Fostering Accountability

Sub-National (Local Government) PEFA Assessment in Tanzania

Mvomero District Council –Final Report

July 2016

pwc

Contents

Acronyms

Acronym	Definition	Acronym	Definition
ACGEN	Accountant General	LGFA	Local Government Finance Act
AFROSAI	African Organisation of Supreme Audit Institutions	LGFM	Local Government Financial Memorandum
AFS	Annual Financial Statements	LGRP	Local Government Reform Programme
AIDS	Acquired Immune Deficiency Syndrome	LLG	Lower Level of Government
ALAT	Association Local Authorities of Tanzania	MoF	Ministry of Finance
ASDP	Agriculture Sector Development Programme	MSD	Medical Store Department
CAG	Controller Auditor General	MTEF	Medium Term Expenditure Framework
CDCF	Constituency Development Catalyst Fund	NA	Not Applicable
CFR	Council Financial Reports	NAOT	National Audit Office of Tanzania
CMT	Council Management Team	NR	Not Rated
COFOG	Classification of Functions of the Government	NWSDP	National Water Sector Development Programme
DED	District Executive Director	PCCB	Prevention and Combating of Corruption Bureau
DFID	Department for International Development	PEDP	Primary Education Development Programme
EGPAF	Elizabeth Glaser Pediatric AIDS Foundation	PEFA	Public Expenditure and Financial Accountability
GDP	Gross Domestic Product	PETS	Public Expenditure and Tracking Survey
GFS	Government Finance Statistics	PFM	Public Financial Management
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit	PFMRP	Public Financial Management Reform Programme
GOT	Government of Tanzania	PMG	Paymaster General
HCMIS	Human Capital Management Information System	PMO	Prime Minister Office
HIV	Human Immunodeficiency Virus	PMORALG	Prime Minister Office- Regional Administration and Local Government
HLG	Higher Level of Government	POPSM	President Office-Public Sector Management
HRO	Human Resource Officer	PPA	Public Procurement Act
HSBF	Health Sector Basket Fund	PPP	Public Private Partnership
IAG	Internal Auditor General	PPR	Public Procurement Regulations
IASB	International Accounting Standards Board	PPRA	Public Procurement Regulatory Authority
ICT	Information and Communication Technology	PSM	Public Sector Management

Acronym	Definition	Acronym	Definition
IFA	International Federation of Accountants	RAM	Regularity Audit Manual
IFMS	Integrated Financial Management System	RAS	Regional Administrative Secretariat
IIA	Institute of Internal Auditors	RCA	Revenue Collection Agency
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	SEDP	Secondary Education Development Programme
ISA	International Standards on Auditing	SWOT	Strengths, Weaknesses Opportunities And Threats
ISSAI	International Standards of Supreme Audit Institutions	TACAIDS	Tanzania Commission for AIDS
KRA	Key Result Areas	TASAF	Tanzania Social Action Fund
LAAC	Local Authorities Accounts Committee	TB	Tender Board
LAAM	Local Authorities Accounting Manual	TIN	Tax Identification Number
LGA	Local Government Authority	TRA	Tanzania Revenue Authority
LGDA	Local Government (District Authorities) Act	TZS	Tanzania Shilling
LGCDG	Local Government Capital Development Grants	USD	United States Dollar
LLG	Lower Level Government	VAT	Value Added Tax

Fiscal Year	**1 July to 30 June**
Exchange rate	**1 USD= 2000 Tanzanian Shilling** **Symbol “TZS” indicates Tanzania Shillings and “USD” indicates United States Dollar**
Financial Period Assessed	**2011-12 to 2013-14**

1. Summary assessment

Table 1: Overall ratings

Summary Ratings		
Performance Indicators	**Description**	**PEFA 2015 rating**
HLG-1	Predictability of transfers from a higher level of Government	D+
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	A
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	B
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+
PI-20	Effectiveness of internal controls for non-salary expenditure	C
PI-21	Effectiveness of internal audit	C+
(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	D+
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	D+

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.*

1.1. 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 Mvomero 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.

1.2. Integrated Assessment of PFM performance

Mvomero 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.

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 Mvomero DC. The most important of PFM weaknesses in Mvomero DC are discussed here.

Predictability of Central Fund Transfers

The dependency of Mvomero DC on funds transferred by the Central Government was more than 95% of its total revenues during the last 3 completed financial years. In the last 3 years, the uncertainties in the central government funds transfers' 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. Such uncertainties in cash flows also impact commitment controls which are further constrained by the lack of any reliable information on payment arrears.

Quality of Budgeting

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 majority of the 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 performance in terms of variation between planned and actuals needs to be strengthened substantially. The inability of the LGA to collect dues from Mtibwa Sugar Company on a timely basis, lack of linkages between database on service levy with the other databases, ineffective penalties for non-compliance to regulations 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.

Accountability Structures and Internal Controls

Though overall accountability structures are well established for LGAs in general, there are several areas of concern in Mvomero DC referred to by both the internal auditors as well as the CAG. These relate to compromise of basic financial controls in critical areas such as unsupported payments, unauthorised expenditure, improper cash payments, disbursements to employees not on the payroll and others. The lack of a complete tax registration system, failure to account for all receivables, and weaknesses in control over receipt books related to tax collections show the need for strengthening internal systems in these areas. The failure of the DC to strengthen the Audit Committee 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.

1.2.1. Summarised Assessment by Indicators

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

Credibility of budget is impaired mainly due to (i) low predictability of higher level of government (HLG) transfers, and (ii) lack of data on stock of payment arrears which is understood to be generally high across the country (including local governments). Partial estimates of payment arrears from disclosed trade payables in the financial statements showed that they amounted to 4.5% of total expenditure in 2013-14.

Comprehensiveness and Transparency (PI 5-10)

Mvomero 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.

