the financial support provided by the Council to the BUWSA is due to non-predictable nature of central government transfers to the Authority. It was also informed that with the construction of new water project, the revenue generation capacity of the Authority is expected to improve which should reduce the financial dependency on the district council.

(ii) Extent of local government monitoring of lower levels of governments’ fiscal position

As per the Local Government Finance Act 1982, village councils are allowed to borrow from lending institutions or any other source. The Act also permits accounts of the village council to be audited by such public officer or organizations as the District Council may direct in writing. However, all LLGs are substantially dependent on fund transfers from the LGA/ Central Government. As per discussions with DC officials, it is understood that there is no independent borrowing done by any of the LLGs in the District.

Minutes of village council meetings forwarded to the District Council on a quarterly basis document include details on the receivables and payables of LLGs. At the end of the financial years, annual accounts of the LLG are submitted to the DC for consolidation in the Council’s Annual Financial Statement.

However, the AFS of the LGAs does not contain a separate statement on revenue and expenditure of the LLGs nor a consolidated overview of the fiscal risks of LLGs

Table 32: Summary of rating under PI-9

Indicator	Rating	Brief explanation
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PI-9 Oversight of aggregate fiscal risk from other public sector entities		C
(i)	Extent of local government monitoring of autonomous government agencies and public enterprises	C As per the MoU, the Council is required to provide financial support to the Water Authority. The Council pays electricity bills of the Authority on an annual basis. The Authority submits fiscal reports on a quarterly as well as annually basis, but there is no consolidation of fiscal risks to the LGA from the Authority.
(ii)	Extent of local government monitoring of lower levels of governments' fiscal position	C On a quarterly basis, meeting minutes capturing details on revenue and expenditure of the LLGs are submitted to the concerned LGAs. Information on receivables and payables of LLGs is also included in these minutes. Additionally, on an annual basis, LLG accounts are submitted to the LGAs for consolidation. However, the AFS of the LGAs does not contain a separate statement on revenue and expenditure of the LLGs nor a consolidated overview of the fiscal risks of LLGs.

PI-10 Public access to key fiscal information

- (i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met).**

The indicator assesses the extent to which relevant information on local government’s financial health, its operations are available to the public. This is critical since LGA utilizes public money to spend on specific activities and the general public should be informed on where the money is being spent and its efficiency in this process.

It should be noted that the key objective of the indicator is to assess whether “**quality**” fiscal information is available to relevant interest groups through “**appropriate**” means. “Quality” implies that the language, structure, layout, should be user friendly and summary should be provided in case of large documents. On the other hand, “**appropriate means**” implies depending on the nature of document and characteristic of the relevant interest or user group, suitable mode of communication should be adopted.

Bunda DC has its own website (<http://bundadc.go.tz/index.php>). In Table 33 we assess performance of Bunda DC as regards information dissemination.

Table 33: Public access to key fiscal information

S. No.	Item	Available	Notes
1.	Annual budget documentation submitted to council	Yes	Summary of the budget by village and ward is put up on the notice board of the district council.
2.	In-year budget execution reports within one month of completion	No	Quarterly revenue and expenditure information are prepared and discussed in council meeting which include community members. However, these reports are not put up on the notice board.
3.	Year-end financial statements within six months of completed audit	Yes	In the last completed financial year (2013-14), the audited financial statement for 2012-13 was issued in March 2014 and was published in "Daily News" newspaper on 29 th July 2014.
4.	External audit reports within six months of completed audit	Yes	In the last completed financial year (2013-14), the CAG audit report for 2012-13 was issued in March 2014 and was published in "Daily News" newspaper on 29 th July 2014.
5.	Contract awards with value above approx. TZS 50 million at least quarterly	Yes	As per discussion, it is understood that summary of all contract awards are published in weekly journal on Public Procurement Regulatory Authority Website.
6.	Resources available to primary service units	Yes	The team was informed that the summary of transfers to facilities is displayed outside the facility and the district council office.
7.	Fees, charges and taxes	No	We were informed that council bye-laws are available with the district treasurer which can be accessed by general public but are not explicitly published on the notice board.
8.	Service provided to communities	No	Information on services provided to communities could not be found on the District Council's notice board.

Table 34: Summary of rating under PI-10

Indicator	Rating	Brief explanation
PI-10 Public access to key fiscal information	B	
(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the	B	Out of the eight applicable criterion, five items are available for public access.

assessment, the full specification of the information benchmark must be met)

5.4. Budget Cycle

5.4.1. Policy-Based Budgeting

PI-11 Orderliness and participation in the annual budget process

Assessment under this indicator has been done for the last approved budget available at the time of assessment, i.e. for the financial year 2014-15.

(i) Existence of and adherence to a fixed budget calendar

There is no separate budget calendar of LGAs and the timetable is determined by the Central Government. Therefore, adherence to the budget calendar is not only dependent on the LGA's budgeting process but also on the quality of budget calendar issued by the Central Government.

The Central Government's budget calendar for 2014-15 (included in the Central Government's budget circular) provided various activities to be followed in budget preparation process along with timelines and the key organisations/entities responsible for such activities. Therefore, the Central Government's budget calendar is clear. However, there has been delay in execution of the Budget Calendar at the Central Government level. For example, as per the Budget Calendar by 7th of January, 2014, MDAs, Regional Secretariats and LGAs should get budget ceilings for the financial year 2014-15. However, the budget ceilings were received on 27th of February, 2014. The Central Government has changed the timelines for various activities specified in the budget calendar during the budget preparation period. As per the Central Government's notification, the LGA was required to submit the budget to Ministry of Finance on or before 20th of February, 2014 (instead of 08- 28 January) for discussion on 27th of February, 2015 (instead of 29th January to 11th February). The budget was submitted to the Ministry of Finance for review on 18th February, 2014.

Table 35: Relevant sections of the budget calendar as per budget guidelines 2014-15

Date as per the calendar	Main Activity	Key Actors	Actual Date of receipt by Bunda DC
August-October, 2013	Preparation of plan and budget guidelines	Ministry of Finance (MOF), PO-PC	-
November-December, 2013	Circulation of guideline to ministries, regional and local government authorities (LGAs)	Ministry of Finance (MoF), President's Office – Planning Commission (PO-PC)	14 th of November, 2013
07 th of January, 2014	MDAs, RS and LGAs to get budget ceilings for the fiscal year 2014-15	MoF	27 th February 2014
08 th -28 th of January, 2014	MDAs, RS and LGAs preparing and submitting to the Ministry of Finance and Planning Commission (non-tax revenue, recurrent and development expenditure) for fiscal year 2014/15	LGAs, MDAs, RS	12 th December, 2013 to PMO-RALG and 18 th February, 2014 to MOF
29 th of January-11 th of February, 2014	Analysis of the budget of the MDAs, RS, LGAs and incorporate budgetary figures in the IFMS (computerized system)	MoF, PO-PC, RS, LGAs MDAs	27 th February 2014 And revised estimates submitted on 10 th March 2014

Though the budget calendar for 2014-15 was received by the District Council only on 14th November 2013, instructions to LLGs for initiation of preparation of budget proposals were issued on 15th July 2013 by the Bunda DC so as to ensure timely completion of budget review and negotiation processes at the LGA level.

As can be seen from Table 35, there were delays across milestones specified in the budget calendar. Moreover, it is understood from discussions with DC officials that ceilings for the development budget were communicated to the LGA only during the budget scrutinization meetings (27th February 2014) held by MoF, rendering the entire budget preparation process ad hoc.

(ii) Guidance on the preparation of budget submissions

Budget proposals from villages and wards undergo several rounds of revisions before finally being presented to the Full Council for submission to MoF. The village councils first submit their proposals to the Ward Development Committees (WDC) for review and approval. These are then forwarded to the respective line departments at the district level by the district planning and logistics officer (DPLO). Once reviewed by the line departments, the budget estimates are presented to respective Standing Committees who have the authority to revise estimates in line with district priorities and the expected budget ceilings from MoF. Post finalization by the Standing Committees, the estimates are finally presented to the Full Council and subsequent to approval are sent to the Regional Consultative Committee (RCC) for checking for adherence to regional priorities for spending. Only after the review by RCC the budget estimates are submitted to MoF and PMO-RALG. At each stage of approval/

review, revisions made to allocations may not always be communicated/ discussed with concerned village councils/wards/line departments.

The Central Government transfers constitute significant portion of the total revenues of the LGA. Therefore, the LGA's ability to issue ceilings to the spending units is highly constrained. The Guidelines (budget circular) issued by the Central Government to the LGA for 2014-15 did not contain any ceilings for 2014-15. Only through a separate notification, ceilings were provided on 27th of February, 2014 (for various items such as capitation grants for primary and secondary schools, allocated budget for school meals) as compared with required timeline of 7th of January, 2014 stated in the Budget Calendar. Additionally, the Bunda DC's budget for 2014-15 was approved by 7th of January, 2014. Therefore, information on ceilings were not incorporated while the budget was submitted to the full council for approval.

Hence, LGA's guidelines issued to wards and village councils for preparation of budget proposals for 2014-15, in line with the O&OD methodology, did not contain indicative fresh budgetary ceilings for administrative units or functional areas. As per our discussions with the Bunda District Council officials, in the absence of ceilings for the ensuing financial year, the Departments were advised to prepare the budget proposal based on previous year ceilings. It should be noted that LGA also transfers money from own sources on which no ceilings are provided to the spending units.

(iii) Timely budget approval by the legislature

As discussed above, the annual budget is approved first by the Full Council for submission to PMO-RALG. Once discussed and reviewed by PMO-RALG and MoF, it is presented to the Parliament for final approval. Table 36 shows relevant dates for approval of the budget.

Table 36: Final budget approval dates

Year	Date of approval by council	Date of approval of budget by the national assembly
2012-13	5 th of June, 2012	14 th June 2012
2013-14	07 th of February, 2013	12 th June 2013
2014-15	7 th of January, 2014	13 th June 2014

Table 37: Summary of rating under PI-11

Indicator	Rating	Brief explanation
PI-11 Orderliness and participation in the annual budget process	C+	
(i) Existence of and adherence to a fixed budget calendar	C	LGAs do not prepare/issue separate budget calendars. They adhere to and disseminate the budget calendar issued by MoF to their spending departments and LLGs. For the last approved budget, i.e. 2014-15, there were delays across the various milestones as shown in Table 35. Crucial information was

			disseminated in an ad-hoc manner, e.g. budget ceilings were issued only during the scrutinization meeting.
(ii)	Guidance on the preparation of budget submissions	D	While Bunda DC does issue guidelines to spending units, these do not contain fresh budget ceilings for administrative units or functional areas for the ensuing financial year. It is noted that the budget was approved by the full council before the receipt of the budget ceilings by the LGA from the Central Government.
(iii)	Timely budget approval by the legislature	A	The budget in the last three years was approved before the start of the financial year.

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

(i) Preparation of multi -year fiscal forecasts and functional allocations;

As mentioned before, the transfers from the Central Government to Bunda DC constituted a significant portion of total expenditure. The credibility of fiscal forecasts is crucially dependent on the forecasts of resources shared by the Central Government.

The budget guidelines for the last two completed financial years (2012-13 and 2013-14) provides for all accounting officers (including LGAs) to prepare the budget proposals with the medium term perspective. The revenue and expenditure estimates are required to be prepared for the period of three years (including the budgeting year). The estimates are to be prepared in line with the macroeconomic outlook, priority focus, and resource envelope on a medium term basis. The relevant macroeconomic variables at the LGA level (such as inflation rate) are not provided in the budget documents. It is not clear if such forecasts are prepared and used for projecting the expenditure on a medium term basis. Annex A of the budget guideline issued by the Central Government includes a “Budget Frame” which provides projected resources availability and spending limits for next three years.

Bunda DC in line with the budget guidelines prepares revenue and expenditure estimates for the next three years. These forecasts are prepared as per the classification prescribed under GFS Manual 2001. As per the Bunda District Council, the forecasts for two years following the budgeting year are prepared without any scientific analysis of development priorities and resource availability. Rather, the forecasts are only an extrapolation of budgeting year figures. The forecasts are prepared using the “Planrep” software which has an in-built mechanism of generating expenditure forecasts for two years following the budget year. As per the Department of Planning of Ministry of Finance, LGAs do not consider medium term estimates seriously and these are provided only for meeting budget guidelines requirements.

(ii) Scope and frequency of debt sustainability analysis

Table 38 shows debt for Bunda DC in the last three years. In 2011-12 and 2012-13, Bunda District Council didn't have any outstanding debt. In 2013-14, the Council had an outstanding debt of TZS 26 million. There is no evidence of any debt sustainability analysis conducted by the LGA.

Table 38: Debt, 2011-12 to 2013-14, TZS million

	2011-12	2012-13	2013-14
Debt	0	0	26
Short-term borrowing	0	0	0
Long-term borrowing	0	0	26

Source: Audited Annual Financial Statement, 2011-12, 2012-13, 2013-14

(iii) Existence of costed sector strategies

The District Council has a five year development plan (2011-12 to 2015-16) and a strategic plan (2011-12 to 2015-16) taking into consideration the Tanzania Development Vision 2025. The Strategic Plan provides sectoral objectives, strategies, quantifiable targets, associated sub-vote and key performance indicators. There are no cost estimates in the strategic plan. On the other hand, the five year development plan comprises of a Long Term Perspective Framework Plan (LTPFP) classified across various sectors. In each sector, the Framework includes various key result areas, their objectives, associated quantifiable targets, performance indicators and assumptions/risks. The five year development plan also provides the annual cost estimates for various sectors but the classification is different from the LTPFP. There is no clear linkage between strategies specified in LTPFP and the cost estimates. For example, cost estimates for participatory forest management are provided, but there are no details on expected use of such funds in the LTPFP. Further, these cost estimates are not broken down by neither each activity/objective in LTPFP nor recurrent and investment expenditure.

(iv) Linkages between investment budgets and forward expenditure estimates

In case of Tanzania, nearly all investment expenditures are financed by the Central Government either through its own funds or through donor support. Apart from the investment budget support, the Central Government also finances operation and maintenance and salary related expenditure.

In this dimension only investments under the control of the LGA are to be considered. Local Government Authorities are required to allocate nearly 60% of the own source revenues to the Development Budget. Forward estimates of expenditure are prepared only through extrapolation of the budget for the ensuing financial year. Therefore, recurrent cost implications of the investments budgeted in the ensuing financial year is not considered in the forward budget estimates for the sector.

Table 39: Summary of rating under PI-12

Indicator	Rating	Brief explanation
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	

Indicator	Rating	Brief explanation
(i) Preparation of multi - year fiscal forecasts and functional allocations	C	Forecasts of all line items are prepared as per GFS classification on a rolling basis for three years. However, there are no links between multi-year estimates and subsequent setting of annual budget ceilings.
(ii) Scope and frequency of debt sustainability analysis	D	Bunda had an outstanding debt of TZS 26 million in 2013-14. There is no evidence of any debt sustainability analysis either in the financial statements or as a part of any separate document.
(iii) Existence of costed sector strategies	D	There is a strategic plan as well as a five year development plan reflecting the development priorities of the LGA. The five year development plan has cost estimates for various sectors but are not linked to long term perspective framework plan.
(iv) Linkages between investment budgets and forward expenditure estimates	D	Forward budget estimates are not prepared through any scientific analysis. There are no linkages between investment budgets and forward budget estimates.

5.4.2. Predictability and Control in Budget Execution

As per the sub-national guidelines for PEFA assessment, performance indicators (13-15) are applicable to entities which raise revenue through taxes or other forms of revenue similar to taxes as per IMF GFS (2001) manual. As per para 5.2 of the GFS Manual 2001, tax revenue is composed of compulsory transfers to the General Government sector. Certain compulsory transfers, such as fines, penalties, and most social security contributions, are excluded from tax revenue.

Table 40: Rationale for identification of Tax revenues

S. No.	Revenue item	Included/excluded as “Tax Revenue”	Rationale
1.	Forest produce levy	Not included	This levy is collected by the Central Government and later shared with the LGAs. As per the sub-national guidelines for PEFA, revenues collected by the Central Government and shared with sub-national government, is not to be included in analysis. As per the article 77 of the Forest Act 2002, the minister responsible for forest is authorized to determine and thereafter prescribe the services and permits for which fees shall be charged by forest managers and their corresponding charge rates.

S. No.	Revenue item	Included/excluded as "Tax Revenue"	Rationale
			<p>As per the article 7 (1) r of the Local Government Finance Act, revenue of the district council includes , inter alia, all moneys derived from fees for forest produce and licenses accruing to the district council under section 10 of the Forest Act.</p> <p>Therefore, the forest produce levy is part of council's revenue but is collected by the Central Government. The rate, structure is decided by the Central Government. Although GFS manual does not outline this situation, but using the spirit it can be inferred that the forest produce levy is not a tax levied by the LGA but by a central law and therefore not to be considered as tax revenue.</p>
2.	Property tax	Included	As per para 5.40 Property taxes are charged as a percentage of the value of the immovable properties which include buildings and other structures.
3.	Fines and penalties	Not included	As per para 5.103 the GFS 2001, fines, penalties are part of the other revenues and should not be included in tax revenue.
4.	Produce cess	Included	As per para 5.48 of the GFS manual, tax revenue includes taxes charged on <i>production</i> , leasing, delivery, sale, purchase, or other change of ownership of a wide range of goods and the rendering of a wide range of services. Produce cess is a levy on agriculture produce. There are various kinds of produce cesses. These include cess for (i) Beans, (ii) Tobacco (iii) Maize (iv) Coffee, (v) ocean produce and (vi) other produce.
5.	Land rent	Not included	Based on our discussion, the council is entitled for 30% of the collected amount as commission for collecting the rent. Hence, it is in the nature of a transfer of resources for the council and not in the nature of tax revenue.
6.	Business licenses, Permit fees for billboards, posters or hoarding, environmental protection charges, Market Fees, Tender	Not Included	As per para 5.99, GFS manual 2001, if the license fees are such that license is granted automatically after payments then the receipts shall be termed as administration fees only.

S. No.	Revenue item	Included/excluded as "Tax Revenue"	Rationale
	fees, building permit fees, parking fees, plot application fees, sale of bid documents, Livestock market fees, slaughter house charges, rent of council houses, communication towers fees		
7.	Hotel levy	Not included	Given that hotel/ guest house levy has recently been abolished, it has not been included under the assessment for PI 13-15.
8.	Service levy	Included	Unlike forest levy, it is charged as well as collected by the LGA themselves; therefore it is being included since it does not call for providing corresponding services in lieu of the receipts of funds.

In case of Bunda DC, only following sources of revenues i.e., (i) Service Levy, (ii) Cotton crop cess (iii) rice crop cess and (iv) other produce cesses meets the criteria of taxes or other form of revenue similar to taxes as per GFS.

PI-13 Transparency of taxpayer obligations and liabilities

(i) Clarity and comprehensiveness of tax liabilities

As per the feedback during our discussion, tax/fee/levies can be governed by bye-law and/or main law (Central Government legislation). In case main-law lapses, the relevant bye-law at the LGA level automatically becomes invalid.

Part IV of the LGDA act gives powers to district councils to make their own by-laws. Produce cess and the service levy, is governed by LGFA, 2002 and local by-law called "Bunda DC By laws, 2010".

Clause 4 and Clause 11 (1) of the By-law provides for imposition of levy amounting 0.3% of turnover on all economic activities in the council including manufacturing, agricultural production, distribution of goods, rendering of services, and commerce.

The actual amount of service levy to be paid is based on the financial returns shared by the payees. As per the Clause 12 (ii) , once the levy payers submits the financial returns to the revenue collecting officer, the Officer may either accept the financial accounts and later evaluate the service levy based on assumptions or in case of doubt, the Officer is empowered to estimate the service levy using his judgement. This therefore introduces a discretionary element in determining the quantum of levy in such cases

As per the discussion with the council officials as well, it is informed that there are cases where taxpayers enter into a compromising agreement with the tax collector on the tax payments. There are

situations where tax as assessed by the LGA varies from tax payer’s assessment. These differences mainly emerge from the differences in the value of turnover. In these cases, the representative LGA enters into a mutual settlement with the tax payer. Such discretionary practices have to potential to lead to loss of revenue for the council.

(ii) Taxpayer access to information on tax liabilities and administrative procedures

At the stage of drafting of the by-laws, taxpayers are informed on the types of local taxes, rates and their expected liabilities through the bylaws. Additionally, in case some changes to the taxes are proposed, the LGA advertises the changes and sometimes promote awareness through loudspeakers in various localities. But after that stage, there are no special initiatives for awareness of the target audience.

There are no special information desks in the district council dealing with briefing on taxes and other select sources of revenues. The Bylaws are not available on the Bunda DC’s website nor on the notice board. Any queries related to taxes/fees/levies are to be made to the District Treasurer or the Revenue Accountant. The assessment team was informed that the council strives to inform taxpayers on tax liabilities and administrative procedures through following means:

- a) Full council meetings: Through regular full council meetings, the district councils discusses with the general public on the taxes/fees/levies applicable, rate and procedures for payments.
- b) Ward executive officers educate the target population on various taxes/levies/fees applicable

As per recent studies made on key issues in revenue mobilization²³ , one of the challenges faced in local government taxation in Tanzania is low awareness of local tax payers. The study was conducted across Tanzania and does not refer to Bunda specifically. However, keeping in mind the absence of a computerized tax information system, the lack of adequate resources to disseminate knowledge of the various taxes and their procedural and administrative requirements, it can be concluded that the existing operating environment may not encourage accessibility of taxpayers to the nuances of the taxes as regards their nature, conditions and their administrative requirements for collections.

(iii) Existence and functioning of a tax appeals mechanism

At the district level, there is District Complaints officer who is the nodal person for all governance related complaints including taxes. Any complaint related to taxes is first submitted the District Complaint Officer which forwards them to District Executive Director. These complaints are discussed during the management meeting. In case the complainer is not satisfied with resolution, he/she can approach court or the Regional Administrative Secretariat. DED is the administrative head of the council and is involved in tax assessment indirectly. The procedures for tax appeal are not documented and no timelines are provided for council’s response to the appeal.

Table 41: Summary of rating under PI-13

Indicator	Rating	Brief explanation
PI-13 Transparency of taxpayer obligations and liabilities	D+	

²³ Revenue Mobilisation Issues in the Tanzania LGAs by Siasa Issa Mzenzi, Tanzania Country Level Knowledge Network- Policy Brief No 7, 2013.

(i)	Clarity and comprehensiveness of tax liabilities	D	There are no manuals/user ready reckoners for documentation and clarity on tax requirements for the payees. Elements of administration discretion in assessing tax liabilities eg. in case of service levy may result in situations of discretionary assessments
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	C	Some organised access by taxpayers to the nature and requirements of taxes exists through council meetings/education by ward officers but this appears to be seriously deficient due to lack of comprehensiveness and as revealed by the end results of tax collections from own sources.
(iii)	Existence and functioning of a tax appeals mechanism	D	We were informed that currently, first point of contact for tax related complaints was the DED who is indirectly involved in tax assessments. We did not come across any evidence of a functioning tax appeals mechanism at the LGA level in Bunda DC.

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

(i) Controls in the taxpayer registration system

The LGA is currently developing Local Government Revenue Collection Information System. Another tax registration system, i-tax system (the Integrated Tax Management System), is under development and is fully operational. It will have an electronic database of taxpayers relating to service levy, guest house levy, cotton crop cess and billboard fee. There are no databases for other produce cesses such as rice crop cess and cesses on other vegetables. As per the report on implementation of i-tax system, the System allows the taxpayers to pay taxes in one place. It also allows the district council to monitor the payments and maintain proper records of taxes paid.

The System assigns a tax identification number to each taxpayer (eg: business entity in case of service levy, cotton crop processor in case of cotton crop cess, advertisement agencies in case of billboard fee).

It is not linked to any other database such as business license for better monitoring of tax compliance. It was informed to the assessor that Bunda DC conducted a survey of potential taxpayers for service levy in April 2014 and August 2014. The results of the survey were not available to the assessor.

The database is supplemented by the information provided by Tanzania Revenue Authority (TRA) database for the Council. TRA provides turnover of each business in the Council. The information is entered into an I-tax system. However the PEFA 2013 highlighted gaps in TRA database. A study conducted by TRA confirmed that significant part of the large informal sector is not captured in the database. In case a business entity is included in Council's own database but is not reflected in TRA database, the Council approaches TRA for further details (such as turnover). Each taxpayer in the country is required to have a Tax Identification Number. It is being reported that some businesses in

the district have TIN but small businesses do not have any TIN. It was also informed to the assessor that level of compliance in case of service levy is low. This is majorly due to lack of complete information on evaders and absence of voluntary payment.