There are in general no fiscal risks from autonomous agencies. Overall transparency norms are well followed and the majority of the fiscal information is available for the general public. A dedicated website for the LGA would have certainly helped in greater public dissemination of information. 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 have been tightened for timely budget presentation to the Parliament, the present systems allow initial budgets to be prepared and approved by the Council without consideration of the ceiling requirements for the financial year. The late receipt of ceilings for majority of the expenditure heads in the budget year from MoF necessitates wide revisions to the originally prepared budgets and apart from contributing to uncertainty in the entire process, also makes it rushed.

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 Mvomero DC, we understand this has often become an academic activity of extrapolation of figures. As a consequence, in spite of overlap in the years of coverage in an MTEF, forward year forecasts are not taken as the basis for budgeting but rather the approved budget of the preceding year. It is therefore, also not surprising that linkage between investment budgets and forward expenditure estimates are fragile.

Though there is a five years Strategic plan for Mvomero DC showing areas for interventions, activities were not fully costed by each sector showing investments and recurrent expenditure. However, we were informed that at present, there were no legal/administrative requirements specified in Tanzania for such detailed costing of sector strategies by the LGAs.

Predictability and control in budget execution

Revenue Administration Systems (PI 13-15)

The relevant sources of revenue which can be classified as taxes for Mvomero DC are (i) produce cess (ii) mineral extraction fees and (iii) service levy. Though full council meetings, the LGA endeavours to inform taxpayers on the nature of taxes on the whole, awareness levels of the nature and nuances of each tax and their methods of collection are low. Weaknesses in the revenue related internal controls referred to by the CAG in collections through third party agents and the observed absence of any information desks at the LGA for the taxpayers do not help to improve communication with taxpayers.

The LGA has manual databases for key revenues sources such as service levy. However, clarity on its completeness is an issue especially for small businesses that do not have tax identification numbers linked to the national system. Though the existing legal framework does not allow any discretionary powers to the tax collectors, the general weakness in the capacity to assess expected tax revenues is a deterrent to computation of tax collectible and thereby reduces efficiency in collections. Moreover, the absence of an independent appeal mechanism for taxes at the local level makes it difficult for assesses to raise complaints. A quick comparison of actual against budgeted tax collections points towards the need to strengthen revenue administration and revenue forecasting methodologies. On an aggregate basis, collections against budget were 72.5%, 51% and 52% for years from 2011-12 to 2012-13 and 2013-14 respectively.

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.

The District Council did not have any outstanding debt at the end of the last financial year, i.e. 2013-14. Consolidation of the large number of bank accounts used previously has led to only seven active accounts for the District Council. End year balances for each these accounts were 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 cleansing exercise through which substantial leakages have been corrected. However, there are some areas which still need to be strengthened. The internal controls over the payroll are still weak. There are cases of pending arrears related to promotion or new hires. CAG has reported cases of delay in update of payroll records on retirement of various staff. This led to payment of salaries to ex-employees. The absence of documented verification/audit trails 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): Majority of the procurement at the district is done through open competitive bidding. In the cases where alternative methods of procurement are adopted, required justification is provided. However, internal audit reports have repeatedly pointed out minor value procurement being carried out without local purchase orders/ through local purchase orders raised outside the System and for which payment is made in cash. 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. Transparency in public procurement at the LGA level appears to be broadly in line with the requirements of the Regulation. 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.

At the LGA level, the Accounting Officer is the nodal person for resolving procurement related complaints and is also involved in execution of the procurement process. A non-refundable fee amounting to TZS 100,000 is also charged which may negatively affect the decision of the vendor to file the complaint. In case, the complainer is not satisfied with the decision at the LGA level, s/he can approach the PPRA. In case of dissatisfaction with the decision of PPRA, the Public Procurement

Appeals Authority can be approached whose decision will be final. The existing legislative framework allows the Authority to collect revenues for the services rendered. Though this is not a matter affecting Mvomero DC alone, the present stipulations may compromise the independence of such authority.

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 activities of checking on available cash balances and allocation for payments therefore takes place outside the system leading to inappropriate controls. Internal as well as CAG audit reports have referred to weaknesses resulting in excess payments, inadequacy of documentation and records, and improper authorization of expenditure. CAG in his 2013-14 audit report has cited weaknesses in internal control systems as one of the basis for his qualification of the report. 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 internal audit has been strengthened through ongoing capacity building initiatives by the Local Government Audit Section at the Internal Auditor General Office. Internal Audit in Mvomero 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 Internal Auditor General. Our observations showed that the audit focus of the audit plan for 2014-15 in terms of budgeted time was 84% on performance audit of various functions and departments, 7.5% for follow up of audit points of earlier periods and 8.5% for non-audit services as requested by management. Audit reports showed that close to 68% of the audit issues related to systemic weaknesses while the balance related to transactions. However, it was difficult to assess the age of past pending issues as all the internal audit reports gave no indications on number of implemented recommendations from the previous periods. Additionally, management responses to the issues identified remains a challenge as referred to by the CAG in his Management Letter. The Management Letter also refers to the need to issues on non-comprehensive working papers; insufficient review of internal controls; lack of clarity in disclosing follow up comments of previous audit findings; non adherence to audit plans and lack of sufficient budget for the internal audit.

Accounting, Recording and Reporting (PI 22-25)

Mvomero DC has seven active bank accounts. Bank reconciliations are performed for all bank accounts. However, at the time of assessment it was noted that the last assessment was done in June 2014 only. This was due to network connectivity for which a solution is yet to be found.

There appears to be adequate control information over imprest/staff balances. As per the audited financial statements for the District Council for 2013-14, staff dues/imprests have been outstanding for a period of three to twelve months as on 30th June 2014.

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 even though departmental records are kept of amounts transferred to such units. Quarterly and annual reports are available for health and secondary education (only quarterly report for primary education)

The EPICOR system is not fully operational in Mvomero DC and there are both system as well as connectivity issues referred to by the CAG. 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 issued on a quarterly basis for discussions with the Finance Committee on a monthly basis and with the full Council on a Quarterly basis.

Mvomero DC is preparing 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 Local Authority Financial Memorandum (LGFM) prescribes the composition of the AFS. However, as noted by the CAG, the initially prepared financial statements have to be revised and resubmitted due to errors arising out of lack of familiarity with the IPSAS requirements. We have noted that the Central Government is presently following IPSAS (cash) but is planning to move over to accrual basis in the near future while the LGAs like Mvomero are already on accrual basis. However, considering the quality issues referred to by the CAG as mentioned above, ensuring full compliance with accrual based IPSAS appears to present a challenge. This highlights the imminent need for training of personnel and may result in more time taken by LGAs to stabilize accrual based IPSAS.

External scrutiny and audit (PI-26 to PI-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 audit report for 2013-14 was not submitted to the Council for review. 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.

1.3. 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) increase in the expenditure arrears; (ii) carrying out transactions outside EPICOR by raising local purchasing orders manually; (iii) unrealistic own revenue forecasts, and (iv) inability to undertake cash forecasting due to high dependence on funds from 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 contribute to efficient service delivery. However, the following factors threaten achieving value for money (i) inadequate dissemination of information on key fiscal information to public, (ii) sub-optimal follow-up on audit observations, (iii) non-compliance to internal control rules and regulations, and (iv) lack of transparency in devolution of funds to lower levels of government (LLGs).

1.4. 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 arears. 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 Europe Commission, 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 Mvomero District Council. This is the first assessment of Mvomero 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" will 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). PFM DPG is currently co - chaired by DFID and Denmark. The Group comprises of DFID, KfW (German Development Bank) and the World Bank and includes other donors providing technical or financial assistance to 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 members[2]. 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), Prime Minister's Office Regional Administration and local government 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 Tanzania[3] (ALAT) which is a registered civil society organization, Twaweza and Sikika (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 Mvomero DC were carried out on the 5th and 6th February 2015. Subsequently, an individual draft LGA report was prepared and submitted to the following stakeholders for review and comments on 04th May 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.

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[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

Based on a study of the comments received from stakeholders on the draft report for Mvomero DC and consideration of further information and explanations received, a Draft Consolidated Report (DCR) was prepared and submitted on 11th November 2015 containing on our findings relating to all the 12 LGAs under this assignment, including our consolidated observations on Mvomero DC. This DCR was presented and discussed with the stakeholders at the Verification/Validation workshop held in Morogoro on 17 November 2015 and feedback was obtained at the workshop as well as subsequently. The final draft report for Mvomero DC was submitted on 10th 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. Follow-up comments on the final draft report have been addressed in this Final 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 11 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 Mvomero 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 Mvomero DC on central government

The intergovernmental transfers are the largest source of Mvomero LGA financing (accounting more than 96% of LGA financing) as shown in Table 2. This reflects high dependency of the LGA on central government funding. CAG in its management letter for 2013-14 also notes that council cannot sustain its recurrent expenditure without depending on central government's grants. The CAG cites lack of proper plans to identify and create new sources of revenues as the reasons for high dependency.

Table 2: Mvomero LGA dependency on central government, 2011-2013

TZS million	2011-12	2012-13	2013-14
Total revenue	24802	33420	30331
Recurrent grant	19211	28162	26275
Development grant	4538	4491	3103
Total grants	23749	32653	29378
Dependency[4]	**95.75%**	**97.71%**	**96.86%**

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

In addition to the financial dependency of the LGA on the Central Government, there are other Central Government's policies which do impact 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 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

[4] Total revenues are lower than the central government transfers because only amortization of central government transfers are booked as revenue.

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 Mvomero DC.

3. Country background

3.1. Country economic situation

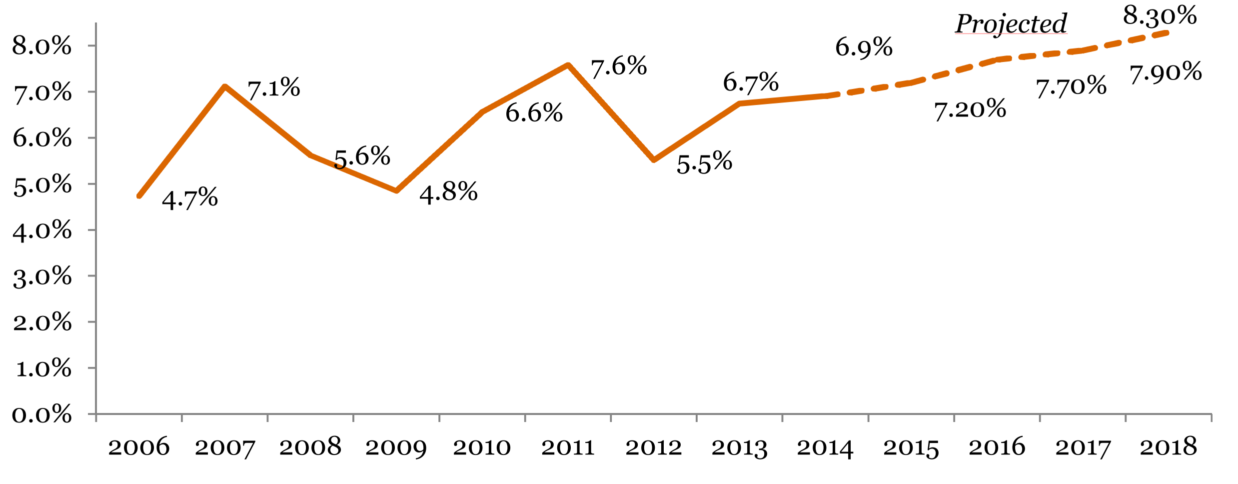
3.1.1. Country context

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" category[5] 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