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

At Bunda DC, there is no regulation mandating the taxpayer to register with the I-tax. Thus, no penalties are provided in case the taxpayers do not register themselves with the Council. However, there are penalties for incorrect information. The Bylaw provides for a penalty of 50% of the average tax assumption (post revision of estimates by the Council). In case of service levy, the penalty of 30% is to be paid along with the tax payable. Additionally, the agents that make late submission of their collection as according to the contract signed with the Council, are required to pay that amount owed to council and add 50% of daily amount agreed with the Council. As per the CAG management letter for 2012-13, Bunda District Council didn't charge penalties amounting TZS 23.12 million to the agents for delay in remitting to the Council the revenue collections. These penalties were connected with hotel levy, auction levy, and market levy. CAG notes that this reflects lack of sound internal controls on contract management or ineffective penalties for non-compliances.

Tax payers are considered to have breached the law if they:

- (a) Fail to submit the financial performance;
- (b) Fail to submit all supporting documents, description or information that is required to be submitted to the council;
- (c) Fail to have a proper book keeping of records, information and accounts;
- (d) Fail to provide any supporting documents required or any information for needed for evaluation;
- (e) Provide false assumptions by reducing or removing figures on the statements submitted to the council;
- (f) Provide wrong information on any aspect that might affect in preparing the tax rate to be paid;
- (g) Forging or preparing false financial statements as well as any supporting document;
- (h) Interfere or stop the revenue officer from doing his duty as stated in this by law.

(iii) Planning and monitoring of tax audit and fraud investigation programs

At the local government level, in the past, there has been various surprise visits to the tax payers to check the evaders. However, there is no comprehensive and documented plan nor there is any risk assessment criteria to select taxpayers.

Table 42: Summary of rating under PI-14

Indicator	Rating	Brief explanation
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	D	
(i) Controls in the taxpayer registration system	D	The LGA maintains the electronic database of taxpayers. But it does not cover all relevant taxes. Additionally, the coverage of existing

			taxes is not complete. It is substantiated through poor collections under service levy as indicated by the LGA.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	D	Currently, the legislative framework does not provide for any penalty for non-registration with the district council, but there are penalties for declaration obligations. However, in light of other control weaknesses in tax collection as highlighted by CAG, the effectiveness of these measures is doubtful.
(iii)	Planning and monitoring of tax audit and fraud investigation programs	D	There are surprise visits to the taxpayers. But there is no comprehensive and documented audit plan nor any risk assessment criteria to select the tax evaders.

PI-15 Effectiveness in collection of tax payments

(i) 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)

As per our discussion with the District Council, there is no database on tax arrears. The Annual Financial Statement do not include any receivables under taxes. Therefore a comprehensive recording of tax arrears is not in existence.

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration

Table 43 shows details on frequency of collection, individuals responsible for collection and evaluation in case of service levy, tobacco produce cess and other produce cesses.

Table 43: Broad details on Cess

Cess	Who collects	Who evaluates	Frequency
Service levy	<ol style="list-style-type: none"> Council deducts from payment to Business man In other cases, business man themselves pays voluntarily Revenue accountant and Trade officer chases those who has not paid 	<p>Revenue and trade accountant officer</p> <p>(Information on business man in the district is provided by TRA.) In addition to this, they also use their own information sources.</p>	Not fixed, as when the transaction is processed and chasing is ad-hoc.

Cess	Who collects	Who evaluates	Frequency
Produce cess	Agriculture officers collect the Cotton crop cess, rice cess and other produce cesses		Collection is based on farming season

Cash is deposited within a day into the own source revenue account. Checks are collected at the council and are deposited daily. It is transferred to Own Source Revenue account on an average within three days. It should be noted that the Council does not spend through own source revenue account. In case of spending from the revenue collected, the amount is transferred from own source revenue account to other spending accounts (such as development account, Road fund). The assessment team was informed that twice per week transfers are made from own source revenue account to the spending accounts (i.e., Tuesday and Thursday). This is irrespective of requests made by sector departments, transfers are made only on the specified days. Therefore, the collection made under produce cess and service levy is available for spending only within a gap of a week.

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury

Our discussions on the nature of taxes levied and present systems of collection deployed show that at the LGA level, at present, there are no formal assessment and billing systems as prevalent generally for direct taxes (eg. income tax, VAT). It was informed that in the absence of any information of arrears and adequate assessments, there is no reconciliation performed between tax assessments, collections, arrears records and receipts by the treasury. However, reconciliation between tax collected and amount transferred to treasury is done on a monthly basis.

Table 44: Summary of rating under PI-15

Indicator	Rating	Brief explanation
PI-15 Effectiveness in collection of tax payments	D+²⁴	
(i) 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)	NR	Since total arrears recording is not available this dimension has not been rated.

²⁴ PI-15 is rated as per M1 methodology. Therefore, in line with clarification G-a of the PEFA Field Guide, the indicator has been rated.

(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	Produce cesses and service levy are available for spending through treasury on an average within a week.
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	Tax arrears information is not available for all sources of revenues. Therefore, complete reconciliation between tax assessments, collections, arrears records, and receipts are not done. However, reconciliation between tax collected and amount transferred to treasury is done on monthly basis.

PI-16 Predictability in the availability of funds for commitment of expenditures

In order to implement the activities planned during the financial year, LGAs engage into commitments with vendors/suppliers for a number of months. However, the commitment with the suppliers crucially depends on the availability of funds. The spending departments should receive reliable information on funds availability in the near future. This is achieved through effective cash flow planning, monitoring and management by the treasury, based on regular and reliable forecasts of cash inflows and of major outflows.

(i) Extent to which cash flows are forecast and monitored

Based on our discussion with MoF, LGAs do submit annual cash flow plans at the beginning of the financial year detailing fund requirements for the entire year. These are only break-up of funds requirements for the financial year. Once submitted, no approvals are received as commitment from the Ministry to release funds as forecasted. However, the cash flow plan for Bunda for the last completed financial year (2013-14) was not available.

Bunda DC does not conduct any cash flow forecasting on a quarterly or monthly basis. This is significantly dependent on the flow of funds from the Central Government and the general uncertainty as regards the timing of such flows makes any credible cash flow forecasting a difficult task.

(ii) Reliability and horizon of periodic in-year information to departments on ceilings for expenditure commitment

Once the Parliament approves the annual budget for the LGA, an action plan is prepared by the District Council which lists budget allocations against various activities finalised for the financial year. This action plan is shared with all departments of the LGA as well as with LLGs to give them an indication of the resources budgeted for commitments. The District Council, however, is largely dependent on the funds from the Central Government and hence, on the communication from MoF on the expected transfers during the financial year. As per discussions with MoF, it is understood that while a ministry level Ceilings Committee reviews the cash flow position of the Central Government on a monthly basis, there is no advance notification made to LGAs on expected fund releases. This, in turn, limits the ability of the District Council to provide reliable information to the spending units on

actual resources available for commitment under the Central Government funded projects during the course of the financial year.

Even for projects/ activities funded through own sources revenue of the District Council, there is no advance information provided to departments, villages, and wards on actual resources available.

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of LGA

Para 18 of the Local Government Financial Memorandum specifies the modalities for virements and supplementary budget. It is understood from discussions with Council officials that intra-year adjustments to budget allocations are only made once in the financial year during the mid-year review of the Council accounts. Once discussed and approved by the Full Council, requests for virements are submitted to the Regional Administration Officer for approval and onward submission to PMO-RALG. Approval from the PMO-RALG is usually received in a couple of weeks which is followed by an updation of necessary figures in EPICOR.

In 2013-14, the following adjustments were requested for by the District Council to PMO-RALG:

- Increased budgetary allocation of TZS amounting 576 million (1.71% of the total expenditure) across seven programmes (AIDS relief, Mfuko Wa Jimbo, MMEM, TIB Rural Energy, Mfuko wa Barabara, Mapango wa Maendeleo Elimu ya Sekondari and TASAF.
- Changing the use of TZS 6 million (0.02% of the total expenditure) from construction of class to the building of the houses for the teachers

Table 45: Summary of rating under PI-16

Indicator	Rating	Brief explanation
PI-16 Predictability in the availability of funds for commitment of expenditures	D	
(i) Extent to which cash flows are forecast and monitored	D	At present, LGA do not do any cash forecasting including on relating to their own sources. Annually cash flow plans are shared with the Ministry of Finance but these are only funds requirements.
(ii) Reliability and horizon of periodic in-year information to departments on ceilings for expenditure commitment	D	No advance intimation is provided to departments to make commitments both related to Central Government transfers and own source revenue transfers.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level	NA	In 2013-14, in year adjustments decided above the level of spending units were carried out only once during the financial year and were not significant when compared to the annual

Indicator	Rating	Brief explanation
of management of departments		expenditure of the District Council (less than 5% of the total expenditure of the Council).

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

(i) Quality of debt data recording and reporting

LGAs can borrow from financial institutions, pension funds. All loans taken by LGA are to be approved centrally. It is noted that nodal ministry of local governments, i.e. PMO-RALG does not have outstanding debt data for LGAs and neither any information on whether a loan has been approved/disbursed or not.

Bunda DC had a debt 26 TZS million outstanding ending financial year 2013-14. The debt in 2013-14 was only 0.1% of total liabilities. The debt forms part of the normal books of accounts of the LGA and reflected in the annual financial statements. As per feedback received, no specialized software was in use for debt recording. There is no evidence of updates and reconciliation of debt data other than as part of annual exercise.

(ii) Extent of consolidation of the government's cash balances

As per our discussion with Bunda staff, there is no single treasury account at the LGA level. There are seven bank accounts following government's order to rationalize the number of bank accounts kept by the LGAs. All accounts are required to be kept with National Microfinance Bank which has nation-wide coverage. These include (a) Own source collection account, (b) Deposit account, (c) Other charges account, (d) Development account, (e) Road fund account, (f) Personnel emoluments account, and (g) Rural Water Sector account. Balances as on 30th June 2014 are available in the audited financial statements. As per our discussion, Bunda DC calculates and consolidates cash balances on a monthly basis.

(iii) Systems for contracting loans and issuance of guarantees

As per the Government Loans, Guarantees and Grants Act, 1974, MoF is the only agency authorized to issue guarantees. LGAs do not have any role in approval or issuance of guarantees to agencies. With respect to loans, LGAs are allowed to borrow under Clause 51 of the LGFM. Bunda DC had a loan amounting TZS 26 million outstanding in 2013-14. All applications for loans by the LGA are requested to the PMO-RALG who forwards the request to Ministry of Finance.

The section 11 of the LGFA, 2002 gives powers to the LGA to borrow funds and also outlines the limitations on such processes. Box 1 outlines the relevant the sections of the LGFA. The section although specifies the approving authority and instructions while the loan is not repaid in time, it does not specify the guidelines/criteria to be followed for loan approval or ceilings on such loans.

Box 1: Local Government Finance Act (Relevant Sections for borrowing)

Section 11:

(1) A local government authority may, from time to time, with the approval of the Minister, given after consultation with the Minister responsible for finance, raise within the United Republic loans for such amounts, from such sources, in such manner, for such purposes and upon such conditions as the authority concerned may deem fit subject to subsection (2).

(2) Loans raised under this section may be secured upon the revenue of the authority or by mortgage or charge of any land or premises in its ownership or disposition or may be secured both upon such revenues and by such mortgage or charge and shall be repaid within such period as the Minister may approve.

(3) Where any interest or any payment of capital due on any loan remains unpaid for three months after a demand for it has been served on the authority in writing by the person entitled to do so, the Minister may-

(a) order that a rate necessary to produce the sum due be levied upon and collected from the rate-payers of the area either immediately or at such date as he shall order, and for the purpose of raising that sum the Minister shall in addition have the same power as the authority concerned of making and levying a rate under this Act or any other written law;

(b) if requested so to do by that person, order the sale of any property, on which the loan is secured.

(4) The Minister shall have and may exercise all powers conferred upon him by subsection (3) in any case where a loan made to an authority has been guaranteed by the Government and where under the terms of that guarantee the Government has made to or to the order of the lender payment of capital or interest due on the loan.

(5) The power of the Minister under this section of making and levying a rate and issuing a requisition may be exercised at any time.

Section 12:

(1) Subject to subsection (2), a local government authority may, with the approval of the Minister, obtain advances from banks by over-draft upon the credit of the authority.

(2) No overdraft shall at any time in any circumstances exceed the income of the authority in the previous financial year.

“Minister” referees to Minister for PMO-RALG

Table 46: Summary of rating under PI-17

Indicator	Rating	Brief explanation
PI-17 Recording and management of cash balances, debt and guarantees	C	
(i) Quality of debt data recording and reporting	C	The LGA has a debt of nearly 0.1% of total liabilities in 2013-14. The debt is reflected in the annual financial statements. There is no evidence of updates and reconciliation of the debt at a higher frequency.
(ii) Extent of consolidation of the government’s cash balance	C	Bunda DC calculates and consolidates cash balances in different bank accounts on a monthly basis.
(iii) Systems for contracting loans and issuance of guarantees	C	Issuance of guarantees is the mandate Ministry of Finance and therefore not applicable to LGAs. Local Government Authorities are allowed to borrow but each

Indicator	Rating	Brief explanation
		loan is required to be approved by the PMO-RALG in consultation with MoF. However, there is no evidence on the clear guidelines, criteria and overall ceilings.

PI-18 Effectiveness of payroll controls

(i) Degree of integration and reconciliation between personnel records and payroll data

The Public Service Act provides for management of the payroll of all public sector employers, including local government authorities under the overall oversight of the Public Sector Management Division of the Office of the President. The payroll data is computerized and centralized. The payroll is controlled through a computerized database known as Human Capital Management Information System (HCMIS) located in PO-PSM. The HCMIS includes all three records i.e., establishment list, personnel records as well as payroll data. Thereby, these three records are electronically linked with each other.

Establishment and personnel records are handled by PO-PSM and payroll processing is done by Department of Computer Services, MoF. All government employees on the payroll of the government are paid electronically. Since July 2014, MoF transfers money directly to the bank accounts of the employees but only after due approval from the employer (i.e., for purposes of our assessment this is the LGA). Payments for casual labours are paid from own source revenue of LGAs. Changes in the personnel database of HCMIS are initiated by the Human Resource Officer (HRO) at the council level and are reflected straightaway in the payroll component of HCMIS once PO-PSM approves the request. Usually the Head of the Human Resource Department in the LGA has access to the system and can upload changes. However, it was noticed that there are lags between the recruitment of the employee and the reflection of information in HCMIS.

The chief secretary of the President Office controls the establishment list in terms of the numbers and definitions of positions and decisions regarding hiring and firing. Any changes in the personnel records have to be firstly approved by the Chief Secretary.

(ii) Timeliness of changes to personnel records and the payroll

It is understood from discussions with PO-PSM as well with Bunda DC officials that there is significant improvement in adherence to timelines since the roll-out of HCMIS. For new hires, transfers and promotions, District Council is responsible for getting required forms populated by the employee and collecting all necessary documentation and certification from the employee. It is also the responsibility of the LGA to vet the payroll schedule shared on a monthly basis and take the administrative action for immediate inputs for all changes on a continuous basis.

The forms and documentation have to be scanned and uploaded on HCMIS by the Human Resource Department officials in the Council for approval by the PO-PSM. Since the System’s automatic cut-off date for monthly salary is 20th of the month, DC has to send across this information by the 5th of each month to PO-PSM to allow adequate time to validate and approve the changes in personnel records proposed. As per discussions with DC officials, the entire process of updating personnel information

in the System in general should not take more than 4-5 working days but this does not appear to have been fully achieved as evidenced by delays in inputs of payroll data. In case of new recruits, depending on the time of joining, salaries may be processed only by the next month.

Based on our discussion with Bunda DC and reports generated, there are various cases of salary arrears. As on 30th June, 2014, there were nearly six cases of promotions where salary was in arrears. These cases were pending as on 20th March, 2015 as well. The Management letter of the CAG 2013-14 has pointed out that as on 30th June 2014, nearly 104 employees were no longer on in the employment due to various reasons such as death, retirement but were shown in the treasury master payroll. The CAG also points out the unrealistic date of births of the staff in the HCMIS for four employees. Additionally, the report highlights that nearly 130 employees were confirmed in the LGA but the records were not updated in the HCMIS.

(iii) Internal controls of changes to personnel records and the payroll

As per the discussion with PO-PSM, it is noted that changes to personnel records can only be done by the employer itself (in this case Local Government Authority). PO-PSM, MoF both have read-only access. Additionally, employer can only see information connected with its own institutions/department. All changes made by the employer are “confirmed” by the PO-PSM in the system prior to the change becoming “live” in the system. Any change is endorsed by the PO-PSM after due verification of the supporting documents in the system. PO-PSM also showed to the assessment team various reports that can be generated by HCMIS.

At the LGA level, there are no audit trail generated post changes to HCMIS. Therefore, it becomes the responsibility of the PO-PSM to ensure changes entered by the employer in the HCMIS are valid. The lack of audit trails need to be reviewed since they are an integral part of the overall internal controls for a payroll system.

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

In 2013, IAG of the Tanzania conducted a payroll study for entire public sector examining July – September 2013 salary payments across the public sector. The report concluded that there are areas where anomalies are found. The findings are not specific to Bunda DC but applies to entire public sector in Tanzania. Some of the findings included retired employees and employee ageing less than 18 part of the payroll list, payment of salary arrears twice for the same claims, more than one employee receiving salary from one bank account etc.

There is no specific annual payroll audit to identify control weaknesses though the Controller and Auditor General does cover payroll weaknesses in its annual audit. The findings of the CAG has been mentioned in the dimension (ii).

Table 47: Summary of rating under PI-18

Indicator	Rating	Brief explanation
PI-18 Effectiveness of payroll controls	D+	
(i) Degree of integration and reconciliation between personnel records and payroll data	A	Since personnel records and payroll database are part of one system, there is reconciliation between the

Indicator	Rating	Brief explanation
(ii) Timeliness of changes to personnel records and the payroll	D	two once PO-PSM approves the request. Review of reports generated from HCMIS suggests cases of long delays in salary payments. This may, in some cases, indicate changes to personnel records that do not get reflected in the payroll records in a timely manner. In addition the CAG has pointed out numerous instances which show that the delays in changes extend to significantly longer than 3 months.
(iii) Internal controls of changes to personnel records and the payroll	C	The system maintains audit trails reflecting changes made to the system. Access to the System is restricted to only the Head of Human Resource Department in the District Council. However, the audit trail in the System is not documented/filed, verified or even covered by the internal auditors during their assessments. Consequently, the actual authorisation of and basis for the changes is not independently verified during the course of the financial year.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	B	The Internal Auditor General completed a payroll audit for the entire public sector including Bunda DC in December 2013. Though there is no annual payroll audit exercise, the CAG and Internal Auditor do cover payroll under their respective audits.

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

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework

In order to ensure value for money in procurement, there is a need to ensure certain fundamentals which include:

- Existence of a robust legal and regulatory framework that is accessible to the public and applicable to most public procurements;
- Prescription of open competitive bidding as the preferred method of procurement;
- Transparency in availability of information of procurement opportunities, bidding and contract results;
- Provision for an independent appeals mechanism which can handle procurement related complaints.

Procurement in Tanzania is mainly governed by the Public Procurement Act (PPA), 2011 and the corresponding Public Procurement Regulations (PPR), 2013.

Public Procurement Act, 2011 and Public Procurement Regulations 2013

Application

PPA, 2011 presently governs the public procurement process in Tanzania. Section 2 (1) (a) specifies the application of the Act, i.e. it is applicable to all procurements and disposals by tender undertaken by the “procuring entity”. Procuring entity is defined as any public body and any other body, or unit established and mandated by government to carry out public procurement functions.

Accessibility

The Act is freely accessible to the public on [PPRA website](#). Information through website is one means of providing information at low cost to all those who might want it. However, this mode of public access is questionable given the low internet penetration²⁵. Excerpts from the act are provided in the box below.

Public Procurement Act, 2011

Institutional arrangements

Central

The Act provides for a Public Procurement Policy Division under the MoF to undertake various tasks related to public procurement. Some of them include (i) designing National Procurement Policy (ii) advising central government, local governments and statutory bodies on issues related to procurement policies.

²⁵ Nearly 17% of Tanzanian’s population had access to internet in 2012. This is due to high illiteracy, poor infrastructure, and unavailability of internet services in semi-urban and rural areas.

Public Procurement Act, 2011

The Act also provides for establishment of PPRA to ensure application of fair, competitive, transparent, non-discriminatory and value for money procurement standards and practices; set standards for public procurement systems; monitor compliance of procuring entities; and build, in collaboration with Public Procurement Policy Division and other relevant professional bodies, procurement capacity in the United Republic.

Local Government

Section 31 (1) provides for establishment of tender boards for procurement of goods, services, works and disposal of public asset by tender. Section 37 (1) provides for establishment of Procurement Management Unit (PMU) in every procuring entity which consists of procurement and other technical specialists and other administrative staffs. The head of the procurement management unit shall be headed by person with appropriate academic and professional qualifications. The head is required to report to the accounting officer of the procuring entity. This unit is required to support the tender board, implement decisions of the tender board and act as secretariat of the tender board. For each tender, an evaluation committee is mandatory which reports to the PMU.

Planning

Section 49 (1) provides for the procuring entity to prepare its annual procurement plan in a rational manner. Such plan has to be approved by the appropriate budget approving authority (i.e., MoF Finance in case of Local Governments).

Internal controls

Section 48 (2) mandates head of internal audit of each public body to include a report (as part of its quarterly internal audit report) on whether the act and procurement regulations has been complied with or not. The accounting officer upon receiving such report is required to submit the report to the PPRA.

External scrutiny

The external auditor of the public body in its annual report, is required to state whether procurement of goods, works and services is in accordance with the procedures specified under the PPA, 2011 and underlying regulations.

Accountability

Section 48 (4) makes the accounting officer of each procuring entity to be accountable for failing to comply with the provisions of the PPA, 2011.

Competitive bidding

Section 63 (2) of PPA 2011 provides for all procurements and disposals to be conducted in a manner that maximizes competition and achieve economy, efficiency, transparency and value for money. Section 64 (1) of PPA 2011 mandates the procuring entity to apply competitive tendering in line with the methods provided in related regulations 2013 which varies by value of procurement and the type of procurement. In the seventh schedule of the Procurement regulations 2013 (Table 44), methods for selection and limits of application for each contract of goods, works and non-consultancy services are provided.

Table 48: Method of selection as per Procurement Regulations 2013

Method of tendering	Goods	Works	Non-consultancy services	Disposal of public assets
International competitive tendering	No limit	No limit	No limit	No limit
National competitive tendering	Up to TZS 1 billion	Up to TZS 5 billion	Up to TZS 1 billion	Up to TZS 5 billion
Restricted tendering	No limit but must be justified	No limit but must be justified	No limit but must be justified	No limit but must be justified
Competitive quotations (shopping)	Up to TZS 120 million	Up to TZS 200 million	Up to TZS 100 million	Not applicable
Single source procurement	No limit, but must be justified	No limit, but must be justified	No limit, but must be justified	Not applicable
Minor value procurement	Up to TZS 10 million	Up to TZS 20 million	Up to TZS 10 million	Not applicable
Micro value procurement	5 million	Not applicable	Not applicable	Not applicable

Source: Public Procurement Regulations, 2013

Section 149 (1) provides for considering the international and national competitive tendering as primary method of selection of bidder as against other methods prescribed in the regulation. Section 149 (3) and (4) mandates the procuring entity to furnish a statement detailing the grounds and relied circumstances with a view to justify the use of the method where the default method is not used. A procuring entity may select an appropriate alternative method of selection only when (a) competitive tendering is not considered to be the most economic and efficient method of procurement (b) the nature and estimated value of the goods, works or service permit the use of such alternative method.