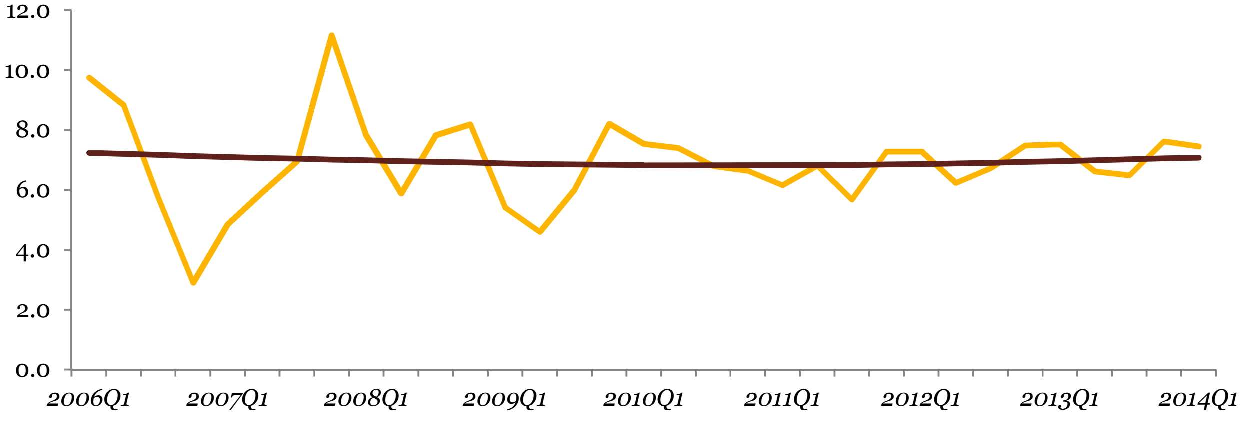
Source: Bank of Tanzania (figures till 2014), Government of Tanzania Budget Books, 2015-16 (Projected figures post 2015)

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



Source: Bank of Tanzania (Quarterly Growth rates)

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 reduction[7]. 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-weighed 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 Tanzania[8]. 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%
Own Revenue	12.7%	12.9%	13.6%
Grants	3.3%	2.6%	2.1%
Total Expenditure	18.9%	20.6%	24.0%
Non-interest expenditure	18.2%	19.5%	22.7%
Interest expenditure	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%
external	3.1%	3.4%	3.0%
domestic	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; (iiv) 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 public[11].

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

As per the census 2012, the population of Mvomero District is 312,109 which is about 0.72% of total population of Mainland Tanzania. The district has total area of 7,325 sq. kms which is about 0.83% of the total area of Mainland Tanzania. Out of total land area, nearly 5493.75 sq. km (75%) is arable land. There are also three agro-ecological zones in Mvomero district namely, highland and mountains (25%), miombo wood land (20%) and Savannah river basin line zones (55%).

Similar to the national profile, Mvomero District is a highly agriculture based economy. Nearly 82% of the working age population is farmers followed by businessmen (7%) and livestock keepers (1%). Remaining 10% of the working population is engaged in other occupations. Average annual income of a citizen of Mvomero district in 2012-13 was 337 USD as compared with national average of 652 USD. Since relevant data for district wise detailed comparison is not available, an attempt for comparison of Morogoro region with other regions (as part of PEFA assessment) has been made in Table 6.

Table 6: 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
Size of serving population	Population (2012) in "000"	43625	1694	1640	2045	2218	1377	941	2458	1425	702
	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%
Public awareness	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
	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
Employment	Top occupation for men (2010)		Agri	Agri	Agri	Agri	Agri	Agri	Agri	Agri	Agri
	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
	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

4.2. Legal and institutional framework for PFM relating to LGA

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

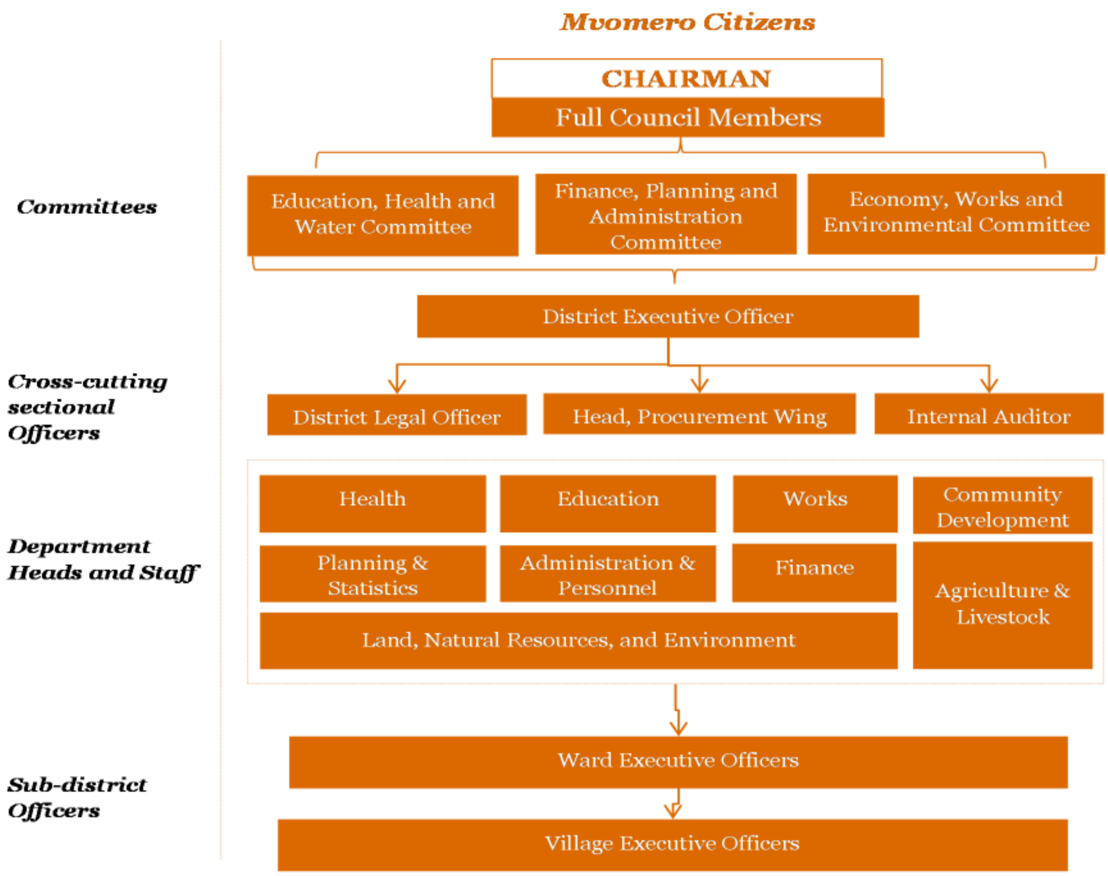
Constitution of the United Republic of Tanzania (Article 145) provides for the establishment of LGAs in each region, district, urban area and village of such type and nature as prescribed and enactment of a law that would determine their structure, composition, revenue sources and manner of conduct of 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.

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.

However since the detailed framework of laws and regulations for LGAs are uniform across the country, based on feedback received on the draft individual LGA reports from donor agencies, in order to avoid repetitiveness, regulatory aspects have been discussed in detail only in in the Consolidated Report. Therefore, this section only discusses the institutional structures relevant for Mvomero DC.

Figure 3 shows the organizational structure of Mvomero DC. At the apex of Mvomero DC's organization structure are the people of Mvomero 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, Mvomero DC has nine departments headed by a Departmental Head. Council staff are recruited by PO-PSM and paid by the central government.

Figure 3: Organization Structure of Mvomero DC



Additionally, Mvomero DC has three units namely: Internal Audit; Legal; and Procurement Management. 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 three standing committees in Mvomero DC that, that also assists in the operations of the council. The committees are:

- Finance, Planning, and Administration;
- Education, Health and Water;
- Economy, Works and Environment.

4.3. Fiscal performance of LGA

Table 7 shows trend of revenues of the Mvomero District Council for the last three years. Since own source revenue constitute on an average 3% of total revenues of the LGA, the trend in these revenue do not impact the total revenues. In 2012-13, the total revenues increased in 2012-13 by 34% despite fall in own source revenues. Similarly, in 2013-14, the total revenues declined by 9% despite increase in the own source revenues. The direction of the total revenues has been guided by the recurrent grants from the central government.

Table 7: Revenue performance, 2011-12 to 2013-14, TZS million

Item	2011-12	2012-13	2013-14
Local Taxes	217	627	619
Fee, fines, penalties and licenses	613	92	90
Revenue from exchange transactions	222	31	237
Finance Income	-13	1	1
Other Own Revenue	15	15	5
Total Own Revenue	1054	767	952
Recurrent Grants	19211	28162	26275
Development Grants	4538	4491	3103
Total Revenues	24803	33420	30330

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

Table 8 shows total expenditure of Mvomero district council for the last three years by economic categories. Wages, salaries and employee benefits remained the leading expenditure component with an average share of 75% over the last three years. The second largest expenditure component was supplies and consumables. The total expenditure grew significantly in 2012-13 mainly due to increase in wages, salaries and employee benefits. This was followed by a decline in 2013-14.

Table 8: Total expenditure by economic classification, 2011-12 to 2013-14

TZS million	2011-12	2012-13	2013-14	Average share
Wages, salaries and employee benefits	17682.4	24776.4	21579.1	74.3%
Supplies and consumables used	2070.2	2078.3	1542.0	6.7%
Maintenance expenses	1065.5	776.7	1041.8	3.4%
Grants and other transfer payments	673.7	454.6	2106.7	3.7%
Finance costs	0.7	0.2	0.1	0.0%
Capital Expenditure	3940.3	2240.5	3797.2	11.8%
Total Expenditure	**25432.7**	**30326.7**	**30067**	**100%**

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

Table 9 shows the total expenditure by functional classification for the last three years. The leading functions are primary education, secondary education, primary health services, and administration.

Table 9: Total expenditure by functional classification, TZS million

S/N	Department	2011-12	2012-13	2013-14	Average Share
1	Administration	3714.2	12117.0	5791.2	24.6%
2	Human resource management and development	29.1	6.4	67.7	0.1%
3	Finance	146.5	168.6	168.6	0.6%
4	Trade and economic affairs	20.1	69.0	0.0	0.1%
5	Agriculture	1377.8	112.5	641.7	2.6%
6	Education - Primary	9279.9	7415.8	10120.9	31.5%
7	Education - Secondary	2194.7	5333.3	4762.7	14.0%
8	Primary health services	3887.2	1880.5	4763.5	12.4%
9	Water	233.0	143.4	1623.6	2.3%
10	Works	997.4	408.1	842.3	2.7%
11	Lands	184.7	72.8	111.3	0.4%
12	Natural resources	4.3	5.3	25.6	0.0%
13	Community development, gender and children	89.1	67.1	138.1	0.3%
14	Others	3274.8	2527.0	1009.7	8.2%
Total Expenditure		**25432.7**	**30326.7**	**30067**	**100%**

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

Table 10 shows deficit/surplus for Mvomero DC. In two of the last three years, Mvomero DC has been having surplus. In 2011-12, Mvomero DC had deficit of nearly TZS 630 million.