Public access

Section 68 (1) of the PPA 2011 requires any tender notice to be published in sufficient time. Procurement plans for the year are prepared and approved by the accounting officer. These plans are required to be submitted to PPRA within fourteen days after completion of the budget process. It is not mandatory to publish these plans. On the other hand, section 18(1) of the procurement regulations calls for publishing the summary of general procurement notice (prepared based on procurement plans) for the year in the PPRA journal and the tender's portal. Section 19 (3) provides an option to the procuring entity to publish the tender notice (in case of international tendering) in

appropriate foreign or international publications or professional or trade journals. Section 45 (1) of the regulations requires PPRA to publish contract awards under the preference scheme (to local communities) in the Journal and Tender Portal. Section 158 (2) of the procurement regulations provides for publishing of the procurement notice in the Journal and Tender portal when competitive tendering method is adopted. Section 236 mandates the procuring entity to publish the results of the tender to be published in the Journal and Tenders Portal on a regular basis. The act and the regulation do not require the resolution of appeals to be published. However, the online procurement system (e-public procurement) has a module on dispute resolution. All stakeholders can access e-pp with satisfaction of technical requirements after payment of user fee. Users could include procuring entities, prospective tenderers, systems administrators, auditors, development partners, banks and financial institutions, civil society organizations and any group as approved by the Authority.

Dispute resolution

Section 88 (1) of the PPA 2011 calls for establishment of independent procurement appeals authority known as the Public Procurement Appeals Authority. The act stipulates various provisions for the authority connected with institutional structure, funds, audit of accounts, modalities for making complaints in connection with procurement.

Local Government Authorities' Tender Boards (Establishment And Proceedings) Regulations, 2014 (LGA TB)

The regulations applies to all local government authorities in respect of procurement of goods, works, non-consultancy services and disposal of public assets by tender and selection, employment of consultancy. The regulations specifies general principles for procurement at the LGA level, establishment of the tender board, its proceedings, functions of tender board, finance committee, and council officer, regional commissioner investigation, procurement limits for accounting officer and head of department. Table 49 provides a broad overview of existing legal and regulatory framework against the standards set under this benchmark.

Table 49: Legal and regulatory framework

S. No.	Dimension	Meets requirement	PPA 2011	PPR 2013 (regulation)
1.	Organized hierarchically and precedence clearly established	Yes	√ Box on PPA 2011	√
2.	Freely and easily accessible to public	Yes	√ Accessible through PPRA website	√ Accessible through PPRA website
3.	Applies to all procurement entities using govt. funds	Yes	√ applicable to all procurement and disposal by tender	√ applicable to all procurement and disposal by tender undertaken by "procuring

S. No.	Dimension	Meets requirement	PPA 2011	PPR 2013 (regulation)
			undertaken by “procuring entity”	entity” except for disposal of public assets by methods other than tendering
4.	Open competitive procurement as default method of procurement and defines clearly the situations in which other methods are to be followed and required justification	Yes	√ Section 64 (1) makes reference to PPR 2013	√ Section 149 makes it a default method and justification for deviation
5.	Public Access to all procurement information	No	X	X All except procurement plans and data on resolution of procurement complaints are required to be published in Journal and tender portal.
6.	Independent administrative procurement review process	Yes	√ Part IX: Disputes Settlement of PPA 2011	√ Mechanism provided in Sections 104 to 107 of the Regulations

It should be noted that scoring of this indicator will be the same for all LGAs since the legal and regulatory framework is made at central level.

(ii) Use of competitive procurement methods

As mentioned before, PPA 2011 and corresponding regulations provides for open competition as preferred method of procurement. As per section 165 of the PPR, 2013, a procuring entity can engage into minor procurement if (i) the value does not exceed the limit for minor value procurement prescribed in the Act (ii) price quoted is reasonable (iii) no advantage to a procuring entity is likely to be obtained by seeking further quotations or by using other methods of procurement and (iv) the contract for the provision of such goods, services or works may be a local purchase order. In the last completed financial year 2013-14, Bunda DC procured goods and services worth TZS 2,908 million. Out of these, approximately: 97% of the procurement was done through open competition; and 3% through framework agreement. Table 46 below provides information on procurement by volume and value.

Table 50: Break-up of procurement in 2013-14 by method of procurement

Procurement through tender process (competitive tender, competitive quotations, restricted tenders)						
Item	Goods	Works	Consultancy Services	Non-Consultancy Services	Disposal of assets by tender	Total
Number of contracts	Nil	12	Nil	11	Nil	33
Amount (TZS million)	Nil	2,465	Nil	365	Nil	2,830
Procurement under framework contracts (Call off Orders)						
Number of Local Purchase Order	6	Nil	Nil	1	Nil	7
Amount (TZS million)	52	Nil	Nil	25	Nil	78
Total procurement (TZS Million)						2,908

Although over 97% of the procurement in Bunda DC is through open competition, it is noteworthy that the CAG's Audit Report for FY 2013-14, has highlighted that payments amounting TZS 4.9 million were made against expenditure that was incurred without following the appropriate procurement requirements.

(iii) Public access to complete, reliable and timely procurement information

Existing legal and regulatory framework mandates procuring entity to publish all bidding opportunities as well as contract awards. However, no such stipulations are imposed for procurement plans and data on resolutions of procurement complaints.

On the other hand, as per the PPA 2011, each procuring entity is required to publish summary of the General Procurement Notice (GPN) prepared based on the annual procurement plan. As per the clarification 19-g, procurement plans should include the size of the procurement. It is noted that the procurement plan as published by Bunda DC do not contain the size of the procurement. Procurement officials in Bunda DC informed the assessment team that at the end of the previous financial year, the GPN for the current year was published on the Council's notice board, PPRA's website and local newspapers. For FY 2014-15, the GPN was published in the Mwananchi Newspaper on 27 June 2014. Specific procurement notices are advertised in the local newspaper. A summary of contract awards are furnished to the PPRA which are published in its weekly journal. According to the assertion made by the LGA, there were no procurement complaints lodged during the year. While we have noted this in our assessment we are unable to come to an evidence based conclusion in the absence of a structured and documented system for recording and monitoring procurement

complaints. However we have noted that the LGA intends to adhere to a system of recording and reporting complaints on an ongoing basis as and when they are received.

(iv) Existence of an independent administrative procurement complaints system

The Local Government Authorities Tender Board Regulations, 2014 specifies the procedure and format for submission of procurement related complaints by supplier/service provider/contractor/asset buyer. The Regulations specifies the procurement complaint should be submitted to accounting officer of a Council with copies to PPRA and the regional commissioner. PPA 2011 also permits (not mandatory) the accounting officer to constitute an independent review panel from within or outside the organisation depending on the nature of the procurement. It should be noted that the accounting officer (also called District Director) is the decision maker in the procurement process which undermines the independence of the procurement complaints system at the LGA level. The Regulation also mandates a non-refundable fee of TZS 100,000. The non-refundability of the fee irrespective of decision taken upon the complaint adversely impacts the decision of the concerned parties to file a complaint. The Regulations mandates the Accounting Officer to suspend the procurement or disposal meetings where a continuation of the proceedings might result in an incorrect contract award decision or making worse any damage already done. The Regulation also specifies the time limit (30 days) post receipt of the complaint within which the Accounting Officer is required to delivery its written decision. PPA 2011 specifies that the decision of the Accounting Officer is final unless the complainer applies for administrative review to the Appeals Authority.

In case the complainer is not satisfied with the decision of the accounting officer or there has not been any decision by the Accounting Officer, the PPA 2011 permits the complainer to submit an application to the PPRA. The procedures for review by PPRA are specified in PPA 2011. In case PPRA does not amicably settle the dispute, the application is then referred to Public Procurement Appeals Authority. The composition of the authority shall be as follows:

Chairman	Retired judge nominated by the President
Senior lawyer	Appointed by the Attorney General
Five other members	At least two from the private sector with professional knowledge and experience in public procurement, construction industry, business administration, finance or law
Executive secretary	Secretary of the appeals authority

The act does not mandate a civil society member to be part of the appeal authority. However, secretary of the appeal authority is part of the government. The authority is not involved in any capacity in procurement transactions or in the process leading to contract award decisions.

Section 91 (c) of the PPA 2011 states “...funds of the appeals authority include revenues collected from services rendered...” Part IX of PPA 2011 clearly lays down the circumstances under which the tenderer can approach appeal authority or the accounting officer himself for review of its decisions. The provisions stipulate the time, process of submission of the complaints. It also details out the actions to be taken by the appeal authority, timelines for reply post submission of the complaint. The act gives powers (Section 97 of PPA 2011) to the appeal authority to revise the unlawful decision by the procuring entity or substitute its own decision for such a decision. The decision taken by the authority is to be considered final and binding to the parties on the complaint or appeal and such decision may be enforced in any court of competent jurisdiction as if it were a decree of the court.

Table 51: Summary of rating under PI-19

Indicator	Rating	Brief explanation
PI-19 Transparency, competition and complaints mechanisms in procurement	D+	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	B	The legal framework meets five of six requirements.
(ii) Use of competitive procurement methods	D	Non-competitive awards are 78mln. The CAG has pointed out TZS 4.9 mn purchases from unauthorised suppliers which amount to 6.2% of such purchases. However the total extent of such unjustified purchases is not known.
(iii) Public access to complete, reliable and timely procurement information	D	The GPN (summary of the procurement plans), bidding opportunities and contract awards are published. The General procurement notices do not contain the value of the procurements. Data on resolution of the procurement complaints are not published (as per the LGA assertion, there are no complaints). The assessment team however does not have access to data on what percentage of actual compliance was achieved by the Council of procurement operations as required by this PEFA rating criteria and whether all such data was indeed made available to the public in a timely manner.
(iv) Existence of an independent administrative procurement complaints system	D	Procurement related complaints at the LGA level are addressed by the accounting officer (although the act allows the Officer to constitute independent panel but it is not mandatory). The Regulations mandates payment of non-refundable fees. The Vendor if not satisfied with decision at the LGA level can approach PPRA and Public Procurement Appeals

Authority. The Appeals Authority is liable to collect revenues from service rendered. Additionally, the PPA Act does not mandate civil society representative to be member of the authority.

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

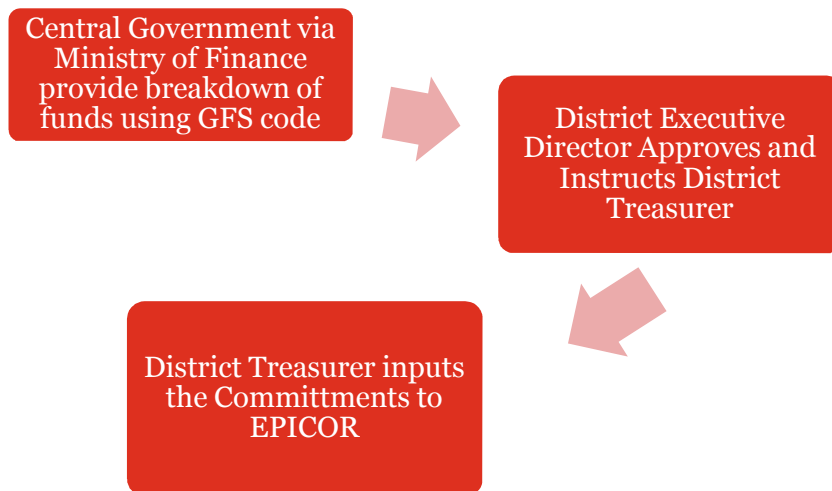
This indicator aims to assess controls relating to payments for capital expenditure, goods and services, casual labour, and discretionary staff allowances. Other controls for cash management, payroll, and procurement are covered in PI – 17 to 19.

Para 8 (2) of the Financial memorandum specifies that one of the responsibilities of the Council Treasurer is to ensure that an effective system of internal control is operated including the writing and subsequent revision of detailed financial procedures. Para 11 (1) provides the mandate to (i) the Finance Committee for approval of the internal control procedures; and (ii) the Council Director for distribution to the respective officers within the Council. Para 11 (2) provides that it is the responsibility of the Council Director and Treasurer to operationalize the systems of internal controls; while para 13 (2) provides for the Internal Audit Unit's responsibility to independently appraise effectiveness and adequacy of the internal control system within an LGA. In addition to the internal review of internal controls by the internal audit function, the NAOT's Regularity Audit Manual (2014) specifies that external audit by the CAG should also include reporting on effectiveness of internal controls and the internal audit function.

(i) Effectiveness of expenditure commitment controls

This dimension aims to assess how the management actions ensure that the LGA's payment obligations remain within the limits of cash availability in order to avoid creation of expenditure arrears, which is assessed separately under PI-4.

During our assessment, it was observed that Bunda DC was using the integrated financial management system (EPICOR) that had already been installed. This system has an embedded function for commitment control. When used, the system is able to limit commitments to the available cash.



However, we came to find out during the assessment that commitments are still made outside the EPICOR system, thus creating arrears. The LGA officials had sometimes issued Local Purchase Orders (LPO’s) without any inputs in the computerized system. CAG in its management letter for 2013-14 noted that payments with a total of TZS.7,348,000 to have been granted to officers as special imprests to procure goods and services without using an official Local Purchase Order (LPO). The Internal Auditor General has highlighted weaknesses in the internal controls and some instances are shown in the Table 52.

Table 52: Consolidated Summary of Major Audit Observations and Recommendations from Internal Audit Reports of LGA's for the Year Ended 30th June 2014

Coverage	Description
First Quarter	<ul style="list-style-type: none"> • Payments made that were neither budgeted for nor supported – TZS 1,820,000 • Unsupported payments amounted to TZS 12,905,000 • Payment made through incorrect code – TZS 2,066,000 • Poor stores management and lack of stock management procedures • A total of TZS 6,000,000 paid in October 2012 (TZS 4m) and in June 2013 (TZS 2m) to a staff who retired in March 2012 out of a claim TZS 435,000 only made in April 2012 for transport back to home town.
Second Quarter	<ul style="list-style-type: none"> • Poor management of school capitation grants including: not undertaking bank reconciliations; school boards not seating and discussing on the funds; funds received not being reported at the community level; capitation grants’ receipt book also being used to issue receipts for school fees. • Missing documentation for collection of service levy from telecommunication towers;
Third Quarter	<ul style="list-style-type: none"> • TZS 2,515,000 refunds from collection agents were (i) used before they were banked; and (ii) there was no evidence of deposit to the Council account, rather this amount was paid in cash as “Cash DED Bunda”. • Imprest amounting to TZS 3,799,790 was not retired timely as per LAFM, Section 40 (3). • Unsupported payments amounted to TZS 24,375,000

Coverage	Description
Fourth Quarter	<ul style="list-style-type: none"> TZS 7,860,000 was paid to a supplier whose supply was (i) not budgeted for; and (ii) there was no competition. TZS 3,600,000 was paid to a supplier, but (i) this supply was not budgeted for the year; and (ii) the payment was made through an incorrect code. Supporting documents for payments amounting to TZS 86,108,500 were missing.
	<ul style="list-style-type: none"> Lack of controls of Council's receipt books issued to Revenue Collection Agents – receipt book for property tax for the year were not returned to the Council; A total of TZS 57,891,678 were made to TANESCO, but (i) there were no confirmations of receipts from TANESCO; and (ii) there were no reconciliations between TANESCO bills and reconciliations. TZS 2,250,000 was paid to Internet Service Provider, but there was no evidence of service delivered to the Council. TZS 55,765,000 of own source revenue (equivalent of 20.34% for the year) was not collected from Revenue Collection Agencies due to lack of follow up of the contract terms. Unsupported payments amounted to TZS 65,693,768.90 Payments made but confirmation of receipts were missing – TZS 28,469,500. Due to poor stores management, records for fuel worth TZS 21,521,783.01 were not entered into the stores receipt register. Imprest amounting to TZS 20,605,000 was not retired in time.

The CAG in his Management letter for FY 2013-14 reported that:

- Payments amounting to TZS 9.5 million were erroneously charged to unrelated (wrong) GFS codes, which is contrary to Order 23(1) of LGFM, 2009 which requires every charge of expenditure to be classified strictly in accordance with the details of the approved budget and the voted funds to be applied only to the purpose for which they were intended;
- For the ASDP Project, the Council had provided TZS 7.3 million to officers as special imposts to procure goods and services without using an official LPO;
- For the WSDP, the Council entered into contract with contractors for construction of water supply piped schemes in four villages at a contract sum TZS 1.8 billion out of which TZS 286 million were paid. The closing balance on this project as at 30 June, 2014 was TZS 3 million thus indicating that the Council did not have the financial capacity to meet its maturity obligations due to financial deficit of TZS 1,5 billion which is contrary to Reg.75 (1)-(2) of the PPR, 2013.

There was an overpayment of TZS 48.7 million to a construction contractor over and above the contract price.

(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures

Bunda DC has no user friendly manuals to map work and document flows in financial areas. The council staff makes use of LAAM and the LGFM for LGAs. Additionally, in course of our discussions it was known that staff adopts other internal control procedures based on their experience. CAG in its management letter for 2013-14 notes that there is no documented and approved risk management policy in place.

Table 53 indicates our assessment of the comprehensiveness of available internal controls and staff understanding of them as noted in course of our discussions at Bunda DC and as evidenced by weaknesses pointed out by the internal and external audit reports.

Table 53: Assessment of internal control areas

Internal control areas	Present provisions prescribed for LGAs	Observation
<ul style="list-style-type: none"> Segregation of duties 	<p>Para 11 of the LGFM prescribes that the Finance Committee shall approve written procedures for control of finances and the Director/Treasurer shall assign specific responsibilities for each post, divide responsibilities among staff ensure periodic rotation and institute a system of internal checks.</p>	<p>Though staff in general appeared to be aware of their responsibilities there is absence of documented procedure manuals that would help to explain to staff the step by step tasks to be accomplished while executing the control functions and the flow of documents and information integral to the processing of financial transactions.</p>
<ul style="list-style-type: none"> Authorization of transactions and activities. 	<p>The Authorizing officers for expenses must ensure that all expenses are lawful and duly authorized, are backed by funds, achieve value for money and are properly supported by documents (Para 10 of LGFM)</p>	<p>The Internal Audit reports (for 4 quarters) reviewed and the CAG one (for 2013/14) highlighted incidences of payments vouchers without supporting documents.</p>
<ul style="list-style-type: none"> Adequacy of verification processes 	<p>The verification requirements for transactions and their frameworks are defined by the LAAM and LGFM</p>	<p>Internal audit reports have pointed out repeated instances of payments that were made without the required pre-audit, which is aimed at verifying accuracy and completeness of the transactions.</p>
<ul style="list-style-type: none"> Physical control of assets and records 	<p>Para 88 of LGFM prescribes maintenance of a Motor Vehicles register and Para 103 of a Register of Fixed Assets</p>	<p>CAG in its management letter for 2013-14 notes that the council maintains a fixed asset register but does not contain, identification code, group of assets, method of financing, maker or manufacturer, and the date of acquisition.</p>
<ul style="list-style-type: none"> Internal Oversight function 	<p>Audit Committee is a mandatory requirement under Para 12 of the LGFM performing functions of oversight, review of all audit reports, coordination and</p>	<p>The Audit committee did not meet for the whole of 2013-14. Therefore, there was no oversight in terms of approval of the annual work plan, nor follow up of external auditor recommendations, no approval of quarterly council performance reports.</p>

Internal control areas	Present provisions prescribed for LGAs	Observation
	advice to the Accounting officer.	

(iii) Degree of compliance with rules for processing and recording transactions

LAAM describes, in detail, rules for processing and recording transactions. The CAG’s Management Letter for FY 2013-14 points out notable instances of weaknesses in compliance for 2013/14. Table 54 shows such select cases of non-compliances to rules.

Table 54: Select cases of weaknesses in internal controls

Area	Issue	Implication
Revenue management	Three revenue receipt books were not returned to Treasurer as they were not produced when called for audit purpose	Revenue collected on these revenue receipt books could not be confirmed to have been remitted to the council headquarters, which could result into misuse of the revenue collected
	Delay in banking of revenue collections amounting to TZS 96 million with delay period ranging from 11 to 77 days	Delay in banking may result to misappropriation of the revenue collections.
	Revenue not remitted by revenue collecting agents amounting to TZS 13.5 million	Breach of contract between the Council and revenue collecting Agents. Non-collection of revenue might lead to non-implementation of activities planned under own sources budget.
	30% of land rent amounting to TZS 11.4 million not refunded back by the Ministry of Lands	Failure to receive said funds from the Ministry affects the Councils budget resulting in some of the activities not being implemented.
Expenditure management	Lack of documentary evidence to justify existence of reported payables TZS 3.2 million	Improper payments. Propriety of payments cannot be confirmed with possibilities of fund misappropriation as referred to by the CAG.
	Improperly vouched expenditure amounting to TZS 4 million	Validity and genuineness of payments could not be confirmed in absence of relevant supporting documents with a possibility that Council may be funding ineligible expenditures.
Cash management	Shortage of funds in one account led to withdrawal of funds from another	Intended activities may not be accomplished as per approved budget

Area	Issue	Implication
		due to funds being utilised in other activities.
Accounting	As at 30 June 2014 the Council had outstanding: <ul style="list-style-type: none"> - Accounts Receivables balance of TZS 3.5 billions with no age analysis - Accounts Payables balance of TZS 3.4 billion with no age analysis 	Inadequate follow up on debtors collection and inadequate control over credit management by the Council management.
Procurement	Procurement worth TZS 51 million undertaken without being budgeted and doubtful procurement amounting to TZS 7.3 million undertaken for goods and services through imprests Tenders amounting to TZS 646.7 million were advertised, however there was no documentary evidence to confirm that these were approved by the Tender Board	Procurement undertaken might not represent the best value for money that could be reasonably obtained if the competitive method was applied Procurement for the goods or services, might have no representation of best value for money that could have been approved or disapproved by the board.
Asset management	Improper maintenance of fixed assets register which does not include the following information: identification code; group of assets; method of financing; maker or manufacturer; date of acquisition or in case of building date of completion	Improper maintenance of fixed assets register may lead to inaccurate valuation of assets and hence misstatement of the financial statements
Internal control	Lack of risk management and control processes for environment assessment	Potential risks may not be identified and appropriately managed

Source: CAG Management Letter 2013-14

On closing of accounts on a monthly, quarterly and annual basis the Council runs the error report and prepares Journal Voucher (JV) to rectify the identified errors. However, the Council does not maintain a record of error rate for the respective period. Therefore, it was difficult for this assessment to conclude on the error and/ or rejection rates and confirmation on the understanding of the rules and compliance with them.

The observations made by the IAG and CAG on the extent of errors, omissions and misclassification in the financial statements produced and submitted which have to undergo revision after scrutiny is a pointer to the state of the underlying compliance mechanism and degree of adherence to rules for processing of transactions.

Table 55: Summary of rating under PI-20

Indicator	Rating	Brief explanation
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PI-20 Effectiveness of internal controls for non-salary expenditure		
	D+	
i. Effectiveness of expenditure commitment controls	D	Commitment control in EPICOR system is not completely effective due to cash rationing such that funds are not disbursed wholly as budgeted. As a result, commitments are entered into system on receipt of each disbursement, but expenditure for some council activities continue to be incurred by raising LPOs outside the system even during the time of no funds. This practice, result in payment arrears.
ii. Comprehensiveness, relevance and understanding of other internal control rules/procedures.	C	Regulations/manuals have been updated to reflect recent public financial management reforms. However, there is no evidence of a proper guidance for the council staff neither on the day to day operations nor on the complexities of operations in a computerized environment. How far the internal control breaches pointed out by auditors are attributable to such factors will need to be assessed by the LGA.
iii. Degree of compliance with rules for processing and recording transactions	D	The nature of non-compliance to rules, and findings from CAG's Management Letter are significant and indicate serious compliance issues to the internal control requirements.

PI-21 Effectiveness of internal audit

Financial statements of every LGA should be audited internally by an internal auditor as stated in the Section 48 of the LGFA. Additionally, the LGFM (2009) provides the roles and responsibilities of the Internal Audit Unit.

The Internal Audit Manual for LGAs (revised in July 2013) provides guidance for the day to day activities of the Internal Auditor. In addition, internal audit in LGAs is required to comply with the International Professional Practice Framework issued by the Institute of Internal Auditors.

Para 13(2) of the LGFM articulates the mandate for the Internal Auditor to appraise the soundness and application of accounting, financial and operational control. Sub-para (a) to (e) of Para 14 of the LGFM specifies areas that the internal audit is required to focus on.

Effectiveness of the Internal Audit for LGAs in Tanzania is further strengthened through ongoing capacity building initiatives by the Local Government Audit Section at the Internal Auditor General (IAG)'s Department at the MoF that was established in June 2010, under the pronouncement of Cap

348 of the amended Public Finance Act. The Local Government Audit Section at the IAG's office has the duty to review and compile audit reports from LGAs and prepare a summary of major audit observations, recommendations and advice accordingly on the improvements needed.