Table 10: Deficit/surplus, Mvomero DC, TZS million

Item	2011-12	2012-13	2013-14
Total Revenue	24802	33420	30331
Total Expenditure	25432.7	30326.7	30067.0
Surplus	**-630**	**3093**	**264**

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

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

(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 11 shows transfers from the higher level of government to the local government for the period 2011-12 to 2013-14. In two of the last three completed years, 2011-12 and 2013-14, actual Central Government transfers were lower than budgeted (17% and 13% respectively). In the remaining year (2012-13), total grants were 8% more than the budgeted. The predictability of amount of transfers was lower in case of development grants. In the last three financial years (2011-12, 2012-13 and 2013-14), actual development transfers were 35%, 28% and 53% lower than budgeted transfers respectively. Since development transfers do not constitute significant portion of total transfers, the low predictability on development transfers did not impact materially the status of total transfers. Our discussion with the District Council officials indicates that such low predictability in quantum of development transfers is impacting efficiency in project implementation.

Table 11: Transfers from the higher level of government, 2011-12 to 2013-14, TZS million

In TZS million		*Recurrent Grants*	*Development Grants*	*Total Grants*
2011-12	Budget	21547	7021	28568
	Actual	19211	4538	23749
	Deviation	**-11%**	**-35%**	**-17%**
2012-13	Budget	23856	6257	30112
	Actual	28162	4491	32653
	Deviation	**18%**	**-28%**	**8%**
2013-14	Budget	27142	6669	33811
	Actual	26275	3103	29378
	Deviation	**-3%**	**-53%**	**-13%**

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

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

In case of Tanzania, all transfers are earmarked in nature. Under this dimension, the variance between estimated and actual figures for different categories of transfers needs to be assessed. There are three kinds of grants i.e., recurrent block grants, subventions, and development grants.

The variance in central government transfers in the last three financial years (2011-12, 2012-13 and 2013-14) was 17%, 15% and 4% respectively.

Table 12: Variance in central government transfers[12]

Year	for HLG-1 (ii) composition variance
2011-12	16.7%
2012-13	14.5%
2013-14	3.9%

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

(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 dimension.

Table 13: Summary rating for HLG-1

Indicator	Rating	Brief explanation
HLG-1: Predictability of Transfers from a Higher Level of Government	**D+**	
(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	C	Only in one out of the last three years have HLG transfers 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 did exceed 10 percentage points in at least two of the last three years.
(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed	NR	Reliable information on dates of actual transfers is not available.

[12] The computation is shown in Annexure.7.

Indicator	Rating	Brief explanation
within of month of the start of the SN fiscal year)		

5.2. PFM-out-turns: Budget credibility

Government's ability to deliver the public services as promised in the financial year depends on its financial status and capabilities of execution. In case of local governments such as Mvomero DC which is highly dependent on Central Government transfers of funds, the budgetary performance is dependent on not just its ability to spend the resources but also on the Central Government transferring budgeted resources in a timely fashion.

Subject to our comments on data issues, the comparison of aggregate actual total expenditure with the original budget shows negative deviation of 15.3% in 2011-12, 4.1% in 2012-13 and 15.6% in 2013-14. This deviation can be traced to variations in transfers of resources from the higher level government (HLG-1), particularly those related to development projects.

Table 14: Aggregate primary expenditure outturn as compared with budget 2011-12 to 2013-14, TZS million[13]

Item	*2011-12*		*2012-13*		*2013-14*		*Deviation*		
	Budget	Actual	Budget	Actual	Budget	Actual	2011-12	2012-13	2013-14
Total Expenditure	30022	25433	31626	30327	35641	30067	-15.3%	-4.1%	-15.6%

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

CAG in its management letter for 2013-14 notes that late disbursement of funds and delay in procurement process completion has impact the budget execution. Additionally, lack of sufficient supervision and monitoring by the council management on the planned activities has caused substantial delays in the completion various projects.

CAG also notes that there is nearly 19% vacancy in the LGA with critical posts such as heads of the department vacant causing delay in budget execution. Nearly for four departments, the positions for the heads is vacant.

Table 15: Summary rating for PI-1

Indicator	Rating	Brief explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget		
(i) The difference between actual primary expenditure and the originally budgeted primary expenditure.	**D**	In two of the last three financial years, the actual expenditure deviated from the budgeted expenditure by an amount more than 15% of the budgeted expenditure.

[13] PEFA Field guide requires comparison of aggregate primary expenditure outturn as against the budget. Firstly, in case of Mvomero DC, 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 as aggregate primary 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

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 or for each of the 20 largest budget heads in the administrative classification. In case of Mvomero, the expenditure is classified by 13 functions, i.e. (1) Administration, (2) Human resource management, development, (3) Finance, (4) Trade and economic affairs, (5) Agriculture, (6) Education-Primary, (7) Education- Secondary (8) Primary Health Services , (9) Water, (10) Works, (11) Lands, (12) Natural resources and (13) Community Development, gender and children.

Table 16: Variation in the composition of aggregate expenditure, 2011-12 to 2013-14

Year	for PI-2 (i) composition variance
2011-12	20.8%
2012-13	34.3%
2013-14	12.1%

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

As mentioned in PI-1, the LGA's expenditure is substantially dependent on the central government transfers. High variance as shown above is largely due to high variance in transfers from the central government. Table 17 shows deviations by functions in actual expenditure from the budget. Key functions of the LGA are primary education, secondary education, primary health services and the administration which together contribute on average to 82.6% of the total actual expenditure in the last three financial years. Deviation in these functions across the years is reflected in overall expenditure composition as shown in Table 16.