(i) Coverage and quality of the internal audit function

Internal Audit is a separate unit in the Bunda DC organisation structure. While the financial regulations are not explicit on the size of the Internal Audit Unit (IAU), in practice, it is headed by the Chief Internal Auditor who reports to the DED. Supporting the Chief Internal Auditor are three other audit staff, making the total number of employees in that department four. Selection of these positions are done at the central level through PO-PSM, and the required entry qualifications are as follows:

Position	Qualifications
Chief Internal Auditor	<ul style="list-style-type: none"> • Degree in Accounting and Finance and Certified Public Accountant • MBA and/or Advanced Diploma in Accounting and 8 years of Experience is a bonus
Internal Auditors	<ul style="list-style-type: none"> • Degree in Accounting and Finance or first class in Advance Diploma in Accounting • MBA and one year of experience is a bonus

During our assessment of Bunda DC, we observed that the Internal Audit Function (IAF) was independent of the payment and accounting processes. We also confirmed that the Internal Auditor covered all activities of the council, public service delivery units and the village level governments.

An observation of the current audit plan for 2014-15 showed that it was risk based and drawn up based on a careful consideration of potential risk exposures of critical LGA areas. We were informed by the Chief Internal Auditor in Bunda DC that out of the total available effective audit days of 260, 5% of the time was planned for administration activities and 95% for audit of various project activities as detailed in the Table 56.

Table 56: Distribution of audit activity

Days	Activity
26.2% (68 days)	Works
11.2% (29 days)	Primary Education
10.4% (27 days)	Secondary Education
10% (26 days)	Dispensaries/Clinics
8.8% (23 days)	Finance Department
8.1% (21 days)	Agriculture
8.1% (21 days)	Planning, Trade and Economy

Days	Activity
5.8% (15 days)	Health Centers
5.4% (14 days)	Rural Water Supply
4.6% (12 days)	Administration and General
1.5% (4 days)	Natural Resource

Although discussions with the DIA and review of the Internal reports confirmed that the IAF performed both transaction as well as systems audit, there was no evidence of conscious quantification of time spent between the transaction and systems audits (in the absence of time sheets). Though a specific split between system based and transaction based audit was not readily available in the audit plans, the audit included areas and objectives that could be performed by a mix of verification of systems compliance as well as assurance that all transactions are evidence based and in line with laid down policies. A review of six recent quarterly Internal audit reports and the nature of comments and observations mentioned in such reports showed that about 46% of the focus was on systemic issues and the balance on transactions/compliance in the first quarter of 2013-14. The coverage further went down to 11% in the second quarter. Breakdown of internal audit focus per quarter is presented in Table 57.

Table 57: Breakdown of internal audit issues in reports per quarter

Quarter	Systems – areas (%)	Transaction/compliance – areas (%)
1 July – 30 September 2013	5 (46%)	6 (54%)
1 October – 31 December 2013	1 (11%)	8 (89%)
1 January – 31 March 2014	1 (25%)	3 (75%)
1 April – 30 June 2014	0	3 (100%)
1 July – 30 September 2014	0	3 (100%)
1 October – 31 December 2014	0	1 (100%)

The CAG in his management letter for the FY 2013-14 highlighted a number of issues relating to internal audit in Bunda DC including:

- Financial dependency of the internal audit unit on the council management impacts the independency of the internal audit function
- There is no documented audit approach for the internal audit arrangements
- The current audit practices does not ensure maintenance of adequate and detailed documentation (including working papers) for the audit and evidence for findings in the audit reports.

(ii) Frequency and distribution of the reports

Para 14(7) of the LGFM requires the Internal Auditor to prepare and submit two (2) reports to the Accounting Officer – quarterly and annual reports, to be submitted 15 days after the end of the

quarter and the year, respectively. According to the internal audit reporting structure presented in the Internal Audit Manual for LGAs, the Head of IAU is administratively required to report to the Council Director, and technically/professionally to the Audit Committee. Para 14 (6) and 14(8) of the LGFM require that after action by the Finance Committee, the Accounting Officer is required to forward a copy of the internal audit report to the CAG (residential auditor), Permanent Secretary for PMO-RALG, and RAS within 15 working days from the date of receipt from the Internal Auditor. However, it was brought to our attention that in accordance with a recent decision, internal audit reports are not shared with PMO-RALG.

In addition, the Accounting Officer is also required to submit the signed internal audit report to the office of the IAG at the same time as above as stipulated in the letter by the Paymaster General (PMG) with reference number LH.274/680/01/56 dated 23 November 2011.

As part of our assessment in Bunda DC, we observed that the council prepared quarterly reports. We reviewed a total of six quarterly internal audit reports starting from 30 September 2013 to 31 December 2014. The Chief Internal Auditor informed us that they did not prepare a specific annual report. However, the last quarterly report for the financial year summarizes the Internal Auditor's observations for the year by incorporating accumulated issues that remained outstanding at the end of the year and also mentions the challenges the IAU faced for the year.

We also noted that the IAU reports were submitted to the Council Director during the Full Council meeting that are held in the following month after the end of the previous quarter. On many occasions, the report is submitted to the Council Director after the end of the following month of the quarter.

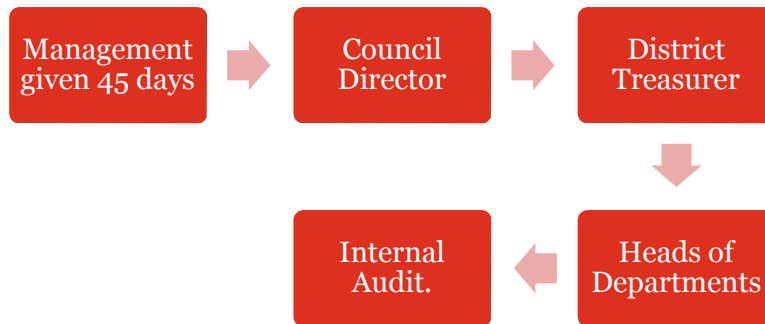
Table 58: Dates for distribution of Internal Audit Reports

SN	Period	Date submitted to Council Director	Date Council Director forwarded to CAG, PMORALG, RAS and IAG
1.	1 July – 30 September 2013	17 October 2013	17 October 2013
2.	1 October – 31 December 2013	17 January 2014	Not available
3.	1 January – 31 March 2014	08 May 2014	08 May 2014
4.	1 April – 30 June 2014	18 August 2014	18 August 2014
5.	1 July – 30 September 2014	30 December 2014	30 December 2014
6.	1 October – 31 December 2014	15 January 2015	Not available

(iii) Extent of management response to internal audit findings

Section 12 of the LGFM requires there to be an Audit Committee for each council that is responsible, among other tasks, to meet at least quarterly and review all internal and external audit reports involving matters of concern to Management of the Council; and provide advice to the Accounting Officer on action to be taken on matters of concern raised in the audit reports.

Once quarterly reports are issued, the recommendations go through a process as seen below.



The Council Director is responsible to provide responses to the matters raised by the Internal Auditor through the Heads of Departments. Evidence contained in the Internal Auditor’s reports indicated that the responses to the IA findings are either delayed or sometimes not forthcoming at all. Delays in responding to internal audit comments lead to recommendations being repeated from one quarter and year to another.

Table 59: Status on recommendations

Quarter	No. of implemented recommendations from previous quarter	No. of recommendations still outstanding from previous quarter
1 July – 30 September 2013	8	10
1 October – 31 December 2013	4	5
1 January – 31 March 2014	5	7
1 April – 30 June 2014	6	12
1 July – 30 September 2014	3	9
1 October – 31 December 2014	5	9

It is clear from the above status that actions on recommendations are delayed. The CAG in his Management Letter for Bunda DC has also indicated that the council management does not provide responses in respect of internal audit recommendations. On the whole the lack of or delayed responses to audit recommendations reflect the insufficient attention of the key functionaries to this critical oversight function. It is hardly surprising therefore to notice the substantive violations of basic internal controls as reflected in the CAG audit reports of the last two financial years

In addition, the functioning of the Audit Committee as pointed out by the CAG requires considerable improvements since at present they are not called for discussions with the external auditors, do not

review the financial statements affirmed by the management and neither assess the overall risk environment at the Council.

Table 60: Summary rating for PI-21

Indicator	Rating	Brief Explanation
PI-21 Effectiveness of internal audit	C+	
(i) Coverage and quality of the internal audit function.	C	While there are targeted coverage of functional areas based on risk based plans that included both transaction and system based audits and the sample audit reports showed significantly low coverage of systems audit (below 40%).
(ii) Frequency and distribution of reports	B	Reports are distributed to the Council, CAG, PMORALG, IAG and RAS on regular basis. In the past, there are cases where the reports are issued after the month following the quarter.
(iii) Extend of management response to internal audit findings	C	Due to the absence of a structured system of follow up of audit observations as revealed from the comments in the audit reports and the limitations of clarity in aging of observations and delays in management responses has made the rating to C.

5.4.3. Accounting, Recording and Reporting

PI-22 Timeliness and regularity of accounts reconciliation

Since verification and validation of the transactions booked in the accounting system is important from the perspective of ensuring data reliability and the quality of the financial reports, this indicator examines the regularity of reconciliation of bank accounts and other accounts including suspense accounts and advances.

(i) Regularity of Bank Reconciliations

Para 29(2) of the LGFM prescribes that the Council Treasurer has to ensure all reconciliations including those between control and individual accounts and that between cash books and banks statements are carried out at monthly intervals and all adjustments effected. Section 7 of the LAAM prescribes the modalities of preparation of bank reconciliation statements.

Bunda DC has seven (7) active bank accounts. Bank reconciliations are regularly performed on all bank accounts on a monthly basis and are available by the 15th of the following month for the previous month. The status of reconciliations at the time of our visit on 12 and 13 March 2015 is shown in Table 61.

Table 61: Reconciliation status

S. No.	Name of Account	Last completed Reconciliation month
1	Development Cash Account	28/02/2015
2	Own Source Revenue Cash Account	28/02/2015
3	Road Fund Cash Account	28/02/2015
4	NWSDP Cash Account	28/02/2015
5	Personal Emolument Cash Account	28/02/2015
6	Other Charges Cash Account	28/02/2015
7	Miscellaneous Deposits Cash Account	28/02/2015

As can be seen from the Table above, Bunda DC is regular in terms of preparing bank reconciliations, the latest being for February 2015 for all of its seven bank accounts. Our review of the bank reconciliation statements revealed that they were prepared in time and reviewed by the District Treasurer by the 15 March 2015. The assessment team noted that bank reconciliations were prepared on the EPICOR system, and at a detailed level and there were no unresolved differences between the council's cash account and the bank statements for all the seven accounts.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

In terms of the provisions of Section 40 of the LGFA, LGAs are authorized to make advances and operate deposit and suspense accounts. However, we were informed that based on instructions issued by the MoF, there is no usage of suspense accounts in LGA transactions at present in Bunda DC. Our discussions confirmed that staff advances for salaries were being given and this is also borne out by the latest audited financial statements for FY2013-14. The norms for making personal advances to employees as prescribed by para 41 of the Financial Memorandum only covers (i) salary advances up to a maximum of three months with the salary recoverable over a maximum of 12 instalments (ii) personal salary advance not exceeding one month pay and recoverable in the same month. Paras 5.17 and 5.18 of LAAM prescribes registers for imprest and salary advances respectively. Para 39 of the LGFM permits LGAs to issue standing imprests for minor cash purchases which need to be settled at monthly or shorter intervals. Para 40 of the FM also allows special imprest which needs to be settled within two weeks. Failure leads to a surcharge being levied.

The financial statements for FY 2013-14 indicate at the end of year, outstanding salary advances and imprest amounted to TZS 17.6 million. The financial statements does not provide the age analysis of the advances and imprest. The CAG in his Management Letter for FY 2013-14 reported that "audit scrutiny of payments made through other charges account and its related records disclosed that, other changes amounting to TZS 5.2 million were paid as imprests to different officers to meet various expenditures but retirement particulars for such imprest were not produced when called for audit". These work out to 29.5% of the balances outstanding as on March 2014.

Table 62: Summary rating for PI-22

Indicator	Rating	Brief Explanation
PI-22 Timeliness and regularity of accounts reconciliation	C+	
(i) Regularity of Bank Reconciliations	A	Bank reconciliations for all the bank accounts take place on a monthly basis at aggregate and detailed levels and are prepared within two weeks of the end of the previous month.
(ii) Regularity of Reconciliation and clearance of Suspense Accounts and advances	C	.Though reconciliation takes place annually there were a significant number of balances that are unretired and unaccounted for amounting to about 30% of such balances as on March 2014

PI-23 Availability of information on resources received by service delivery units

- (i) 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**

Problems can arise in front-line service delivery units (SDUs) in obtaining resources that were intended for their use. This indicator covers primary education and health care SDUs that are under the responsibility of the LGAs. Only those SDUs which are within the jurisdiction of the LGAs are covered under this indicator.

LGAs are responsible for the provision of primary education. This is provided in the local government district and urban authorities laws of 1982, and in the Education Act No. 25, 1978. PMO-RALG is responsible for the establishment, management and administration of primary schools. Funds are transferred from the Treasury to the district and urban councils, and the council transfers the funds to the schools according to a set capitation grant limit and for school construction programmes.

There are a total of 166 primary schools in Bunda DC comprising of 160 public and 6 private schools. In addition there are 34 secondary schools comprising of 26 public and 8 private schools. The Council only provides counselling support to the private schools.

The Central Government disburses funds to the LGA depending on availability of cash. After funds have been received, the Bunda District Education Officers (Secondary and Primary) prepare a schedule of disbursements (relating only to the amount of funds received) which is approved by the District Treasurer and DED. Thereafter the Council transfers funds directly into the schools' bank. Disbursements to schools fall under the following categories: (i) capitation grants (SEDP and PEDP);

(ii) Capital Development Grant (CDG); (iii) Other Charges (OC); (iv) in-kind transfers which include books centrally procured by PMO-RALG; and (v) other allowances for meals (for secondary schools operating under boarding arrangements).

The use of capitation grant funds disbursed to the schools are strictly in accordance with the PEDP and SEDP Programme Documents and Guidelines issued by the Ministry of Education and Vocational Training. In summary:

- PEDP requirements are as follows:
 - Capitation grant to be disbursed to the school in the ratio of TZS 10,000 per student;
 - Schools to use capitation grants as follows: 30% for renovations; 30% for procuring of teaching materials and sports accessories; 20% for administration; and 20% for tests and exams;
 - No text books to be procured using Capitation Grant as text books are centrally procured by the Ministry.
- SEDP requirements are as follows:
 - Capitation grant to be disbursed to the school in the ratio of TZS 25,000 per student;
 - Schools to use capitation grants for the purchase of teaching and learning materials only.

The PEDP and SEDP guidelines require Heads of Schools to exercise transparency by informing the school boards and school community on the receipt and expenditure of capitation grant funds. Schools are also required to:

- Prepare procurement plans and submit them to the school boards for approval;
- Prepare quarterly reports on the use of capitation grants funds and submit to school boards and thereafter to the Council;

The Heads of Primary and Secondary Education Departments informed the assessment team that a list of funds disbursed to schools is prepared and provided to the Ward Education Officers for publishing on the ward and village notice boards. The Ward Education Officers are also kept in the loop when funds are disbursed to schools so that they can keep the council abreast in terms of when cash is actually received by schools and expenditure is planned.

The entire amount of capitation grant received by Bunda DC is disbursed to schools as per the disbursements schedule which is prepared in accordance with the SEDP and PEDP guidelines. CDG is for expenditure relating to construction and rehabilitation, part of which is disbursed to schools and part is expended by the Council on behalf of the schools. OC is for extra duty allowances, follow up and supervision, teacher academic learning, fuel, stationery, funerals, transfers etc. Schools provide acknowledgement to the Council on funds received by providing cash receipts.

Several institutions and NGOs support primary and secondary schools in Bunda DC. For example, in March 2015, NSSF supported the procurement of desks for certain schools. PCI is currently

supporting 60 schools by providing lunch. However, all of such support is provided through in-kind contribution and no cash is provided to the Council. When the project comes to completion, the physical asset is handed over to the council however no monetary value is calculated and not recorded on the Council's books of accounts.

Examples of other in-kind contribution include books procured through "Radar Funds" received from the UK government in FY2011-12 and FY2013-14 which were distributed to all schools in the District. President Barack Obama, as part of his visit to Tanzania also donated books for secondary schools.

The assessment team was provided with details of transfers made to schools in FY2011-12, FY2012-13 and FY2013-14 covering both cash and in-kind transfers from the Council. However, it must be noted that any in-kind transfers (such as books) does not have information on its monetary value and therefore only description and quantitative information is maintained.

Primary schools do not charge school fees to pupils i.e. primary education provided by public schools is essentially free. However, secondary schools do charge schools fees which is collected by the schools and deposited in the schools' bank accounts. Schools are not required to remit schools fees to the Bunda DC but have the autonomy to use the funds in accordance with spending decisions made by the schools' boards.

Primary and secondary schools prepare and submit income and expenditure reports at least on a quarterly basis to the Council. Furthermore, any expenditure incurred by the schools must be approved by the Council.

Most of the funds allocated by the Treasury to the Council for primary health centres are not disbursed directly to the health centres; rather Bunda DC incurs expenditure on behalf of the primary health centres and transfers the procured items to the primary units. Funds disbursements to health centres are either part of the Health Basket Fund or the Health Sector Development Grant using the guidelines provided in the respective programme documents. Hospitals, health centres and dispensaries also receive direct delivery of medicines centrally from the Medical Stores Department.

Hospitals, health centres and dispensaries collect user fees which are retained at the facility level and used in accordance with guidelines provided by the Council. Health facilities provide income reports to Bunda DC on a quarterly basis. Expenditure incurred by the health facilities are based on approval obtained from the Council. Therefore the Council is in a position to include health facilities' income and expenditure as part of its quarterly financial reports.

Like education, several NGOs support Bunda DC in the health sector, for instance by supporting the construction or rehabilitation of dispensaries, operating theatres etc. However, information on monetary value of the in-kind support to the health centres is not provided to the Council and therefore is not captured in the Council's books of accounts but appear as information in the quarterly management information report.

Bunda DC has complete information on funds transferred to schools and health centres. Schools and health facilities also provide financial reports on a quarterly basis indicating how the funds are used. The council is also involved in approving all expenditure prior to schools or health centres incurring them.

In the last three years, there have not been any special surveys undertaken in Bunda DC to collect data on resources to services delivery units. However, in 2010 a public expenditure and tracking survey was undertaken for primary and secondary education in Mainland Tanzania. Some of the issues highlighted in the study were (i) council management practices and decisions impact the timing, amount of the grant released, amount the grant received by the primary schools (ii) discretionary allocation of funds to the schools by the Councils.

Table 63: Summary of rating under PI-23

Indicator	Rating	Brief explanation
PI-23 Availability of information on resources received by service delivery units	B	<p>Our findings are</p> <ul style="list-style-type: none"> • Accounting systems do not capture all information at the individual service delivery level since each unit of service delivery is not defined as a cost centre (e.g. a particular school or health centre). But collated information is available from the system e.g. Health Admin department is a cost centre under which there are categories of dispensary, health centres etc. • However data is available at the department level at the LGA on transfers both cash and in kind (only quantitative description and no monetary value) for education and health. • Quarterly reports are available at the LGA but no consolidated annual report. No evidence was made available to us on the existence of complete data on transfers nor any annual report from the PMO-RALG. • PETS survey has examined systemic issues but there is no data available on service delivery units.
(i) 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.	B	

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

(i) Scope of reports in terms of coverage and compatibility with budget estimates

Bunda DC prepares in-year budget reports on a monthly basis through information generated from the EPICOR system. Separate reports for revenue and expenditure are initially generated providing actual information. These reports are then consolidated which provides information for the month as well as cumulative to date and compares with the approved annual budget. Information pertaining to annual performance as a percentages and variance is also provided in the monthly reports. The in-year budget reports provide aggregated information for all the departments including lower level service delivery units as well as development projects. Since the basis for preparing the in-year budget reports is the EPICOR system, these reports conform to the GFS classification of expenditure and revenue as adopted centrally. However, the in-year budget reports are manually modified and prepared in Microsoft Excel using information extracted from the EPICOR system. The reports, which do not provide information on commitments, are prepared by the Revenue and the Expenditure Accountants. The LGA explained that design of these reports have been made centrally and they do not have any control over their present contents.

(ii) Timeline of the issue of reports

The in-year budget reports are prepared on a monthly basis and discussed by the Council's Management Team. Any feedback and comments provided by the Management Team are taken on board as monthly reports are revised. Thereafter, the reports are presented to the Council's Finance Committee within 15 days following the end of the previous month. Feedback and comments from the Finance Committee are also taken into consideration as they are revised. Monthly reports are consolidated into quarterly reports and presented to the Full Council to be discussed during the Full Council's quarterly meetings. Feedback and comments from the Full Council are taken into consideration as the quarterly reports are finalised and submitted to the Mara RAS and PMO-RALG.

(iii) Quality of information

EPICOR is not customized in a manner that allows for in-year budget reports to be generated directly from the system. This undermines the quality of information contained in the in-year budget reports as they are prepared manually by exporting data from EPICOR to Microsoft Excel. This process necessitates entering some information manually which can be subject to errors and omissions. Ideally all reports should be available from established Integrated Financial Management Systems (EPICOR) which would enhance their credibility.

Table 64: Summary of rating under PI-24

Indicator	Rating	Brief explanation
PI-24 Quality and timeliness of in-year budget reports	C+	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	In-year budget reports are generated in line with the GFS 2001 classification of annual

Indicator	Rating	Brief explanation
(ii) Timeline of the issue of reports	A	budgets. This allows for direct comparison to the original budget. However, the expenditure information does not include details on commitments.
(iii) Quality of information	C	Reports by Bunda DC are prepared on a monthly basis and are issued by the subsequent month. Although reports are prepared using information generated from the IFMS, there are prone to errors and omissions that take place during the exporting process.

PI-25 Quality and timeliness of annual financial statements

Financial statements must be intelligible to the reader and complete by including all transactions of revenue, expenditure, assets and liabilities thereby contributing to transparency and overall quality. This indicator examines these aspects and in addition whether the financial statements are prepared and submitted for audit within prescribed timelines and drawn up as per recognised accounting standards.

(i) Completeness of the financial statement

Para 31(3) of the LGFM²⁶ prescribes the composition of the financial statements which are to include: (a) statement of financial position; (b) statement of financial performance; (c) statement of change in net assets; (d) cash flow statement; (e) statement of financial performance by function; and (f) statement of comparison of budget and actuals by nature and by function. The LGFM further prescribes that the formats of (a) and (b) above shall be those prescribed by the International Accounting Standards Board as applicable to the public sector. The financial statements are to be supported by disclosure of accounting principles and policies and provide explanatory notes for better understanding. Detailed itemised schedules are not stipulated to form part of the published accounts but the LGFM also specifies that supporting schedules must be made available to the CAG for audit.

Results of our assessment of the last available audited financial statements for Bunda DC for FY 2013-14 and underlying systems from the perspective of completeness are given in Table 60.

²⁶ References to the Local Authority Financial Memorandum 1982 includes amendments through CAP290 in 2002)

Table 65: Comments on audited financial statements

Topic	Comments
Components of financial statements	<p>Based on the last financial year audited till the date of our visit it was noted the financial statements for FY 2013-14 include statements on: (i) financial position; (ii) financial performance; (iii) changes in net assets; (iv) cash flow. In addition, the following matters are included:</p> <ul style="list-style-type: none"> • A Statement of Responsibility signed by the Accounting Officer containing affirmations on the compliance with internal controls, integrity of the financial statements and their compliance with IPSAS and the directives issued by the Ministry; • Notes to the financial statements; • Summary of significant accounting policies; • Statement of financial performance by function (key departments/service centres); • Comparison of budget and actual by nature (type of expense or income); • Comparison of budget and actual by function.
Consolidation of information	<p>We noted that the accounting information reflected in the financial statements included those of all the departments of the Council and its wards, operating service delivery units and villages. Since the production of final accounts is centralized, aggregation of information is undertaken by the District Treasurer based on accounting transactions incurred by units/wards. Based on our discussions, we understand that individual service delivery units (e.g. a single primary health care unit under the health department) are not considered as separate cost centres and financial statements cannot be generated centrally for such individual units. However their operations are integrated with the departmental expenditure and hence with the overall accounting system.</p>

The assessment team also noted that in the last two completed financial years, Bunda DC received unqualified audit report from the CAG. For both FY 2012-13 and FY 2013-14, the CAG indicated that the financial statements presented fairly, in all material respects, the financial position of Bunda DC as at 30 June 2013 and 30 June 2014 (respectively) and, its financial performance, and its cash flow statement for the year then ended in accordance with IPSAS accrual basis of accounting and Part IV of the Local Government Finances Act No. 9 of 1982 (revised 2000).

Though the annual financial statements provide in general full information required, but are not qualified due to some of the internal control weaknesses relating to matters such as non-return of blank receipt books by the collection agencies, unbanked revenues etc. show the existence of certain exceptions.

(ii) Timeliness of the submission of the financial statements

Para 31(1) of the LGFM prescribes that the final financial statements must be properly compiled and submitted to the Full Council and thereafter to the CAG within 3 months after the end of the financial

year. We note that for FY2013-14, the financial statements were approved by the Councillors in the Full Council meeting held on 29 September 2014 and submitted to the CAG on the following day i.e. 30 September 2014 but was received on 15 October 2014. A comparative table of the compliance to timelines for the last 2 financial years are enclosed.

Table 66: Bunda District Council: Submission timelines for financial statements

Activity	2012-13	2013-14
Approval by Full Council	30 August 2013	29 Sep 2014
Submission to National Audit office	24 th September 2013	15 th October 2014

(iii) Accounting standards used

Para 31(4) of the LGFM mentions that the LGA statement of financial position and statement of financial performance shall be in the "formats" prescribed by International Accounting Standards Board applicable to the public sector. The notes to the financial statements mention that they have been prepared based on the IPSAS and the provisions of the Local Government Finances Act. The notes also describe all the significant accounting policies applicable to the financial statements. For the last two accounting years completed FY 2012-13 and FY2013-14, the CAG has given an unqualified opinion. However, for FY2012-13, without qualifying his audit opinion, the CAG drew users' attention to a number of matters (see Dim I above). Some of the matters were substantive in nature and in our view raise issues related to the underlying controls and the capacity of the LGA to follow international standards prescribed by IPSAS.

It may be noted that based on the information available through our studies of national level assessments and discussions, IPSAS on cash basis is reported to be presently used for accounting by the Government of Tanzania. There are plans to move over to IPSAS on accrual basis in the near future. While LGAs are already on accrual basis of accounting the degree of compliance with IPSAS across the entire spectrum of transactions is not fully ascertainable in a study of this nature. In this connection, attention may be drawn to the text of the introduction to IPSAS which mentions as follows:

"Financial statements should be described as complying with IPSAS only if they comply with all the requirements of each applicable IPSAS."

The Annual Reports of the CAG for FY 2012-13 and FY2013-14 for LGAs have referred to the challenges of IPSAS based accounting in the context of significant errors/discrepancies in compilation which have to be corrected and the imminent need for training of LGA personnel on the accounting expectations for full IPSAS compliance. Taking into account the opinion of the CAG, it may therefore be construed that the presentation of the financial statements are based both on IPSAS as well as the stipulations of local legislation as defined in Part IV of the Local Government Finances Act.

Table 67: Summary rating for PI-25

Indicator	Rating	Brief Explanation
PI-25 Quality and timeliness of annual financial statements	B+	
(i) Completeness of the financial statements	B	Although the CAG provided an unqualified opinion for both FY 2013-14 and FY 2014-15, there are number of matters which indicates some exceptions to the completeness of the financial statements.
(ii) Timeliness of submission of the financial statements	A	The financial statements for the last two audited years FY 2012-13 and FY 2013-14 were submitted to the external auditors within the prescribed three months' time period from close of the fiscal year.
(iii) Accounting standards used	A	The application of IPSAS and/or corresponding national standards have been confirmed by the CAG in their report on the audited financial statements.

5.4.4. External Scrutiny and Audit

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

This indicator examines the dimensions of independent external audit with particular emphasis on its independence, the scope of coverage and its quality as evidenced by adherence to auditing standards. It also examines the promptness with which the audit reports are placed before the legislature and the effectiveness of the follow up mechanisms on audit recommendations.

(i) Scope/nature of audit performed (including adherence to auditing standards)

The regulatory basis for the audit of accounts of LGAs is provided by the Constitution, certain statutes and other regulations of the CAG. The table below summarizes the key components of the framework.

Table 68: Regulatory framework for external audit

Document	Remarks
Constitution of the United Republic of Tanzania 1997 (revised 2005)	Article 143 establishes the office of the CAG and defines its responsibilities and powers which includes the right to examine books and accounts and submit an audit report

Document	Remarks
The Local Government Finances Act 1982 (amended in 2002)	Section 48 mentions that the external auditor for a District council shall be the CAG.
The Public Audit Act 2008	Section 5 prescribes the Constitutional mandate to the CAG to audit and report on the financial statements including LGAs and Section 10(1) requires the CAG to examine the financial statements on behalf of the National Assembly and other functions as designated to him.
The Public Audit Regulations 2009	Defines the procedures through which the Public Audit Act would be put into practice

The National Audit Office of Tanzania (NAOT) is the Supreme Audit Institution (SAI) of the country and headed by the CAG.

Our review of the CAG audit report for Bunda DC shows that in essence it is in the nature of financial audit. It includes a detailed review of internal control systems and observations of the CAG on the control weaknesses which is furnished to the Council separately through a Management Letter. Based on our discussions with the NAOT, we understand that a risk based approach is adopted and the specific of the approach and methodology is determined keeping in mind the prescriptions of the Regularity Audit Manual (RAM) depending on the circumstances. Though the emphasis appears to be on financial transactions backed up by a systemic review of underlying processes, based on our discussions with the Bunda DC it was noted that Special Audits are also conducted by the CAG's office. However no special audit has been conducted for Bunda DC since FY2010.

Feedback from the NAOT also mentioned that there is a current GIZ funded project that is examining comprehensive audit for LGAs (as one of its components) which would include performance audit and certain pilots have been planned. Considerations of value for money which already form an integral part of audit of underlying transactions is one of the aspects of performance that is covered by the present audit approaches for LGAs.

The ambit of coverage for audit purposes is total –the entire aggregated LGA financial transactions including its departments and sub components comprising the wards, departments, and primary service units. However, keeping in mind the risk based approach, systematic sampling is adopted for each component of the financial statements and the methodology of sampling may vary. Based on our discussions with the NAOT, we were informed that in line with the RAM, the specific technique mandated to be adopted is a mix of (a) 100% selection where the number of items are small but of significant value or exposed to high risk or is cost effective considering its repetitive nature (b) selection of abnormal items or specific ones of high value (c) adoption of audit sampling in line with ISSAI auditing standards. Our discussions with the NAOT revealed that in general, on the average about 50 to 75 percent of expenditure were covered during the audit assessments. We also note from the CAGs comments on the scope of audit in his audit report for Bunda DC for FY 2013-14 that the

audit was on a sample basis and therefore findings are confined to the evidence made available in course of his audit.

Section 18 of the Public Audit Act prescribes that the CAG shall determine which auditing standards should apply and may issue auditing standards and code of ethics as applicable. NAOT is a member of the International Organisation of Supreme Audit institutions (INTOSAI), the Africa Organisation of Supreme Audit Institutions (AFROSAI) and Organisation of Supreme Audit Institutions-English Speaking countries (AFROSAI-E). Being a member of these, the NAOT is obliged to follow the International Standards of Supreme Audit Institutions (ISSAI) and International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFA). This is a matter also reaffirmed by the CAG in his report for the LGA.

(ii) Timeliness of submission of audit reports to the legislature

As per present practices as contemplated by the existing regulatory framework, the presentation of audited accounts is at 2 levels-the Council or local legislature of the LGA and finally at the National Assembly. Section 48(4) of the LGFA requires completion of audit not later than six months after the close of the financial year. Section 51(1) elaborates further and mentions that the signed audit report has to be provided to the LGA and copies given to the Minister, the Regional Commissioner and Director who will table it before the Council.

Furthermore, Section 34(1) of the Public Audit Act mentions that the CAG shall express his professional opinion and submit the audit report to the President and Minister within a period of nine months or such longer time as the National Assembly may permit from the date of closing of the financial year. Section 34(2) further mentions that such a report has to be tabled by the Minister in the Assembly within 7 days of the next sitting counting from the day he received the report.

In October 2012, the GoT issued a Bill Supplement (Subsidiary Legislation) amending various sections of the Public Audit Act No. 11 of 2008. The Bill has introduced a revised, orderly and chronological process by which the response by the GoT and the CAG report will be laid and discussed in the National Assembly. The sequence is as follows:

- a) On completion of the annual external audit, the LGA's Accounting Officer (i.e. DED) is provided with a draft Management Letter by the CAG detailing the findings and issues of the audit. Section 37 of the Public Audit Act and Section 89 of the Subsidiary Legislation (Audit Regulations 2009) allows the LGA 21 days within which to provide responses to the CAG on the issues raised in the draft Management Letter;
- b) After 21 days, the CAG freezes the responses received from the LGA and all outstanding issues are included in the final Management Letter. The CAG thereafter prepares the Annual General Report and submits to the President by 31 March each year for onward transmission to the National Assembly through the Minister. The President (or the Prime Minister on behalf of the President) is required to table the CAG's Annual General Report within seven days of the next sitting of the National Assembly;
- c) The Paymaster General consolidates outstanding issues as obtained from the final Management Letters of all the LGAs and prepares the Paymaster General's Annual Consolidated Report submits for the Minister to be laid to the National Assembly. A copy of the Paymaster General's Annual Consolidated Report is also provided to the CAG;

- d) The Minister shall then lay the CAG's Annual General Report together with the Paymaster General's Annual Consolidated Report (without action plans) before the National Assembly;
- e) The CAG's Annual General Report now becomes a public document, after being tabled in the National Assembly, but cannot be discussed at this stage until it has been deliberated upon by Parliamentary Oversight Committee (POC) or Local Authorities Accounting Committee (LAAC) for LGAs. As soon as the CAG's Annual General Report and the Paymaster General's Annual Consolidated Report is tabled in the National Assembly, the CAG releases the individual Audit Report together with the Audited Financial Statements and the Final Management Letter to each LGA;
- f) The POC/LAAC discuss the CAG's report together with the consolidated report, and prepare its report which may include comments and recommendations and submit it to the National Assembly;
- g) The deliberations of the POC/LAAC on 'every statutory report' (including the CAG's Annual General Report) is prescribed by the Parliament (i.e. the National Assembly and the President);
- h) The National Assembly then discusses the POC/LAAC report together with the Paymaster General's Annual Consolidated Report and the action plan submitted by the Minister.

Although the Annual General Report on the financial statements of all LGAs for the year 2012-13 was submitted by the CAG to the President on 28 March 2014, the CAG's audit report for Bunda DC was only received by the Council on 2 June 2014. The dates for submission of the LGA Reports to the National Assembly for the last few years were as follows:

Table 69: Receipt of Annual General Report of the CAG on the Financial Statements of LGAs

Financial year	Dates of receipt by National Assembly
2009-10	30 March 2011
2010-11	31 March 2012
2011-12	10 April 2013
2012-13	7 May 2014
2013-14	19 May 2015

The dimension requires the time taken between the date on which last financial statements are received by the CAG and the date on which the reports are submitted to the Legislature at the local level. In case of Bunda DC, the financial statement was submitted in September 2013 and the audited financial statement was submitted to the local legislature on 2nd June-2014, i.e. within twelve but more than eight months.

(iii) Evidence of follow up of audit recommendations

Para 7 of the LGFM which defines the responsibilities of the Council Director who is the Accounting Officer of the LGA, mentions timely response to queries of the CAG and the LAAC as one of his tasks. The Audit Committee which is supposed to meet at least once a quarter as per para 12 of the LGFM is expected to also review the external audit reports particularly involving matters of concern to the Council.

Our review and enquiries on follow up of external audit reports and the documentation produced by Bunda DC revealed outstanding issues from previous years that were yet to be resolved. Although responses are provided by the Council on individual issues raised by the CAG in the Management Letter, the similarity of the nature of many of the issues from year to year and the repetitiveness of many of the areas of weaknesses in accounting and internal controls to which such issues relate reflect that the quality of follow up on audit recommendations requires further improvement.

The CAG in his Management Letter for FY 2013-14 indicated that Bunda DC’s management lacked commitment in implementing audit recommendations. It was further reported that of the 28 recommendations provided to Bunda DC in FY 2012-13:

- None (0)% were fully implemented;
- 9 (32%) were under implementation;
- 19 (68%) were yet to be implemented.

The CAG in his management letter for FY 2013-14 also made the following comments:

- The Audit Committee did not undertake an assessment of the overall risk environment of the Council;
- The entity’s statement on internal control systems was neither included in the terms of reference nor reviewed by the Audit Committee before endorsement by the Accounting Officer and submission to the oversight Committee i.e. Council’s Finance Committee;
- The Audit Committee did not review the financial reports of the Council.

It is noteworthy that the Audit Committee meeting minutes were not shared with the Assessment Team.

This section deals with follow up of the CAG reports by the LGAs and the relevant ministry. Issues of follow up of comments of the LACC and national legislature are discussed in PI-28.

Table 70: Summary rating for PI-26

Indicator	Rating	Brief Explanation
PI-26 Scope, nature and follow-up of external audit	C+	
(i) Scope/nature of audit performed (including adherence to auditing standards)	B	The essence is the financial audit of the year end accounting statements but it also focusses on a risk based approach and significant as well as systemic issues. Audit also adheres to INTOSAI auditing standards. Performance audit per se is yet to start on a noticeable basis.

Indicator	Rating	Brief Explanation
(ii) Timeliness of submission of audit reports to legislature	C	The base period is the time taken for submission of the audit report to the national assembly after receipt of the final financial statements by CAG for audit. Bunda DC submitted the final statements for 12-13 to CAG in September 2013. CAG completed the audit report in March 2014. The audit report was submitted to the council for review on 2 June, 2014, approximately two month after completion. The audit reports (in consolidated form) were submitted to the national assembly on 07 th May 2014. Therefore, the audited statements were submitted to the National assembly as well as the LGA Council within 12 months of their receipt by the CAG.
(iii) Evidence of follow up on audit recommendations	C	Responses to management letters are made but evidence of systematic follow up is absent as evidenced by comments provided and repeat comments in subsequent years. The notable weakness of the Audit Committee functioning referred to by the CAG is a specific pointer to the state of follow ups in this regard.

PI-27 Legislative scrutiny of the annual budget law

The objective of this indicator is to understand the scope of the scrutiny by legislature, its processes of examination of the budget, the time available for review and the rules for in-year adjustments to the budget. As clarified by the Supplementary Guidelines applicable to sub-national governments of the PEFA Secretariat, references to legislature in this indicator implies the local LGA Council and not the national parliament.

(i) Scope of the Council's scrutiny

Bunda is governed by a District Council established under the Local Government (District Authorities) Act 1982 and the Full Council is responsible to take all decisions relating to the Bunda DC. There is a Finance, Administration and Planning Committee that deliberates on the budget proposals received and inputs from the District and Regional Consultative Committees are also considered. The final proposals are then forwarded to the Full Council for approval. Feedback received in course of our discussions and from the minutes of the approval meeting shows that the nature of the discussions relates to estimates of expenditure and revenue. The assessment team was also informed that the Full Council reviews the budget as well as the quarterly financial reports and annual financial statements. Our review of the minutes of the Full Council's meetings that were made available to us also confirmed that the Full Council deliberates on the budget, financial statements as well as CAG's audit report.

(ii) Extent to which the Councils procedures are well established and respected

Para 6 (d) of the LGFM mentions that the responsibilities of the Finance Committee include consideration of the recurrent and development estimates of all committees and presenting them to the Full Council for approval. Apart from the Finance, Administration and Planning Committee, Bunda DC has four other Committees: Economic, Works and Environment Committee; Council HIV/AIDS Control Committee; Education, Water and Health Committee; and Integrity Committee. We note that though Section 74 of the Local Government (District Authorities) Act (LGDA) mentions six distinct Committees, Bunda DC has combined the functions of these into five operating ones. The overall proceedings of meetings are conducted in line with the provisions of Part IV of LGDA.

For review of the budget proposals for the financial year 2013-14, minutes of meetings by the Full Council have been documented. Despite the adherence to the legislative procedures in practice, it cannot be said that these procedures, on a whole, are respected in principle. As in the case of the budget cycle for 2014-15, ceilings for development budgets are communicated to the LGA towards the end of the budget preparation cycle, i.e. once all discussions and negotiations have been completed by the Standing Committees. In line with the ceilings issued, budget estimates are revised and finalized by the District Council without consultation/ negotiations with impacted stakeholders.

(iii) Adequacy of time for the Council to provide a response to budget proposals

In relation to the financial year 2014-15, it was noted that the budget preparation cycle had been revised and the LGAs were required to submit their MTEF proposals to MoF by February 2014 to enable completion of scrutiny by March 2014. In relation to the budget for FY 2014-15, the chronological order of events were as provided in the following Table.

S. No.	Date	Activities	Participants
1	15 July 2013	Instructions to departments and villages on preparation of the budget	Heads of Department and Units
2	23 October 2013	Receiving of Village and Wards budget	DED
3	13 November 2013	Ensuring all areas in PLANREP are included	Heads of Department
4	14 November 2013	Receiving of Budget Guidelines and Manual	DED
5	27 November 2013	Preparation and Analysis of the Departmental and Sector's Budget	Department and Units
6	3 December 2013	Meeting on the units and department Budget and input to PLANREP	Heads of Department and their Deputies
7	27 December 2013	Compiling of the budget and finalizing for it to be discussed in various meetings	Heads of Department and their Deputies

S. No.	Date	Activities	Participants
8	03 January 2014	Presenting the budget to the Finance committee	DED
9	07 January 2014	Approval of Budget by the Full Council	DED

(iv) Rules for in-year amendments to the budget without ex-ante approval by the Council

According to Para 18(3) of the LGFM, Council approval is not required where virements are between items within the same vote provided these items were part of the original budget, there are no virements from other charges to personal emoluments and the overall budget amounts do not change. If any of these conditions are not met, approval of the Full Council is required. In addition, in terms of 18(4), no virements are allowed between development and recurrent budgets except in case of change in Councils contribution to the development budget out of own sources of revenue.

The assessment team was informed that in Bunda DC, virements are done after approval by the Finance Committee and Full Council approval and inputs of such virements are provided to PMORALG. Our review of a sample of minutes of the Full Council's meetings revealed that Bunda DC does not breach of any rules pertaining to virement. Minutes provide details such as line items where funds are reallocated as well as the amounts being reallocated. This is backed by reasons for the allocations and revised budgets for the affected line items. As per feedback from Bunda DC, no supplementary budgets are being raised for additional expenditure.

Table 71: Summary rating for PI-27

Indicator	Rating	Brief Explanation
PI-27 Legislative scrutiny of the annual budget law	D+	
i. Scope of the Council's scrutiny	C	The Full Council deliberates on revenue and expenditure but only after detailed proposals are finalised.
ii. Extent to which the Council's procedures are well established and respected	B	Broad guidelines for budget review are provided for in the LGFM and LGDA. These include constitution of and review by specialised review committees or standing committees. However, given the reliance on transfers from the Central Government and the delay in communication on ceilings by MoF, the Council revises and finalises the budget estimates without consultation/ negotiation with the affected stakeholders. This undermines the effectiveness of the legislative procedures laid down for budget review.

Indicator	Rating	Brief Explanation
iii. Adequacy of time for the Council to provide a response to budget proposals	D	As per feedback available, the budget is approved by the council and its committees significantly less than one month. This is clearly insufficient for a meaningful debate.
iv. Rules for in year amendments to the budget without ex ante approval by Council	B	Clear rules exist in the LGFM on the in-year budget amendments procedures that can be undertaken by the council, and these are respected by Bunda DC as approval is sought from the Councillors before making any in-year budget amendment decisions.

PI-28 Legislative scrutiny of external audit reports

This indicator analyses the timeliness of examination of audit reports by the legislature, the nature of hearings, recommended actions and how far they are being implemented by the Councils.

(i) Timeliness of examination of audit reports by the legislature (for reports received in the last three years)

Section 51(1) of the LGFA requires that a copy of the annual accounts and the audit report shall be tabled before the Council. In addition Section 51(4) requires that the Minister to submit these to the National Assembly.

Section 40(2) of the Public Audit Act 2008 requires the Paymaster General (PMG) to receive responses and action plans from the Accounting Officers and submit the same to the Minister who will place it before the National Assembly. A copy of consolidated responses and action plans is also required to be provided to the CAG. Section 40(4) requires the CAG to comment on the actions taken in his next report.

The scrutiny of the LGA accounts is therefore at two levels: at the local level by the Councils; and at the national level the Annual Report of LGAs by the National Assembly. By the recent amendment to the Public Audit Act in 2012, the legislature is mandated not to consider audit observations without having responses from the executive. The amendment requires the CAG report not to be tabled before the National Assembly until consolidated reports have been prepared showing responses by the auditees.

On completion of the audit, LGAs are provided with draft Management Letters by the CAG details issues and observation from the audit findings. LGAs are provided 21 days to provide written responses to the CAG on the observations.

Section 38 of the Public Audit Act requires the Local Authority Accounts Committee (LAAC) to discuss the reports of the CAG after they are tabled in the National Assembly and submit reports including comments and recommendations. There are at present no deadlines set for review of the audit reports by the legislature. Table 72 provides the dates for the LGA reports for the last 3 audited years.

Table 72: Various dates for LGA reports

	2010-11	2011-12	2012-13
Month in which audit report was submitted	May 2012	May 2013	May 2014
Date of approval of audit report by Council	22 June 2012	24 July 2013	21 July 2014

(ii) Extent of hearings on key findings undertaken by the Council

Review of key findings of audit, as contemplated in the regulations is supposed to be undertaken by the Audit Committee at the LGA level and at the national level by Parliament. Para 12(5) of the LGFM mentions that one of the tasks of the Audit Committee is to review all internal and external audit reports and provide advice to the Accounting officer on matters of concern raised in the CAG reports.

There is no clear evidence of robust scrutiny of the audit observations or in-depth hearings on key audit findings. This was evidenced by observations included in the CAG's Management Letter for FY 2013-14 which indicated amongst other things the Audit Committee in Bunda DC does not deliberate on issues provided in the External Auditor's reports. Other weaknesses addressed by the CAG for the audit committee are as discussed in PI 26 dimension (iii).

At the national level the LAAC as one of the Parliamentary Standing Committee is expected to discuss the CAG reports with the related Accounting officers and report at least once a year their findings and recommendations to the National Assembly for discussions and resolutions. The information related to nature and the frequency of the LAAC meetings to discuss the CAG audit reports has not been made available. However the CAG Annual Report for FY 2013-14 indicated that Bunda DC received two directives from LAAC out of which the first was fully implemented and the second was under implementation.

Available feedback based on secondary studies on functioning of Parliamentary Committees in Tanzania, the post audit processes of submission to the national assembly and the results of LAAC deliberations as available through its observations and recommendations on the LGA reports shows the basic institutional structures for review do exist. However the functioning of the Committee may be constrained by time and resources (common to many of the other Committees) and also the delays in information submission and responses²⁷.

(iii) Issuance of recommended actions by the legislature and implementation by the executive

At the LGA level, queries and recommended actions from the CAG and the LAAC are required to be responded to by the Executive Director in terms of Para7 (f) of the LAFM.

At the national level, under the earlier provisions of the Public Audit Act (Section 40(3)), the responses to the legislative comments were to be taken into account before giving the consolidated responses by the Paymaster General. However based on the amendment of 2012, the PMG is under

²⁷ Parliamentary Centres' Report on the Role of Parliamentary Committees on Budget Oversight in Tanzania, 2012.

no obligation to do so. Furthermore, under Section 38(3) of the amendment, the CAG’s report cannot be tabled unless the responses to the report are also available at the same time. LGAs have 21 days within which to provide responses to the CAG.