Table 17: Department wise deviation in actual expenditure from budget, 2011-12, 2012-13, and 2013-14

Deviation from the Budget	Average Share (Actual)	2011-12	2012-13	2013-14
Administration	24.6%	13.5%	14.4%	-17.1%
Human resource management and development	0.1%	-46.7%	-	-3.2%
Finance	0.6%	-20.5%	6.3%	0.4%
Trade and economic affairs	0.1%	-53.0%	0.0%	-
Agriculture	2.6%	-51.3%	-93.8%	-62.2%
Education - Primary	31.5%	-9.0%	5.2%	-15.1%
Education - Secondary	14.0%	-37.0%	15.7%	-6.8%

Primary health services	12.4%	12.0%	-3.5%	-2.8%
Water	2.3%	31.5%	-85.0%	-29.1%
Works	2.7%	-46.7%	0.0%	228.4%
Lands	0.4%	-1.5%	0.0%	2.2%
Natural resources	0.0%	-71.8%	0.0%	-24.5%
Community development, gender and children	8.2%	-20.9%	-36.4%	-2.9%

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

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

It is understood that at the LGA level, there is no contingency fund in which contributions are made to meet expenditure during any unforeseen circumstances. The assessors did not encounter any specific expenditure item under which funds are reserved for unforeseen circumstances. Therefore, this dimension is not applicable.

Table 18: 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 exceeded 15% in two of the last three financial 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 case of Mvomero DC. Hence, the dimension has been rated in line with clarification 2-l 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 revenue data in the financial statements is sufficiently disaggregated by major revenue heads. The revenue estimates are prepared by the District Treasurer taking inputs from various departments in Mvomero District Council.

Revenue for the Council can be clubbed into five categories (i) Local Taxes (56%) (ii) Fee, fines, penalties and licenses (27%) (iii) Revenue from exchange transactions (17%), (iv) Finance Income

(-0.3%) and (v) Other Own revenues (1.3%)[14]. Table 19 shows revenue performance of Mvomero DC in the last three completed financial years.

Table 19: Summary of Mvomero 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			
Local Taxes	579	217	582	627	843	619	37.4%	107.8%	73.4%
Fee, fines, penalties and licenses	617	613	427	92	110	90	99.4%	21.5%	81.2%
Revenue from exchange transactions	247	222	500	31	502	237	90.1%	6.2%	47.3%
Finance Income	3	-13	0	1	0	1	-408.7%	-	-
Other Own Revenue	8	15	5	15	374	5	186.6%	303.2%	1.2%
Total Own Source Revenue	***1454***	***1054***	***1514***	***767***	***1829***	***952***	***72.5%***	***50.6%***	***52.1%***
Deduct: Forest Produce Levy	530	561	310	1.3	0	0	105.8%	0.4%	-
Total Own Source Revenues after adjustment	***924***	***493***	***1204***	***765***	***1829***	***952***	***53.3%***	***63.6%***	***52.1%***

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

On an overall basis, nearly 53%, 63% and 52% of the budgeted LGA's actual domestic revenue (or own source revenue) was collected in 2011-12, 2012-13, and 2013-14 respectively. Poor performance in 2011-12 can be attributed to underperformance in "local taxes" which contributes on an average 56% of total own source revenue of the LGA.

As per the feedback received from the LGA, the Council faced difficulties in collecting revenues from Mtibwa Sugar company Ltd which led to deviation in revenue collected from the planned. It was communicated that significant financial difficulties faced by the Company impacts collection of produce cess. It was also noted that legal action against the company whenever applied are subject to various political roadblocks. CAG in its management letter for 2013-14 notes various weaknesses in revenue management. Some of them include (i) revenue collected but not banked (ii) revenue collected but not remitted to the Main cashier.

Table 20: Summary rating for PI-3

Indicator	Rating	Brief explanation
PI-3 Aggregate revenue out-turn compared to original approved budget		
Dimension (i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget	**D**	Actual domestic revenue was 53%, 63% and 52% of the budgeted revenue in 2011-12, 2012-13, and 2013-14 respectively.

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

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

Relevant legislation, such as Local Government Finance Act 1982 (Revised 2002), Local Government Financial Memorandum 2009, Public Finance Act 2001 and the Local Government Accounting Manual 2009, do not define payment arrears.

On 8th 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 practice, as also referred to in the National PEFA Assessment of 2013 and the PEFA Field Guide 2012.

Mvomero DC presents an aging analysis of the aggregate payables in its annual financial statements. This has been presented in Table 21.

Table 21: Stock of payables, 2011-12, 2012-13, and 2013-14 (TZS million)

Outstanding for	2011-12	2012-13	2013-14
1-3 months	0	0	0
3 to 12 months	80	1335	1360
Over 1 year	0	0	0
As % of Total Expenditure	**0.3%**	**4.4%**	**4.5%**

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

(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 LGAs[15]. With respect to recording of arrears, the key findings for LGAs were[16]:

- 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.

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

[16] Source: Final Report of the Study dated November 2014

- 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 22: 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 year) and any recent change in the stock	C	Arrears contributed to 4.5% of the total expenditure in 2013-14, a reduction from 0.3% in 2011-12.
(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.

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 Mvomero 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.

It is noted 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, Government of Tanzania. 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 the 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 23.

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 23. The warrant to cost centers has four segments - (i) GFS account code, (ii) vote (iii) council codes, and (iv) cost centers.

Table 23: Chart of accounts

S. No.	Code	No. of digits	Type	Example
1	Vote	2	Vote	Represents the region, e.g. 79 stands for the Morogoro region
2	Council	4	Council	Represents the council, e.g. 3096-Mvomero DC
3	Cost center	4	Cost center	Represents the sector/department, e.g. 507B stands for Primary Education
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

S. No.	Code	No. of digits	Type	Example

Source: PMO-RALG

With assistance from the IMF, Government of Tanzania 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.[17]

Table 24: Summary rating for PI-5

Indicator	Rating	Brief explanation
PI-5 Classification of the budget	**C**	
(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 (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 transparency as well as accountability perspective.

The assessment of Mvomero District Council is based on the budget presented to the Council for the financial year 2014-15.