Our review of internal audit reports, responses to Management Letters and the comments in the consolidated report of the CAG shows:

- Extensive recommendations are being made by the LAAC based on their review of the audited accounts
- The Council or the Director is generally responding to the audit observations
- Some matters arising from previous audit were partly attended and others were not attended at all. This shows that actions are only partially taken on the recommendations

Table 73: Summary rating for PI-28

Indicator	Rating	Brief Explanation
PI-28 Legislative scrutiny of external audit reports	D+	
(i) Timeliness of examination of audit reports by the Council (for reports received within the last three years)	A	Council approves the audit report within 6 months from receipt of the reports.
(ii) Extent of hearings on key findings undertaken by the legislature	D	The Audit Committee does not regularly review the audit reports as noted from the CAGs Management letter and not evidence was provided to us of any review by the Council.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	B	While actions are recommended by the LAAC, some of them are implemented as noted from CAGs observations.

5.5. Donor practices

D-1 Predictability of Direct Budget Support

D-2 Financial information provided by donors for budgeting and reporting on project and program aid

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

As per SN Guidelines for PEFA assessment, these indicators are applicable only when SN Government receives any direct donor funding. Based on our discussion with Bunda DC, it is understood that there are no direct donor funding. Hence, these three indicators are not applicable to Bunda DC.

6. Government Reform Process

6.1. Recent and On-going Reforms

Over the last two decades, GoT's reform strategies have aimed at (i) strengthening systems and processes with a view to enhancing efficiency, effectiveness, accountability and transparency in Government; (ii) developing and strengthening infrastructure to improve access to service delivery in specific sectors; and (iii) promoting democracy and good governance²⁸. Key relevant cross-cutting reforms that have been implemented by GoT in the recent past include:

- (i) Public Service Reform Programme (PSRP) whose broad objective was to improve efficiency, effectiveness and service delivery;
- (ii) Public Finance Management Reform Programme (PFMRP) which aimed at intensifying measures for mobilising public revenue and controlling expenditure;
- (iii) Local Government Reform Programme (LGRP) which focused on building capacity of the local government through Decentralization by Devolution (D by D); and
- (iv) National Anti-Corruption and Action Plan (NACAP) whose main objective is to strengthen mechanisms and processes for prevention and combating of corruption in Tanzania.

With respect to reforms at the local government level, the Government's 1998 Policy on Local Government Reform outlined the country's vision for decentralisation. It targeted four key areas – political devolution, fiscal decentralisation, administrative decentralisation and altered central-local relations. LGRP was designed to achieve the goals and objectives of this policy with rolled out in 2 Phases - Phase I, implemented between 1998 and 2008, and Phase II, implemented between 2009 and 2014, the latter being focussed on institutionalising and consolidating Phase I results. The consolidated thrust of reforms in these phases was to build capacity to assume greater responsibilities and efficiency in service delivery, creation of an enabling environment for realisation of the D by D objectives, and leading to empowerment and better accountability in functioning.

Despite the moderate success of LGRP in institutionalising enabling mechanisms for autonomous local governance, the D by D as a concept underpinning the reform programme was neither fully understood in spirit nor translated into interventions in principle. Consequently, the Programme promoted more of Decentralisation by De-concentration and Delegation rather than Devolution. This situation was further compounded by the mismatch in delegation of functions and devolution of resources. Achieving devolution of powers for human resource management to local governments was another key challenge that the Programme faced. Till date, the Prime Minister's (previously the President's) Office for Public Service Management (PO-PSM) continues to function as the central agency for human resources management and sector ministries still influence recruitment and selection, remuneration, deployment, promotion and career development of LGA staff.

LGRP was supported by another large scale reform programme – the PFMRP which was also rolled out in 1998. Phase I of PFMRP was implemented from 1998 to 2004 and targeted (i) minimisation of resource leakage; (ii) strengthening fiscal controls; (iii) enhancing accountability by reforming the budget process; and (iv) introduction of an integrated financial management information system (IFMIS). Phase II of PFMRP was implemented from 2004 to 2008 with an objective of modernising PFM systems through design and implementation of 'best practice' tools and techniques for revenue forecasting and alignment of resource allocation with strategic priorities. The key outputs of this Phase were the Medium Term Expenditure Framework, Strategic Budget Allocation System (SBAS),

²⁸ The United Republic of Tanzania, President's Office - State House, Reforming Tanzania's Public Sector, An Assessment and Future Direction, November 2013.

the Public Procurement Act (PPA), 2004, and the extension of coverage of IFMIS to LGAs. Phase III of PFMRP, implemented from 2008 to 2011, provided the necessary focus and resources for institutionalising the reforms introduced in the previous phases in an integrated manner.

As part of the first three phases of PFMRP, GoT also established a number of regulatory bodies to provide oversight functions for effective implementation of PFM policies and guidelines. These included - the Tanzania Revenue Authority; the National Audit Office headed by the Controller and Auditor General; the Internal Auditor General's Department; the National Debt Management Committee; the Public Procurement Regulatory Authority; the Public Procurement Appeals Authority; the Public Procurement Policy Unit; the Oversight Body for Parastatal and Public Enterprises; the Commission of External Finance; the Enhanced Public Accounts Committee; and the Reform Coordination Unit²⁹.

Phase IV of PFMRP was developed in line with GoT's first five year development plan (2011-12 to 2015-16), the National Strategy for Growth and Poverty Reduction/ Zanzibar Strategy for Growth and Poverty Reduction (MKUKUTA/ MKUZA) and the Vision 2025. The Phase commenced on 1 July 2012 and is slated for a closure on 30 June 2017. It aims to address existing critical limitations in PFM systems across six key result areas (KRAs) namely:

- KRA 1- Revenue Management;
- KRA 2 - Planning and Budgeting;
- KRA 3 - Budget Execution, Accountability and Transparency;
- KRA 4 - Budget Control and Oversight;
- KRA 5 - Change Management and Programme Monitoring and Communications; and
- KRA 6 - Strengthening PFM in Local Governments (added in the third year of PFMRP Phase IV implementation)

Key achievements of PFMRP IV so far include enactment of the newly drafted VAT Act and Budget Act from 1 July 2015; presentation of the Tax Administration Act to the Parliament in June 2014; modification of the Chart of Accounts used by the Central Government to accommodate program budgeting; finalization of regulations and development of strategy for clearance of arrears; notification of the Public Procurement Regulations, 2013; preparation of the draft National Procurement Policy; development of the National Debt Management Policy; preparation of a 5 year plan for migration towards IPSAS accrual accounting; and acquisition and installation of the IDEA software for internal audit.

While KRA 1-5 include select interventions for LGAs in addition to those targeted at ministries, departments and agencies (MDAs) of the Central Government, the sixth KRA focuses exclusively on the local governments and attempts to address the issues specific to these authorities. It targets achievement of three outputs at the LGA level – (1) improved resource allocation, planning and budgeting, (2) improved budget execution and financial reporting, and (3) improved oversight and financial accountability. Key activities included under PFMRP IV for LGAs, inter alia, include: (i) development and installation of electronic funds transfer and information systems and i-Tax system; (ii) development of templates for enabling Regional Secretariats to monitor resource flows from LGAs to LLGs; (iii) development of web portal on PMO-RALG website for monitoring fiscal transfers from

²⁹ The United Republic of Tanzania, President's Office - State House, Reform Tanzania's Public Sector, An Assessment and Future Direction, Annex I – Performance of Cross Cutting Reforms, November 2013

MoF to LGAs; (iv) enhanced use of IFMS at Regional Secretariats and LGA level; (v) training LGA officers on budgeting, projects coding/classification in PlanRep, IFMS, SBAS harmonised internal financial reports, auditing, report writing and PPA 2013.

6.2. Institutional Factors Supporting Reform Planning and Implementation

Government leadership and ownership

In recognition of the fact that many of the reform programmes contained overlaps or duplication and lacked synergy, which in turn resulted in weak ownership and inadequate service delivery linkages of the reforms, the institutional structures of present PFMRP initiatives have evolved out of experience.

Institutional arrangements under PFMRP IV: The governance arrangements under PFMRP III, although well documented, faced a number of challenges including: irregular meetings; inadequate separation of strategic and operational meetings; inconsistent dialogue mechanism between the GoT and development partners; and inadequate representation of key stakeholders in the programme meetings.

The institutional arrangements for the ongoing PFMRP IV comprise of three levels:

- *Joint Steering Committee (JSC):* The role of the JSC, which is Chaired by the Permanent Secretary MoF, is to provide overall strategic guidance as well as review and monitor the performance of the PFMRP. JSC, as the top level authority, reviews proposals from PMC, approves the budgets, action plans, progress reports and makes policy decisions.
- *Programme Management Committee (PMC):* PMC, which is the second level authority in the management of the programme, is co-chaired by the by the Deputy Permanent Secretary, PFM, MoF and the designated chair of the PFM DPG. PMC scrutinises plans and budgets, progress reports that have been prepared, reviewed and agreed by the Technical Working Group (TWG) . It draws conclusions and presents agreed recommendations for consideration by the JSC.
- *Technical Working Group (TWG):* TWG, which consists of designated component managers and DP counterparts, focuses on the implementation of the programme. TWG is a forum for detailed interactive technical discussions in order to build consensus and propose interventions for the way forward. TWG meetings are held on a needs basis on consultation throughout the implementation of the programme.

The overall responsibility for the programme management lies with the Permanent Secretary Treasury. The Deputy Permanent Secretary PFM is responsible for managing the programme on behalf of the Permanent Secretary. The Director of Planning Division, a designated Program Manager, is responsible for ensuring smooth implementation of the programme on the daily basis. The PFMRP Secretariat, headed by the Programme Coordinator, supports the Programme Manager in coordination of PFMRP IV implementation. The Secretariat, among others provides technical support, quality assurance, ensuring linkages between PFMRP and other reform programmes; liaising and sharing information with various stakeholders; and supporting monitoring and evaluation activities.

The Joint Supervision Mission 2015³⁰ noted that the programme was making good progress and 43% of the milestones were achieved, and another 31% were on track. Though performance varied across the different KRAs, as regards the local government component, there was significant progress that included commencement of roll out of the revenue management system (i-Tax) and strengthening of quality and technical support by the Regions to LGAs in PFM areas such as preparation of financial statements, monitoring, ensuring audit compliance etc.

A Mid-Term Review of the PFMRP IV undertaken in September 2015 indicated that programme has a success story of achievement and on the whole was under good management and control. However, leadership and coordination mechanisms may not be working in an optimal manner³¹. For example, JSC, PMC and TWGs did not meet as frequently as intended by the programme's operations; there wasn't a separate TWG for each KRA; and the quality review and assurance of programme's output was uncertain.

Key Challenges

Despite the wide range of intervention areas being addressed by the key reform programmes such as PFMRP, GoT and implementing agencies at all levels have demonstrated commendable ownership and commitment in roll-out activities, as is evidenced by the findings of the Mid Term Review of PFMRP IV as well as by the Joint Supervision Mission for the Programme discussed above. However, some of the key challenges faced in effective roll-out of reforms have been discussed below. Many of these also include those relating to PFM areas of the LGAs that was observed by the assessment team as a part of this assignment

- *Capacity constraints:* Inadequate training/ know-how and widespread vacancies in key positions appear to be recurring constraints faced by implementing agencies in adoption of PFM reforms. As examples - CAG's reports for LGAs across years have highlighted the persistent and immediate need for training of account officers in LGAs on accounting requirements of IPSAS. Vacancies in internal audit departments in LGAs have severely constrained the ability of LGAs to implement CAG's recommendations and/or ensure internal controls mechanisms are respected.
- *Multiplicity of financial systems:* The absence of a holistic approach to recording and monitoring financial information has led to the existence of multiple ICT systems in use by implementing agencies which (i) are stand-alone, i.e. do not speak to one another, and (ii) generate data/ reports using classifications that may not necessarily compatible requiring manual reconciliation. In case of LGAs, for example, the software used for preparation of budget estimates/ MTEF, PlanRep, is not linked to the key financial system used by LGAs for reporting, accounting and monitoring expenditure - EPICOR. This has exaggerated the weak linkages in the planning and budgeting processes of the local bodies.
- *Continued dependency of grants from the Central Government:* A specific challenge faced by LGAs and LLGs in the country is their continued inability to raise adequate own source revenue resulting in their near complete dependency on grants from the Central Government. This

³⁰ Joint Supervision Mission 2015, Aide Memoire (Report)

³¹ The United Republic of Tanzania, Ministry of Finance, Mid-Term Review for the Public Finance Management Reform Programme Phase Four, Final Report, INNOVEX, September 2015.

severely limits their ability to plan development spending and undertake effective cash management during the fiscal year.

- *Delay in counterpart disbursements from Government of Tanzania for PFMRP:* The Report of the Joint Supervision Mission 2015 for PFMRP under during September – October 2015 found that partial disbursements of programme funds in 2013-14 by the Government impacted completion of programme activities. In comparison to the 64% counterpart funding released by the Government, 93% of the foreign component was disbursed to implementing components. To reinforce its commitment to reforms to the development partners as well as to the implementing agencies, GoT needs to commit and disburse funds in a timely manner so that planned activities can be implemented within the agreed time schedule.

Annexure.1 Data Issues

The indicators, PI-1 and PI-2, analyze overall budgetary performance (Budget vs Actual expenditure). While PI-1 assesses the total variation, PI-2 assesses compositional variance.

The HLG-1 indicator analyses the planned and actual transfer of funds to LGAs and therefore supplements the analysis of the other two indicators by assessing how much of the budgetary performance has been impacted by deviations and timeliness of fund transfers from the Central Government to the LGAs.

Analysis by the consultants shows that there are variations in key data among different source documents such as the MTEF, the Annual Financial Statements, the statements of PMO-RALG, Accountant General and others.

This annexure provides a solution opted by the consultant for best use of available data that may be used for reporting on LGA performance within the norms of the PEFA framework.

Our further detailed studies and analysis has shown that the critical problem lies in (a) identification of the most reliable source documents for extracting figures of budgeted and actual expenditures and fund transfers, and (b) segregating donor funded figures which are envisaged to be not under the control of the Central Government and for which separate indicators at the central level are analyzed.

Our final approach towards such data challenges are as follows:

1. With reference to PI-1 and PI-2, the statements of the Annual Financial Statements (AFS) contains budget and actual expenditure which has been taken as the most reliable source since they have undergone the test of independent scrutiny by the CAG. This also satisfies the PEFA guide requirement using the same source for budget and actual expenditure to ensure consistency.
2. The annual financial statements contains budgeted and actual development transfers from the central government. The statements also contains actual recurrent transfers from the central government but do not contain budget recurrent transfers. Therefore, such information (budgeted recurrent transfers) have been sourced from separate excel sheets shared by the LGA.
3. Donor funded budget and actual expenditure figures are not separately available from the AFS. Consequently, segregating and deducting such donor support figures from the analysis required for PI 1 and 2 is not possible. PEFA Field guide allows donor funds to be included as a part of the total analysis and not be deducted if they do not comprise a significant part of the entity total expenditure.
4. Under these circumstances, donor funded expenditure is not deducted from the total expenditure for assessment on PI 1 and PI 2. To ensure consistency across indicator wise assessments, such transfers are also not deducted from the total transfers in HLG -1. This obviates the need to compile/extract such figures which are not readily available from the AFS/other reliable sources and still ensure the general reliability and integrity of the overall assessment within the PEFA framework.

Annexure.2 Mapping of Key Weaknesses

Table 74 maps the key weaknesses identified for Bunda DC across the performance indicators against the main stakeholders responsible.

Table 74: Mapping of Key Weaknesses

Sl	Topic	Key Weaknesses	Details	Key Stakeholder Responsible		
				LGA	PMO-RALG	MoF/GoT
1	Central Fund transfers	Predictability of fund transfers from the GoT is low	Uncertainties in the availability of quantum of funds, their composition and timing			
		Distortions in the formula based transfers	Though rule based transfers exist in concept, their application gets distorted in practice due to uncertainty in fund flows			
2	Quality of Budgeting	Delay in issue of ceilings for budgeting	Delayed issue of ceilings negates the orderliness of the budgeting calendar			
		Weak linkages between budgets and forward estimates	Figures of the next 2 years are extrapolated and there are no visible linkages between such forward estimates with budgeting which is based on previous year's ceilings for specific expenditure heads.			
		Absence of robustness in revenue estimation for own sources	Unrealistic revenue estimates distort cash flow expectations from own source collections			
3	Predictability & Controls in Execution	Commitment control systems are in disarray	Commitment controls affected by multiple factors as shown below:			
			a. Uncertainty in fund flows and weak revenue estimation			
			b. Lack of reliable data on arrears			

SI	Topic	Key Weaknesses	Details	Key Stakeholder Responsible		
				LGA	PMO-RALG	MoF/GoT
4	Internal controls and Accountability	Limited institutional capacity	c. Cash rationing resulting in distortions in rule based transfers			
			d. Lack of reliable forecasting through MTEF			
			e. Instances of procurements without budget, unsupported payments			
			Budget execution capabilities of LGA affected by:			
			a. Lack of confirmed heads of departments			
		b. Lack of adequate supervision capacity for project execution				
		Key weaknesses in internal control and oversight functions	Weaknesses in internal controls evidenced by:			
			a. Preparation of final accounting statements off line (outside EPICOR /IFMS)			
			b. Lack of comprehensively documented byelaws			
			c. Inefficiencies in the functioning of the Audit Committee			
d. Conflict of interest in tax assessment related complaints						
e. Weaknesses in Internal Audit such as non-comprehensive working papers, lack of a documented audit approach for the internal audit arrangements and financial dependency of the internal audit unit on the council management						
f. Lack of timely follow up of LAAC and audit recommendations						

Annexure.3 Disclosure of the Quality Assurance Mechanism

The following quality assurance arrangements have been established in the planning and preparation of the PEFA assessment final report for the Bunda District Council, Tanzania, dated 23rd July, 2016.

1. Review of Concept Note and/or Terms of Reference

Draft terms of reference were submitted for review to the following reviewers:

- i) PEFA Task Force Co-Chairs and Members on behalf of the government of the United Republic of Tanzania – in Feb. 2014
- ii) PEFA Secretariat, Washington in April, 2014
- iii) PFM Development Partners Group in April, 2014. This group included KfW (German Development Bank), DFID and World Bank

Final terms of reference was submitted to the Development Partners and the PEFA Secretariat in June 2014. This included a table showing the response to all comments raised by the reviewers.

2. Review of draft report

Draft report for Bunda DC was submitted for review at different dates to the following reviewers:

- i) Viviana Klein – KfW on 15th July 2015
- ii) Vivek Misra – DFID on 15th July 2015
- iii) Denis Biseko – WB on 15th July 2015
- iv) PEFA Secretariat, Washington on 19th July 2015
- v) Government of United Republic of Tanzania on 15th July 2015

3. Review of final draft report

The final draft assessment report was submitted to following reviewers in January, 2016 on the dates noted. This final draft report includes tables showing response to all comments raised by all reviewers.

- i) Viviana Klein – KfW on 24 February 2016
- ii) Vivek Misra – DFID on 24 February 2016
- iii) Denis Biseko – World Bank on 24 February 2016
- iv) PEFA Secretariat, Washington on 24 February 2016
- v) Government of United Republic of Tanzania on 24 February 2016

4. Additional information

Date of establishment of the assessment Oversight Team (PEFA taskforce)	December 2013
Chairperson and Members of the Oversight Team	<p>Co-chairs</p> <ul style="list-style-type: none"> ○ Mr. Kagyabukama E. Kiliba – Deputy Permanent Secretary, PMO-RALG <p>Members</p> <ul style="list-style-type: none"> ○ Mr. R.L. Mkumbo – DPD, MoF ○ Mr. Shomari Mukhandi – ADLG (F), PMO-RALG

	<ul style="list-style-type: none"> ○ Mr. Deogratius Ruhanmvyva (ADRA), PMO-RALG ○ Mr. M. Yangwe - (ADICT), PMO-RALG ○ Mr. Nyingi J. K. L. (LGRP II - Coordinator), PMO-RALG ○ Mr. Faraja Tarimo – ACGEN Division (Senior Accountant MoF) ○ Mr. Raheli Ntiga - Budget Division (Budget Officer, MoF) ○ Mr. Omari Msuya – Auditor, Internal Auditor General Department (MoF) <p>Reviewers from Development Partners Group</p> <ul style="list-style-type: none"> ○ Viviana Klein – KfW ○ Vivek Misra – DFID ○ Denis Biseko – WB <p>Taskforce secretariat</p> <ul style="list-style-type: none"> ○ Mr. Sebastian E.L. Ndandala – Program Coordinator, PFMRP ○ Ms. Chausiku Nyanda - (FMO, DLG – PMOLARG) ○ Mr. Alexander Lweikila – Communication Specialist, PFMRP ○ Mr. Linus Kakwesigabo – Finance Expert – PFMRP ○ Mr. Denis Mbilinyi, (FMO, DLG – PMO-RALG) ○ Mr. Niva Kahuluda (Accountant, LGRP II), PMO-RALG ○ Ms. Fortunata Soka, FMO, MoF ○ Mr. Ernest K. Laiton, FMO, MoF
<p>Name of the Assessment Leader (individual/entity/organization)</p>	<p>Ministry of Finance (MoF)</p>
<p>Names of the Assessment Team</p>	<p>Mr. Anjan Kumar Roy –Team Leader Mr. Bimal Gatha –Member Mr. Salum Lupande -Member</p> <p>Technical Backstopping Team Ranen Banerjee Neha Gupta Mehul Gupta</p> <p>Local Support Team Martin Kinyaha</p>

5. This form, describing the quality assurance arrangements is included in the final report.



Sub-National (Local Government) PEFA Assessment in Tanzania
Bunda District Council - Final Report - July 2016

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the **‘PEFA CHECK’**.

PEFA Secretariat

July 25, 2016

Annexure.4 Scoring Methodology under the PEFA Assessment Framework

All LGAs have been rated under the Public Expenditure and Financial Accountability (PEFA) Framework in line with PEFA Field Guide, 2012 and Supplementary Guidelines for Application of the PEFA Framework to Sub-National Government. These documents are publicly available and can be found at:

1. PEFA Field Guide: <https://www.pefa.org/sites/pefa.org/files/PEFAFieldguide.pdf>
2. Supplementary Guidelines: [http://www.pefa.org/sites/pefa.org/files/attachments/SNG-Supplementary-Guidelines-eng001%20\(Jan%2017\).docx](http://www.pefa.org/sites/pefa.org/files/attachments/SNG-Supplementary-Guidelines-eng001%20(Jan%2017).docx) .pdf

As per the PEFA Field Guide, there are two scoring methodologies - M1 and M2. M1 is used for all single dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator. For indicators with 2 or more dimensions, the steps in determining the overall or aggregate indicator score for M1 are as follows:

1. Each dimension is initially assessed separately and given a score.
2. Combine the scores for the individual dimensions by choosing the lowest score given for any dimension.
3. A '+' is added, where any of the other dimensions are scoring higher

M2 is based on averaging the scores for individual dimensions of an indicator as per the tables given below.

D	D	D
D	C	D+
D	B	C
D	A	C+
C	C	C
C	B	C+
C	A	B
B	B	B
B	A	B+
A	A	A

D	D	D	D
D	D	C	D+
D	D	B	D+
D	D	A	C
D	C	C	D+
D	C	B	C
D	C	A	C+
D	B	B	C+
D	B	A	B
D	A	A	B
C	C	C	C
C	C	B	C+
C	C	A	B
C	B	B	B
C	B	A	B
C	A	A	B+
B	B	B	B
B	B	A	B+
B	A	A	A
A	A	A	A

D	D	D	D	D
D	D	D	C	D
D	D	D	B	D+
D	D	D	A	D+
D	D	C	C	D+
D	D	C	B	D+
D	D	C	A	C
D	D	B	B	C
D	D	B	A	C+
D	D	A	A	C+
D	C	C	C	D+
D	C	C	B	C
D	C	C	A	C+
D	C	B	B	C+
D	C	B	A	C+
D	C	A	A	B
D	B	B	B	C+
D	B	B	A	B
D	B	A	A	B
D	A	A	A	B+
C	C	C	C	C
C	C	C	B	C+
C	C	C	A	C+
C	C	B	B	C+
C	C	B	A	B
C	C	A	A	B
C	B	B	B	B
C	B	B	A	B
C	B	A	A	B+
C	A	A	A	B+
B	B	B	B	B
B	B	B	A	B+
B	B	A	A	B+
B	A	A	A	A
A	A	A	A	A

The scoring methodology prescribed in the framework across all the performance indicators is given in Table 75.

Table 75: Scoring Methodology across Performance Indicators

Indicator	Methodology	Indicator	Methodology	Indicator	Methodology
HLG-1	M1	PI-10	M1	PI-20	M1
PI-1	M1	PI-11	M2	PI-21	M1
PI-2	M1	PI-12	M2	PI-22	M2
PI-3	M1	PI-13	M2	PI-23	M1
PI-4	M1	PI-14	M2	PI-24	M1
PI-5	M1	PI-15	M1	PI-25	M1
PI-6	M1	PI-16	M1	PI-26	M1
PI-7	M1	PI-17	M2	PI-27	M1
PI-8	M2	PI-18	M1	PI-28	M1
PI-9	M1	PI-19	M2		

The criteria for an ‘A’ rating across dimensions under performance indicators have been given in Table 76. Since this is the highest rating, it will help the LGA to assess what it needs to do to realize this rating as compared to its current rating as assessed in this report.

Table 76: Criteria for A rating across dimensions

PI	Description	Criteria for “A” Rating
HLG-1	Predictability of transfers from a higher level of Government	

PI	Description	Criteria for “A” Rating
(i)	Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter’s budget	In no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 5%.
(ii)	Annual variance between actual and estimated transfers of earmarked grants	Variance in provision of earmarked grants did not exceed 5 percentage points in any of the last three years
(iii)	In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within of month of start of the SN fiscal year)	A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading ⁴) in all of the last three years.

A. PFM Out-Turns: Budget Credibility

PI-1	Aggregate expenditure compared to original budget	out-turn approved	In no more than 1 of last 3 years has actual expenditure deviated from budgeted expenditure by amount equivalent to more than 5% of budgeted expenditure.
PI-2	Composition of expenditure out-turn compared to original approved budget		
(i)	Extent of the variance in expenditure composition during the last three years, excluding contingency items		Variance in expenditure composition exceeded 5% in no more than one of the last three years.
(ii)	The average amount of expenditure actually charged to the contingency vote over the last three years		Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.
PI-3	Aggregate revenue compared to original budget	out-turn approved	Actual domestic revenue was between 97% and 106% of budgeted domestic revenue in at least two of the last three years.
PI-4	Stock and monitoring of expenditure arrears		
(i)	Stock of expenditure arrears		The stock of arrears is low (i.e. is below 2% of total expenditure)
(ii)	Availability of data for monitoring the stock of expenditure arrears		Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile).

B. Key Cross-Cutting Issues: Comprehensiveness and Transparency

PI-5	Classification of the budget		The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation
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PI	Description	Criteria for “A” Rating
		according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)
PI-6	Comprehensiveness of information included in budget documents	Recent budget documentation fulfils 7-9 of the 9 information benchmarks
PI-7	Extent of unreported government operations	
(i)	The level of extra budgetary expenditure (other than donor funded projects) which is reported	The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).
(ii)	Income/expenditure information on donor-funded projects which is included in fiscal reports	Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).
PI-8	Transparency of inter-governmental fiscal relations	
(i)	Transparent and rules -based systems in horizontal allocation among lower level governments of unconditional and conditional transfers (both budgeted and actual allocations)	The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent & rules based systems
(ii)	Timeliness of reliable information to lower level governments on their allocations for the coming year	SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes.
(iii)	Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sector categories	Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.
PI-9	Oversight of aggregate fiscal risk from other public sector entities	
(i)	Extent of monitoring public enterprises	All major AGAs/PEs submit fiscal reports to central government at least six-monthly, as well as annual audited accounts, and central government consolidates fiscal risk issues into a report at least annually.
(ii)	Extent of Central Government monitoring of sub-national governments' fiscal position	SN government cannot generate fiscal liabilities for central government OR the net fiscal position is monitored at least annually for all levels of SN government and central government consolidates overall fiscal risk into annual (or more frequent) reports.
PI-10	Public access to key fiscal information	The government makes available to the public 5-6 of the 6 listed types of information

PI	Description	Criteria for “A” Rating
C. Budget Cycle		
(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the budget process	
(i)	Existence and adherence to a fixed budget calendar	A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.
(ii)	Guidance on preparation of budget submissions	A comprehensive & clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular’s distribution to MDAs.
(iii)	Timely budget approval by the legislature	The legislature has, during the last three years, approved the budget before the start of the fiscal year.
PI-12	Multi-year perspective in fiscal planning, expenditure policy, and budgeting	
(i)	Preparation of multi-year fiscal forecasts and functional allocations	Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained.
(ii)	Scope and frequency of debt sustainability analysis	DSA for external and domestic debt is undertaken annually.
(iii)	Existence of sector strategies with multi-year costing of recurrent and development/investment expenditure	Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts.
(iv)	Linkages between investment budgets and forward expenditure estimates	Investments are consistently selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.
(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	
(i)	Clarity and comprehensiveness of tax liabilities	Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the

PI	Description	Criteria for “A” Rating
		RA supplements this with active taxpayer education campaigns.
(iii)	Existence and functioning of a tax appeals mechanism	A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	
(i)	Controls in the taxpayer registration system	Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration	Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered.
(iii)	Planning and monitoring of tax audit and fraud investigation programs	Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment.
PI-15	Effectiveness of collection of tax payments	
(i)	Collection ratio for gross tax arrears being the percentage of tax arrears at the beginning of a fiscal year (average of the last two fiscal years)	The average debt collection ratio in the two most recent fiscal years was 90% or above OR the total amount of tax arrears is insignificant (i.e. less than 2% of total annual collections).
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.
(iii)	Frequency of complete accounts reconciliation between tax assessments collections, arrears records and receipts by Treasury	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.
PI-16	Predictability in the availability of funds for commitment of expenditures	
(i)	Extent to which cash flows are forecasted and monitored	A cash flow forecast is prepared for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows.
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	MDAs are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations.
(iii)	Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.

PI	Description	Criteria for “A” Rating
PI-17	Recording and management of cash balances, debt and guarantees	
(i)	Quality of debt recording and reporting	Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly
(ii)	Consolidation of government's cash balances	All cash balances are calculated daily and consolidated.
(iii)	System for contracting loans and issuance of guarantees	Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.
PI-18	Effectiveness of payroll controls	
(i)	Degree of integration and reconciliation between personnel records and payroll data	Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation.
(ii)	Timeliness of changes to personnel records and the payroll	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).
(iii)	Internal controls over changes to personnel records and the payroll	Authority to change records and payroll is restricted and results in an audit trail.
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers.
PI-19	Competition, value for money and controls in procurement	
(i)	Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold).	The legal framework meets all six of the listed requirements.
(ii)	Extent of justification for use of less competitive procurement methods	When contracts are awarded by methods other than open competition, they are justified in accordance with the legal requirements in all cases
(iii)	Public access to complete, reliable and timely procurement information	All of the key procurement information elements are complete and reliable for government units representing 90% of procurement operations (by value) and made available to the public in a timely manner through appropriate means.
(iv)	Existence of an independent administrative procurement complaints system	The procurement complaints system meets all seven criteria.

PI	Description	Criteria for “A” Rating
PI-20	Effectiveness of internal controls for non-salary expenditure	
(i)	Effectiveness of expenditure commitment controls	Comprehensive expenditure commitment controls are in place & effectively limit commitments to actual cash availability & approved budget allocations (as revised).
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/procedures	Other internal control rules & procedures are relevant, & incorporate a comprehensive & generally cost effective set of controls, which are widely understood.
(iii)	Degree of compliance with rules for processing and recording transactions	Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant.
PI-21	Effectiveness of internal audit	
(i)	Coverage and quality of the internal audit function	Internal audit is operational for all central government entities, and generally meets professional standards. It is focused on systemic issues (at least 50% of time).
(ii)	Frequency and distribution of reports	Reports adhere to a fixed schedule and are distributed to the audited entity, ministry of finance and the SAI.
(iii)	Extent of management response to internal findings	Action by management on internal audit findings is prompt and comprehensive across central government entities.
(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	
(i)	Regularity of bank reconciliation	Bank reconciliation for all central government bank accounts take place at least monthly at aggregate & detailed levels, usually within 4 weeks of end of period.
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.
PI-23	Availability of information on resources received by service delivery units	Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.
PI-24	Quality and timeliness of in-year budget reports	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.

PI	Description	Criteria for “A” Rating
(ii)	Timeliness of issue of reports	Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.
(iii)	Quality of information	There are no material concerns regarding data accuracy.
PI-25	Quality and timeliness of annual financial statements	
(i)	Completeness of financial statements	A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities.
(ii)	Timeliness of submission of financial statements	The statement is submitted for external audit within 6 months of the end of the fiscal year.
(iii)	Accounting standards used	IPSAS or corresponding national standards are applied for all statements.
(iv) External Scrutiny and Audit		
PI-26	Scope, nature, and follow-up of external audit	
(i)	Scope/nature of audit performed (including adherence to auditing standards)	All entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues.
(ii)	Timeliness of submission of audit reports to legislature	Audit reports are submitted to legislature within 4 months of end of period covered & in the case of financial statements from their receipt by the auditor.
(iii)	Evidence of follow up on recommendations	There is clear evidence of effective and timely follow up.
PI-27	Legislative scrutiny of the annual budget law	
(i)	Scope of legislature's scrutiny	The legislature’s review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue.
(ii)	Extent to which the legislative procedures are well established and respected	The legislature’s procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures.
(iii)	Adequacy of time for the legislature to provide a response to budget proposals	The legislature has at least two months to review the budget proposals.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.
PI-28	Legislative scrutiny of external audit reports	

PI	Description	Criteria for “A” Rating
(i)	Timeliness of examination of audit reports by the legislature	Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports.
(ii)	Extent of hearings on key findings undertaken by the legislature	In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.

D. Donor Practices

D-1 Predictability of Direct Budget Support		
(i)	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 (or equivalent approving body)	In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 5%.
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years.
D-2 Financial information provided by donors for budgeting and reporting on project and program aid		
(i)	Completeness and timeliness of budget estimates by donors for project support	All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with the government’s budget calendar and with a breakdown consistent with the government’s budget classification.
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project management	Donors provide quarterly reports within one month of end-of-quarter on all disbursements made for at least 85% of the externally financed project estimates in the budget, with a break-down consistent with the government budget classification.
D-3 Proportion of aid that is managed by use of national procedures		
		90% or more of aid funds to central government are managed through national procedures.

Annexure.5 Organisational Structure of Ministry of Finance and PMO-RALG, Government of Tanzania

Figure 4: Organizational Structure for MoF

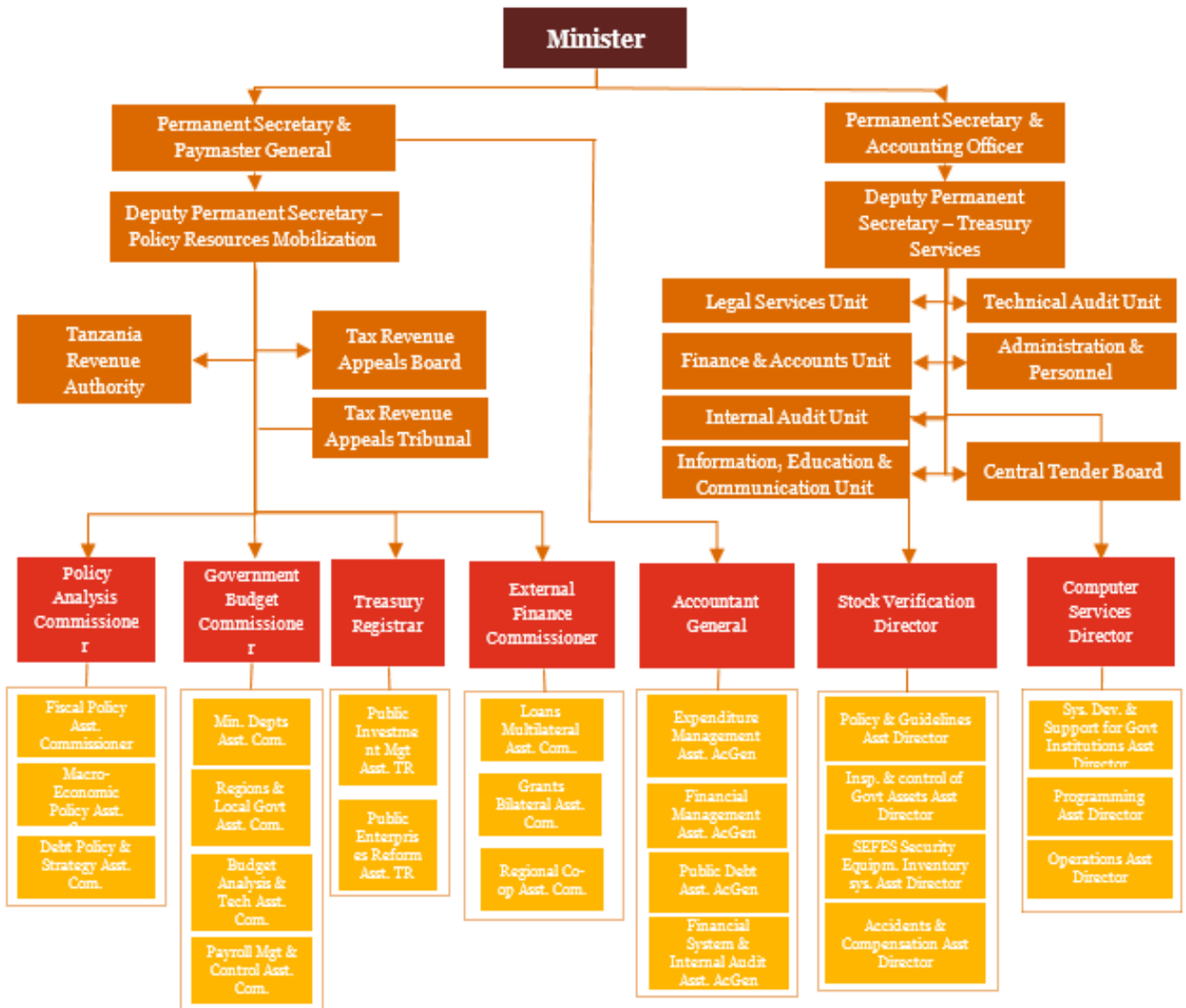
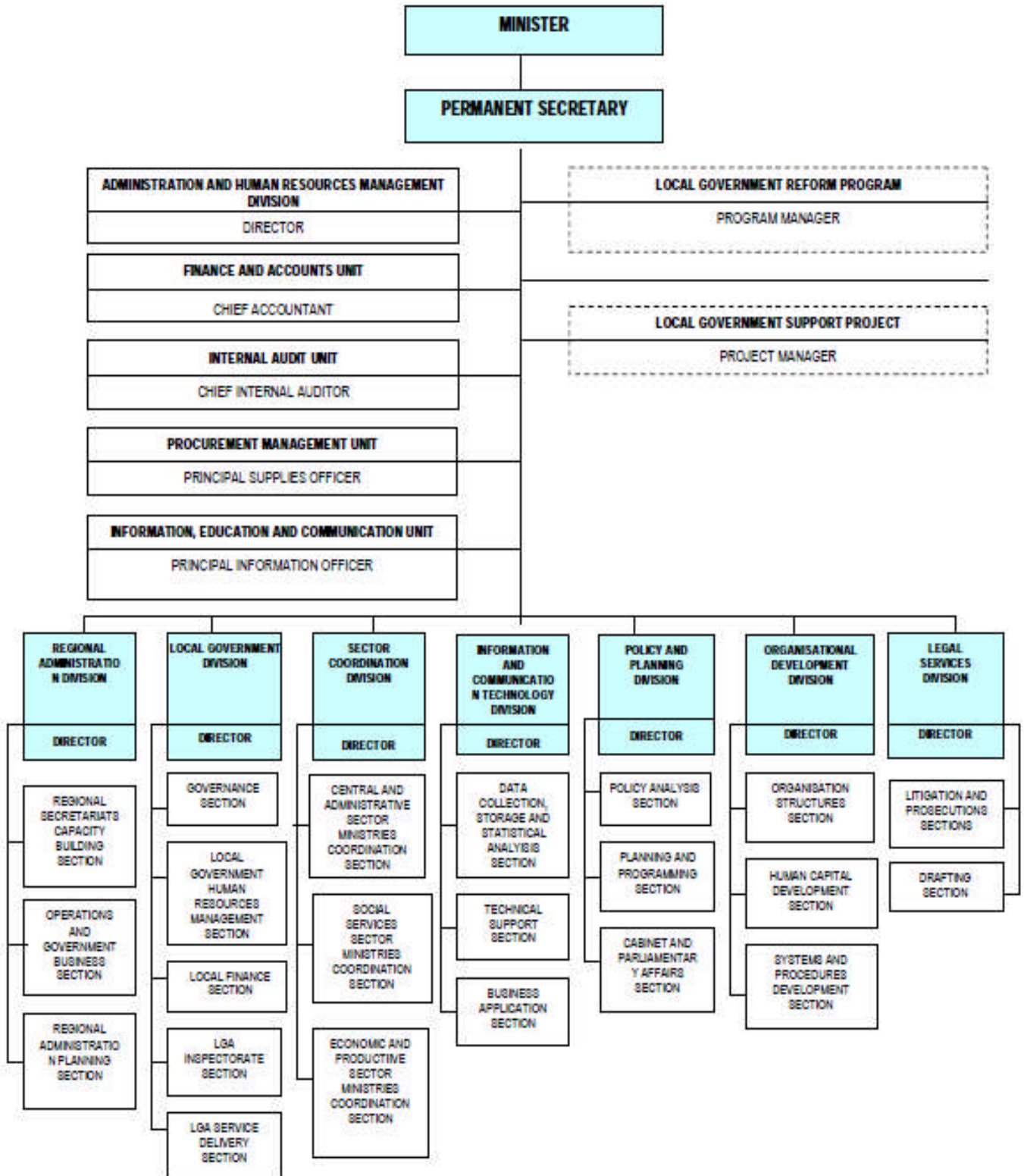


Figure 5: Organizational Structure for PMO-RALG



Annexure.6 Revenue and expenditure calculations

In this annexure, the process of calculation of total expenditure and revenue of the Council is provided. The “Statement of Comparison of Budget and Actual Amount - By Nature” of the Annual Financial Statement of Bunda District provides budgeted revenue and expenditure, and actual revenue and expenditure (by economic classification) during the year. The “Statement of Comparison of Budget and Actual Amount- By Function shows expenditure by functions.

The budget is prepared on a cash basis. However, the actual revenue and expenditure as reflected in the Statement includes items such as amortization of capital grant/depreciation. Therefore, adequate adjustments have been made to calculate total revenue and expenditure of the Council. Table 77 and Table 78 shows example of adjustment made for the financial year 2011-12, 2012-13 and 2013-14 for total expenditure and total revenue respectively.

Table 77: Adjustment for Total Expenditure³², TZS million

	2011-12		2012-13		2013-14		Source	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total Expenditure as per AFS	24068	21866	29981	26680	32112	30551	Statement of comparison of budget and actual amount by nature	
<i>Deduct (-): Depreciation</i>	0	763	0	932	0	275	Statement of comparison of budget and actual amount by nature	
<i>Add(+): Capital Expenditure</i>	7308	4180	4308	3201	6556	3346	Notes to Financial Statement: Capital Expenditure and Its Financing	
Adjusted Total Expenditure	31376	25283	34289	28949	38667	33622		

Table 78: Adjustment for Total Revenue, TZS million

Item	2011-12		2012-13		2013-14		Source	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total Revenue as per AFS	29915	26431.8	26635	26429.0	37686	34964.0	Statement of comparison of budget and actual amount by nature	
<i>Deduct(-): Recurrent Grants</i>	22517	20290.6	24670	24225.7	29056	27425.8	Statement of comparison of budget and actual amount by nature	
<i>Deduct(-): Amortization of capital grants</i>	6310	763.3	0	931.9	0	2733.0	Statement of comparison of budget and actual amount by nature	
<i>Add(+): Actual Receipts of Recurrent Grants</i>	22517	20181	24671	24111	29056	26761	Sheet "BudVsActN"	Note 10 to the Financial Statement
<i>Add(+): Actual Receipts of Capital Grants</i>	7291	0	4283	2537	6556	0		
Adjusted Total Revenues	30896	25559	30919	27920	44242	31566.238		

³² The assessor has noticed differences in total expenditure in the Audited annual financial statements. Adequate adjustments have been done in 2012-13.

Annexure.7 Screenshots for HLG-1 dim (ii), PI-1 and PI-2

7.1. Screenshots for HLG-1 dim (ii)

In TZS "000"	2011/2012		2011-12			
	Budget	Actual	Adjusted Budget	Deviation	Absolute Dev.	%
Transfers item						
Personnel emoluments	15429978	15331742	12726379	2605363	2605363	20%
Other charges	3146163	2382496	2594901	-212405	212405	8%
Health Sector Basket Fund	627305	0	517390	-517390	517390	100%
Health Services Program	0	0	0	0	0	#DIV/0!
TMAP/ TACAIDS	82932	82932	68401	14531	14531	21%
Women Development fund	0	0	0	0	0	#DIV/0!
Road Fund	612122	872713	504868	367845	367845	73%
Global Fund	34269	34269	28264	6004	6004	21%
LGCDG - CDG	0	84516	0	84516	84516	#DIV/0!
LGCDG - CBG	0	42546	0	42546	42546	#DIV/0!
TASAF III	232850	327257	192051	135206	135206	70%
DADP	323877	159247	267128	-107881	107881	40%
MSD	0	175647	0	175647	175647	#DIV/0!
NRWSSP Revenues	671914	292619	554183	-261564	261564	47%
AIDS Relief	0	9964	0	9964	9964	#DIV/0!
CDCF	84218	84219	69462	14757	14757	21%
LDF	0	10415	0	10415	10415	#DIV/0!
DIDF	0	7937	0	7937	7937	#DIV/0!
Mkurabita	0	36351	0	36351	36351	#DIV/0!
DASIP	709533	245837	585211	-339373	339373	58%
SEDP	562273	0	463753	-463753	463753	100%
Administration	26458	6948	21822	-14874	14874	68%
AIDS	16085	16085	13267	2818	2818	21%
CCF	78218	36529	64513	-27984	27984	43%
Cooperatives and Marketing	1000	0	825	-825	825	100%
DADP	193251	42083	159390	-117308	117308	74%
DASIP	485806	67894	400685	-332791	332791	83%
Development Fund	2000	2000	1649	350	350	21%
DIDF	1134112	351167	935396	-584229	584229	62%
Global Fund	7500	7500	6186	1314	1314	21%
HSBF	25983	25983	21431	4553	4553	21%
HSP	150628	40719	124235	-83516	83516	67%
JRF	8210	8210	6771	1439	1439	21%
Legal	2000	0	1650	-1650	1650	100%
LGCDG	1133996	432728	935300	-502572	502572	54%
Mugeta/Nyang'aranga	118000	118000	97324	20676	20676	21%
NRWSSP	533781	438861	440254	-1393	1393	0%
NVF	78805	78805	64997	13808	13808	21%
PEDP	75220	14000	62040	-48040	48040	77%
PFM	1397	1397	1152	245	245	21%
Road Fund	178447	0	147180	-147180	147180	100%
Sarawe Disp.	10000	10000	8248	1752	1752	21%
SEDP	636273	316959	524787	-207828	207828	40%
TLMP	4500	0	3712	-3712	3712	100%
Trade and Economy	1000	570	825	-255	255	31%
Works	2388371	2388371	1969887	418484	418484	21%
ASDP	0	0	0	0	0	#DIV/0!
Other Charges	0	0	0	0	0	#DIV/0!
Block Grant	0	0	0	0	0	#DIV/0!
PEDEP	0	0	0	0	0	#DIV/0!
Special Request	0	0	0	0	0	#DIV/0!
TIB	0	0	0	0	0	#DIV/0!
HSDG	0	0	0	0	0	#DIV/0!
LDF	0	0	0	0	0	#DIV/0!
WSDP	0	0	0	0	0	#DIV/0!
Total	29808476	24585516	24585516	0	7953042	32.3%

	In TZS '000"	2012/2013		2012-13			
		Budget	Actual	Adjusted Budget	Deviation	Absolute Dev.	%
Transfers item							
Personnel emoluments	18308071	19141761	16853476	2288285	2288285	14%	
Other charges	3441764	2911140	3168312	-257173	257173	8%	
Health Sector Basket Fund	620299	691747	571016	120732	120732	21%	
Health Services Program	0	0	0	0	0	#DIV/0!	
TMAP/ TACAIDS	123958	123958	114109	9849	9849	9%	
Women Development fund	0	0	0	0	0	#DIV/0!	
Road Fund	975600	643502	898088	-254586	254586	28%	
Global Fund	11799	11799	10862	937	937	9%	
LGCDG - CDG	0	105655	0	105655	105655	#DIV/0!	
LGCDG - CBG	0	42546	0	42546	42546	#DIV/0!	
TASAF III	85642	83468	78838	4630	4630	6%	
DADP	0	46539	0	46539	46539	#DIV/0!	
MSD	0	0	0	0	0	#DIV/0!	
NRWSSP Revenues	421614	191508	388117	-196609	196609	51%	
AIDS Relief	35444	22626	32628	-10003	10003	31%	
CDCF	84218	84218	77527	6691	6691	9%	
LDF	0	10415	0	10415	10415	#DIV/0!	
DIDF	0	0	0	0	0	#DIV/0!	
Mkurabita	0	0	0	0	0	#DIV/0!	
DASIP	0	0	0	0	0	#DIV/0!	
SEDP	562273	0	517600	-517600	517600	100%	
Administration	0	0	0	0	0	#DIV/0!	
AIDS	0	1714	0	1714	1714	#DIV/0!	
CCF	0	0	0	0	0	#DIV/0!	
Cooperatives and Marketing	0	0	0	0	0	#DIV/0!	
DADP	178351	0	164181	-164181	164181	100%	
DASIP	395681	110315	364244	-253929	253929	70%	
Development Fund	0	0	0	0	0	#DIV/0!	
DIDF	73973	55308	68096	-12788	12788	19%	
Global Fund	0	0	0	0	0	#DIV/0!	
HSBF	0	0	0	0	0	#DIV/0!	
HSP	0	0	0	0	0	#DIV/0!	
JRF	0	0	0	0	0	#DIV/0!	
Legal	0	0	0	0	0	#DIV/0!	
LGCDG	801756	783470	738056	45414	45414	6%	
Mugeta/Nyang'aranga	114266	0	105187	-105187	105187	100%	
NRWSSP	0	0	0	0	0	#DIV/0!	
NVF	0	0	0	0	0	#DIV/0!	
PEDP	0	0	0	0	0	#DIV/0!	
PFM	0	0	0	0	0	#DIV/0!	
Road Fund	1021378	557655	940228	-382574	382574	41%	
Sarawe Disp.	0	0	0	0	0	#DIV/0!	
SEDP	171812	171088	158161	12927	12927	8%	
TLMP	0	0	0	0	0	#DIV/0!	
Trade and Economy	0	0	0	0	0	#DIV/0!	
Works	0	0	0	0	0	#DIV/0!	
ASDP	0	0	0	0	0	#DIV/0!	
Other Charges	7813	7241	7192	49	49	1%	
Block Grant	0	0	0	0	0	#DIV/0!	
PEDEP	0	0	0	0	0	#DIV/0!	
Special Request	0	0	0	0	0	#DIV/0!	
TIB	0	0	0	0	0	#DIV/0!	
HSDG	237891	226358	218990	7367	7367	3%	
LDF	0	7255	0	7255	7255	#DIV/0!	
WSDP	1274734	617078	1173455	-556377	556377	47%	
Total	28948338	26648363	26648363	0	5422010	20.3%	

In TZS "000"	2013/2014		2013-14			
	Budget	Actual	Adjusted Budget	Deviation	Absolute Dev.	%
Transfers item						
Personnel emoluments	24412193	21812310	20577834	1234476	1234476	0
Other charges	2912870	1951959	2455353	-503394	503394	0
Health Sector Basket Fund	680715	680715	573797	106918	106918	0
Health Services Program	0	29800	0	29800	29800	#DIV/0!
TMAP/ TACAIDS	123958	119983	104488	15495	15495	0
Women Development fund	0	12000	0	12000	12000	#DIV/0!
Road Fund	457692	1389980	385803	1004177	1004177	3
Global Fund	0	0	0	0	0	#DIV/0!
LGCDG - CDG	0	0	0	0	0	#DIV/0!
LGCDG - CBG	0	0	0	0	0	#DIV/0!
TASAF III	120565	136823	101628	35195	35195	0
DADP	0	251262	0	251262	251262	#DIV/0!
MSD	0	112454	0	112454	112454	#DIV/0!
NRWSSP Revenues	0	140417	0	140417	140417	#DIV/0!
AIDS Relief	39130	39130	32984	6146	6146	0
CDCF	84218	84218	70990	13228	13228	0
LDF	0	0	0	0	0	#DIV/0!
DIDF	0	0	0	0	0	#DIV/0!
Mkurabita	0	0	0	0	0	#DIV/0!
DASIP	0	0	0	0	0	#DIV/0!
SEDP	225089	0	189735	-189735	189735	1
Administration	0	0	0	0	0	#DIV/0!
AIDS	0	0	0	0	0	#DIV/0!
CCF	0	0	0	0	0	#DIV/0!
Cooperatives and Marketing	0	0	0	0	0	#DIV/0!
DADP	0	0	0	0	0	#DIV/0!
DASIP	167630	167630	141301	26329	26329	0
Development Fund	0	0	0	0	0	#DIV/0!
DIDF	284000	284000	239393	44607	44607	0
Global Fund	0	0	0	0	0	#DIV/0!
HSBF	0	0	0	0	0	#DIV/0!
HSP	0	0	0	0	0	#DIV/0!
JRF	0	0	0	0	0	#DIV/0!
Legal	0	0	0	0	0	#DIV/0!
LGCDG	827828	337439	697803	-360364	360364	1
Mugeta/Nyang'aranga	17	0	14	-14	14	1
NRWSSP	0	0	0	0	0	#DIV/0!
NVF	0	0	0	0	0	#DIV/0!
PEDP	0	0	0	0	0	#DIV/0!
PFM	0	0	0	0	0	#DIV/0!
Road Fund	2021378	259848	1703885	-1444037	1444037	1
Sarawe Disp.	0	0	0	0	0	#DIV/0!
SEDP	225089	280173	189735	90438	90438	0
TLMP	0	0	0	0	0	#DIV/0!
Trade and Economy	0	0	0	0	0	#DIV/0!
Works	0	0	0	0	0	#DIV/0!
ASDP	618488	57830	521344	-463514	463514	1
Other Charges	0	0	0	0	0	#DIV/0!
Block Grant	4000	850	3372	-2522	2522	1
PEDEP	124082	124082	104593	19489	19489	0
Special Request	280000	280000	236021	43979	43979	0
TIB	125147	125147	105490	19657	19657	0
HSDG	36473	0	30744	-30744	30744	1
LDF	4255	0	3587	-3587	3587	1
WSDP	1837165	1340452	1548606	-208154	208154	0
Total	35611982	30018502	30018502	0	6412132	21.4%

HLG-1 dimension (ii)	2011-12	2012-13	2013-14
Variance in transfers	32.3%	20.3%	21.4%

7.2. Screenshots for PI-1 and PI-2

Table 1 - Fiscal years for assessment

Year 1 =	2011
Year 2 =	2012
Year 3 =	2013

Table 2 (In TZS)

Data for year =		2011					
Functional Heads	budget	actual	adjusted budget	deviation	absolute deviation	percent	
Human resource management and development	39,692,151	37,890,239	31,984,269	5,905,970	5,905,970	18%	
Finance and Administration	3,970,489,916	2,562,379,880	3,199,454,184	-637,074,305	637,074,305	20%	
Trade and economic affairs	285,428,065	149,031,208	230,000,337	-80,969,129	80,969,129	35%	
Livestock	679,084,733	298,269,714	547,212,192	-248,942,478	248,942,478	45%	
Agriculture	2,392,918,601	773,562,479	1,928,233,944	-1,154,671,464	1,154,671,464	60%	
Education	14,221,582,060	13,771,335,052	11,459,870,491	2,311,464,561	2,311,464,561	20%	
Primary health services	3,002,542,565	2,879,208,966	2,419,474,064	459,734,902	459,734,902	19%	
Water	1,525,642,463	556,777,716	1,229,375,534	-672,597,818	672,597,818	55%	
Works	3,444,702,362	3,230,883,868	2,775,770,149	455,113,720	455,113,720	16%	
Lands	303,084,651	256,548,263	244,228,162	12,320,100	12,320,100	5%	
Natural resources	183,935,622	16,162,499	148,216,872	-132,054,373	132,054,373	89%	
Community development, gender and LGCDG	348,803,650	333,650,839	281,068,916	52,581,922	52,581,922	19%	
LGCDG	978,090,363	417,341,836	788,153,445	-370,811,609	370,811,609	47%	
allocated expenditure	31,375,997,203	25,283,042,558	25,283,042,558	0	6,594,242,350		
contingency							
total expenditure	31,375,997,203	25,283,042,558					
overall (PI-1) variance						19.4%	
composition (PI-2) variance						26.1%	
contingency share of budget						0.0%	

Table 3 (In TZS)

Data for year =		2012					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent	
Human resource management and development	78,955,944	68,922,495	66,659,226	2,263,269	2,263,269	3%	
Finance and Administration	5,295,320,979	3,391,821,957	4,470,619,708	-1,078,797,751	1,078,797,751	24%	
Trade and economic affairs	456,478,535	410,121,914	385,385,880	24,736,035	24,736,035	6%	
Livestock	503,212,619	458,842,328	424,841,527	34,000,800	34,000,800	8%	
Agriculture	1,394,623,465	1,324,340,040	1,177,422,705	146,917,335	146,917,335	12%	
Education	17,365,354,703	15,718,748,088	14,660,848,187	1,057,899,901	1,057,899,901	7%	
Primary health services	4,220,354,135	3,809,489,913	3,563,069,821	246,420,092	246,420,092	7%	
Water	2,034,438,057	1,722,011,770	1,717,591,608	4,420,162	4,420,162	0%	
Works	1,864,963,774	1,035,640,016	1,574,511,505	-538,871,489	538,871,489	34%	
Lands	36,738,380	33,279,986	31,016,690	2,263,296	2,263,296	7%	
Natural resources	90,066,619	81,588,132	76,039,508	5,548,623	5,548,623	7%	
Community development, gender and LGCDG	146,905,680	133,076,605	124,026,368	9,050,237	9,050,237	7%	
LGCDG	801,756,409	761,039,146	676,889,657	84,149,489	84,149,489	12%	
allocated expenditure	34,289,169,299	28,948,922,390	28,948,922,390	0	3,235,338,479		
contingency							
total expenditure	34,289,169,299	28,948,922,390					
overall (PI-1) variance						15.6%	
composition (PI-2) variance						11.2%	
contingency share of budget						0.0%	

Table 4 (In TZS)						
Data for year = 2013						
<i>administrative or functional head</i>	budget	actual	adjusted budget	deviation	absolute deviation	percent
Human resource management and development	0	0	0	0	0	#DIV/0!
Finance and Administration	5,264,171,491	4,822,282,000	4,577,336,240	244,945,760	244,945,760	5%
Trade and economic affairs	15,000,000	12,707,000	13,042,896	-335,896	335,896	3%
Livestock	151,745,644	114,980,000	131,946,848	-16,966,848	16,966,848	13%
Agriculture	703,402,881	429,560,000	611,627,395	-182,067,395	182,067,395	30%
Education	22,102,523,887	22,022,874,000	19,218,728,677	2,804,145,323	2,804,145,323	15%
Primary health services	3,982,602,187	3,617,034,000	3,462,977,859	154,056,141	154,056,141	4%
Water	1,027,069,022	553,005,000	893,063,659	-340,058,659	340,058,659	38%
Works	3,826,653,253	1,818,757,000	3,327,376,140	-1,508,619,140	1,508,619,140	45%
Lands	720,040,000	65,361,000	626,093,810	-560,732,810	560,732,810	90%
Natural resources	373,435,825	74,382,000	324,712,319	-250,330,319	250,330,319	77%
Community development, gender and LGCDG	376,804,000	91,306,000	327,641,037	-236,335,037	236,335,037	72%
LGCDG	123,661,811	0	107,701,118	-107,701,118	107,701,118	100%
allocated expenditure	38,667,310,000	33,622,248,000	33,622,248,000	0	6,406,294,448	
contingency						
total expenditure	38,667,310,000	33,622,248,000				
overall (PI-1) variance						13.0%
composition (PI-2) variance						19.1%
contingency share of budget						0.0%

Table 5 - Results Matrix

year	for PI-1	for PI-2 (i)	for PI-2 (ii)
	total exp. deviation	composition variance	contingency share
2011	19.4%	26.1%	
2012	15.6%	11.2%	0.0%
2013	13.0%	19.1%	

Score for indicator PI-1: **D**
Score for indicator PI-2 (i) **D**
Score for indicator PI-2 (ii) **A**
PI-2 **D+**

Annexure.8 Performance indicators summary

Table 79: PEFA performance indicators summary

Performance Indicators	Description	PEFA 2015 rating
HLG-1	Predictability of transfers from a higher level of Government	NR
(i)	Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget	D
(ii)	Annual variance between actual and estimated transfers of earmarked grants	D
(iii)	In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within month of start of the SN fiscal year)	NR
A. PFM Out-Turns: Budget Credibility		
PI-1	Aggregate expenditure out-turn compared to original approved budget	D
PI-2	Composition of expenditure out-turn compared to original approved budget	D+
(i)	Extent of the variance in expenditure composition during the last three years, excluding contingency items	D
(ii)	The average amount of expenditure actually charged to the contingency vote over the last three years	A
PI-3	Aggregate revenue out-turn compared to original approved budget	D
PI-4	Stock and monitoring of expenditure arrears	D
(i)	Stock of expenditure arrears	D
(ii)	Availability of data for monitoring the stock of expenditure arrears	D
B. Key Cross-Cutting Issues: Comprehensiveness and Transparency		
PI-5	Classification of the budget	C
PI-6	Comprehensiveness of information included in budget documents	C

Performance Indicators	Description	PEFA 2015 rating
PI-7	Extent of unreported government operations	B
(i)	The level of extra budgetary expenditure (other than donor funded projects) which is reported	B
(ii)	Income/expenditure information on donor-funded projects which is included in fiscal reports	NA
PI-8	Transparency of inter-governmental fiscal relations	D
(i)	Transparent and rules -based systems in horizontal allocation among lower level governments of unconditional and conditional transfers (both budgeted and actual allocations)	D
(ii)	Timeliness of reliable information to lower level governments on their allocations for the coming year	D
(iii)	Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sector categories	D
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C
(i)	Extent of monitoring public enterprises	C
(ii)	Extent of Central Government monitoring of sub-national governments' fiscal position	C
PI-10	Public access to key fiscal information	B
C. Budget Cycle		
(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the budget process	C+
(i)	Existence and adherence to a fixed budget calendar	C
(ii)	Guidance on preparation of budget submissions	D
(iii)	Timely budget approval by the legislature	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy, and budgeting	D
(i)	Preparation of multi-year fiscal forecasts and functional allocations	C
(ii)	Scope and frequency of debt sustainability analysis	D

Performance Indicators	Description	PEFA 2015 rating
(iii)	Existence of sector strategies with multi-year costing of recurrent and development/investment expenditure	D
(iv)	Linkages between investment budgets and forward expenditure estimates	D
(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	D+
(i)	Clarity and comprehensiveness of tax liabilities	D
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	C
(iii)	Existence and functioning of a tax appeals mechanism	D
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D
(i)	Controls in the taxpayer registration system	D
(ii)	Effectiveness of penalties for non-compliance with registration and declaration	D
(iii)	Planning and monitoring of tax audit and fraud investigation programs	D
PI-15	Effectiveness of collection of tax payments	D+
(i)	Collection ratio for gross tax arrears being the percentage of tax arrears at the beginning of a fiscal year (average of the last two fiscal years)	NR
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B
(iii)	Frequency of complete accounts reconciliation between tax assessments collections, arrears records and receipts by Treasury	D
PI-16	Predictability in the availability of funds for commitment of expenditures	D
(i)	Extent to which cash flows are forecasted and monitored	D
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	D

Performance Indicators	Description	PEFA 2015 rating
(iii)	Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	NA
PI-17	Recording and management of cash balances, debt and guarantees	C
(i)	Quality of debt recording and reporting	C
(ii)	Consolidation of government's cash balances	C
(iii)	System for contracting loans and issuance of guarantees	C
PI-18	Effectiveness of payroll controls	D+
(i)	Degree of integration and reconciliation between personnel records and payroll data	A
(ii)	Timeliness of changes to personnel records and the payroll	D
(iii)	Internal controls over changes to personnel records and the payroll	C
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	B
PI-19	Competition, value for money and controls in procurement	D+
(i)	Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold).	B
(ii)	Extent of justification for use of less competitive procurement methods	D
(iii)	Existence and operation of a procurement complaints mechanism	D
(iv)	Existence of an independent administrative procurement complaints system	D
PI-20	Effectiveness of internal controls for non-salary expenditure	D+
(i)	Effectiveness of expenditure commitment controls	D
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/procedures	C

Performance Indicators	Description	PEFA 2015 rating
(iii)	Degree of compliance with rules for processing and recording transactions	D
PI-21	Effectiveness of internal audit	D+
(i)	Coverage and quality of the internal audit function	C
(ii)	Frequency and distribution of reports	C
(iii)	Extent of management response to internal findings	D
(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	B+
(i)	Regularity of bank reconciliation	A
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	B
PI-23	Availability of information on resources received by service delivery units	B
PI-24	Quality and timeliness of in-year budget reports	C+
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C
(ii)	Timeliness of issue of reports	A
(iii)	Quality of information	C
PI-25	Quality and timeliness of annual financial statements	B+
(i)	Completeness of financial statements	B
(ii)	Timeliness of submission of financial statements	A
(iii)	Accounting standards used	A
(iv) External Scrutiny and Audit		
PI-26	Scope, nature, and follow-up of external audit	C+
(i)	Scope/nature of audit performed (including adherence to auditing standards)	B
(ii)	Timeliness of submission of audit reports to legislature	C
(iii)	Evidence of follow up on recommendations	C

Performance Indicators	Description	PEFA 2015 rating
PI-27	Legislative scrutiny of the annual budget law	D+
(i)	Scope of legislature's scrutiny	C
(ii)	Extent to which the legislative procedures are well established and respected	B
(iii)	Adequacy of time for the legislature to provide a response to budget proposals	D
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	B
PI-28	Legislative scrutiny of external audit reports	D+
(i)	Timeliness of examination of audit reports by the legislature	A
(ii)	Extent of hearings on key findings undertaken by the legislature	D
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	B
D. Donor Practices		
D-1	Predictability of Direct Budget Support	NA
(i)	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 (or equivalent approving body)	NA
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	NA
(i)	Completeness and timeliness of budget estimates by donors for project support	NA
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project management	NA
D-3	Proportion of aid that is managed by use of national procedures	NA

Annexure.9 List of people met

Table 80: List of people met

S. No.	Name	Designation	Organisation
<i>At the central level</i>			
1.	Charles Mwamwaja	Deputy Commissioner for Budgets Responsible for RASs and LGAs	Ministry of Finance
2.	Jumanne A. Sagini	Permanent Secretary	PMO-RALG
3.	Awadh Sulho	Acting Director	Capacity Building & Advisory Services, PPRA
4.	Onesmo France	Procurement expert	PPRA
5.	Juma S Maguru	Acting Director	Planning Department, Ministry of Finance
6.	Mohammed A Matonga	Internal Auditor General	Ministry of Finance
7.	Dennis Mihayo	M&E Specialist	Public Financial Management Reform Programme
8.	Sebastian E L Ndandala	Programme Coordinator	Public Financial Management Reform Programme
9.	Stanley Haule	Assistant Director, Department of Computer Services	Ministry of Finance
10.	Stanslans Mpembi	Assistant Internal Auditor General (Budget and Payroll)	Ministry of Finance
11.	Emmanuel M Subbi	Assistant Internal Auditor General (Risk Management and Control)	Ministry of Finance
12.	Mwanyiko M Somola	Assistant Internal Auditor General (Local Government)	Ministry of Finance
13.	Omari Msuya	Internal Auditor	Ministry of Finance
14.	Pole John Magesa	Principal Economist	National Audit Office of Tanzania
15.	Faraja Tarimo	Accountant	Account General Office, Ministry of Finance
16.	Chausiku Nyanda	Financial Management Officer	PMO – RALG
17.	Prwatus Lipili	Human Resource Officer	PMO – RALG

18.	Juma Mabrouk	Human Resource Officer	PMO – RALG
19.	Daria Justine Bujiku	Loans and Investment Financial Management Officer	PMO – RALG
20.	Mustapha S Yusuf	Procurement Financial Management Officer	PMO – RALG
21.	Isaka Jeremah	Assistant Director	PMO-RALG
22.	Danis Bandisa	Assistant Director,	Governance and Service Delivery Section, PMO-RALG
23.	Linus Kakwesigambo	Financial Expert	Public Financial Management Reform Programme
24.	Aleyande Lweikila	Communication Specialist	Ministry of Finance
25.	E Macha	Financial Management Officer	Ministry of Finance
26.	Johnson Mjiji	Local Government Reform Programme II	PMO-RALG
At the district level			
18	Serapion Rujuguru	Acting District Executive Director	Bunda District Council
19	Abbas Abdul	Economist	Bunda District Council
20	Emmanuel Joram	District Treasurer	Bunda District Council
21	Julieth Ntuku	District Planning Officer	Bunda District Council
22	Ntibankiza Dismas	District Internal Auditor	Bunda District Council
23	Kelvin Mkirya	Head of Human Resource	Bunda District Council
24	Jonathan Bugara	Education Officer - Primary	Bunda District Council
25	Matiku Nsma	Education Officer - Secondary	Bunda District Council
26	Harun Kija	District Health Officer	Bunda District Council
27	Sebere Chacha	Head of Procurement Management Unit	Bunda District Council
PEFA Counterpart Team			
46	Steven Benedict	PEFA Counter Part	Lindi Regional Office
47	Daria Bujilu	PEFA Counter Part	PMO RALG
48	Fulgence Luyagaza	PEFA Counter Part	Kinondoni Municipal Council
49	Ally Waziri	PEFA Counter Part	Bagamoyo District Council

List of people met

50	Munguatosha Macha	PEFA Counter Part	Geita Region
51	Chausiku Nyanda	PEFA Counter Part	PMO RALG

Annexure.10 List of Documents Referred to

1. Public Financial Management Reform Programme IV Strategy Document
2. Memorandum of Understanding between DFID (acting on behalf of Government of the United Kingdom of Great Britain and Northern Ireland) and The United Republic of Tanzania for Public Financial Management Reform Programme Grants
3. Terms of Reference for Public Expenditure and Financial Accountability Assessment of 12 LGAs in Tanzania
4. Local Government Financial Memorandum
5. Local Government Accounting Manual
6. Local Government Finance Act
7. Local Government (District Authorities) Act 2002
8. Local Government (Urban Authorities Act) 2002
9. Tanzania at a glance, 2012, National Bureau of Statistics, Tanzania
10. The Constitution of United Republic of Tanzania
11. Public Procurement Act, 2011
12. Local Government Authorities Tender Board (Establishment & Proceedings) Regulations (2014)
13. Public Procurement Regulations (2013)
14. Government Loans, Grants and Guarantees Act (1974)
15. Public Finance Act (2001)
16. Guidelines For The Preparation Of Annual Plan And Budget For 2014/15 In The Implementation Of The Five Year Development Plan 2011/12-2015/16 (Including Annexure A)
17. Internal Audit Manual, 2013
18. Annual General Report on Local Government Authorities for 2012-13 by CAG
19. Public Audit Act
20. Public Audit Regulations 2009
21. Audit Financial Statements for 2011-12 (incomplete), 2012-13 and 2013-14 (incomplete)
22. CAG's Management Letter on Financial Statements of Bunda DC for 2013-14
23. MTEF of Bunda DC for 2014-17

The primary purpose of this Sub-national Government PEFA Assessment report is to present our key findings of PFM situation in mentioned LGA. The contents of this report are based on the facts, assumptions and representations stated herein. Our assessment and opinions are based on the facts and circumstances provided/collected during our meetings with the officials of the Ministry of Finance, Government of Tanzania and other stakeholders and research from sources in public domain held to be reliable. If any of these facts, assumptions or representations is not entirely complete or accurate, the conclusions drawn therein could undergo material change and the incompleteness or inaccuracy could cause us to change our opinions. The assertions and conclusions are based on the information available at the time of writing this report and PwC will not be responsible to rework any such assertion or conclusion if new or updated information is made available.

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