The budget preparation at the local government authorities' level for the financial year 2014-15 was guided by the guidelines issued by the Ministry of Finance in October 2013. Mvomero District Council submitted consolidated budget book named "Medium Term Plan and Budget for 2014-15 to 2016-17" to the full council on 22nd January 2014. The document can be divided into three sections (i) Introduction, (ii) Budget performance review, (iii) Estimates for MTEF (2014-15 to 2018-19). It should be noted that the budget. It should be noted that the budget format is determined by the central government, hence the factors leading to the performance at the LGA level relates to central government.

First section "Introduction" provides overview of the council, policy statement by the Council chairman, Council Director. The section also provides an analysis of needs and expectations of

[17] PEFA (National) 2013

various stakeholders from the budget. The stakeholders include community, companies, educational institutions, development project agencies, and religious institutions. The council also conducts a SWOT (Strength, Weaknesses, Opportunities and Threats) analysis of the general environment of the district. Lastly, the section explains the key priority issues faced by the district.

Second section "Budget performance review" outlines the fiscal performance of the district as well as achievement on physical targets in the preceding completed year, (12-13) It also provides performance in the current financial year (13-14) till December. The comparison between budgeted and the actual performance is at an aggregate level. Performance against the physical targets is provided sector wise. The council also provides key challenges in implementing the plan for the ongoing financial year and strategies for overcoming.

Third 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 25 provides assessment on each of the required information benchmarks.

Table 25: 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	NA	Mvomero DC did not have any outstanding debt at the beginning of the

S. No.	Dimension	Availability	Notes
	beginning of the current year		financial year 2013-14. Therefore, this dimension is not applicable.
5.	Financial assets: including details at least for the beginning of the 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. These include items such as recurrent expenditure on Local government block grant, HSBF, and recurrent revenue collections.
7.	Current year's budget out-turn: presented in the same format as the budget proposal;	Partially complied	The budget guidelines requires LGAs to present actual performance for first half of current year's budget and likely outturn for remaining part. But in case of Mvomero District Council, performance until December of the current financial year is only provided. This implies no forecasts of the remaining part of the current financial year are provided.
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 according to the main headings is provided for previous year. But in case of current year, information is provided only till December (which is only half of the financial year).
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 budgetary implications of these are not available.

Table 26: 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	Only one of five information benchmarks applicable is provided in the budget documentation.

PI-7 Extent of unreported government operations

Annual budgets, in-year execution reports, year-end financial statements, and other fiscal reports should cover all budgetary and extra-budgetary transactions of the local government. Since these documents are required to be scrutinized by the council and available to the public, the documents should comprehensively depict the respective local government's revenue, expenditure and any financing arrangements.

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

As per the PEFA field guide clarification 7-b, the annual budget estimates, in-year budget execution reports and the annual financial statements should cover all the expenditure of the government. In case of Mvomero DC, there are two kinds of government expenditure which are not included in one or more of the mentioned documents. These include:

1. **Community Contributions:** These contributions are reflected in the budget presented to the council. However, these are not included in the in-year budget execution reports and the annual financial statements.
2. **Medical Stores Department transfers:** The assessment team ascertained that certain equipment such as specific drugs which are supplied directly to hospitals/health centers from the central medical store are not included in the LGA's budget and the in-year budget execution reports, though these expenses are budgeted in the Central Government's budget. These are however, accounted for in the LGA's annual financial statements under 'recurrent grants'.

Table 27: Extra-budgetary expenditure, 2013-14

Community Contributions included in			As % of TE	MSD transfers included in			As % of TE	Total
MTEF	AFS	QFR		MTEF	AFS	QFR		
Yes	No	No	0.62%	No	Yes	No	0.37%	1%

(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 is routed through the central budget till the time of assessment. In line with the sub-national guidelines issued for PEFA Assessment, this dimension therefore is not applicable to Mvomero District Council.

Table 28: Summary of rating under PI-7

Indicator		Rating	Brief explanation
PI-7 Extent of unreported government operations		**A**	
(i)	Level of extra-budgetary expenditure (other than donor-funded project), which is unreported, i.e. not included in fiscal reports	A	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 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 (wards, villages/harmlets) during the last completed financial year 2013-14. As per MTEF 2014-15, Mvomero district comprises of four divisions, 23 wards, 115 villages, and 640 harmlets.

Table 29: Administrative structure of Mvomero district

S. No.	Division	Wards	Villages	Harmlets
1	Mvomero	7	31	163
2	Turiani	5	27	161
3	Mgeta	7	22	176
4	Mlali	4	21	140
Total		23	115	640

Source: MTEF 2014-15

As per the discussion with the council officials, lower levels of governments do not have their own sources of revenues. All expenditure is financed by transfers from the local government authority (i.e., Mvomero District Council) 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 details on transfers to lower level of government in 2013-14 and corresponding criteria.

Table 30: Types of funds transfers to lower levels of governments and criteria, TZS million

S. No.	Transfer item	Purpose	Rationale for transfer
1.	Health Sector Basket Fund	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	Mostly used at LGA level and not transferred to lower level of government
3.	PEDP and SEDP	Funds for overall development of primary and secondary education	Capitation grant: 100% transferred- distributed to units by equal amount for each student in primary schools Construction of classes, toilets, and staff offices: No money is transferred to primary schools and all procurement is done at the LGA level only.
4.	Tanzania Strategic City Project	For infrastructure (road) development and capacity building of council staffs	100% utilized at the LGA level and no transfers are made to lower levels of governments
5.	Capital Development Grants		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
6.	RWSSP	Construction of water systems	It is 100% utilized at the council level.
7.	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.

S. No.	Transfer item	Purpose	Rationale for transfer
8.	MMAM	Construction of dispensaries	It is 100% utilized at the council level.
9.	Livestock development fund	Activities for development of livestock	It is 100% funded by the central government and all funds are utilized at the council level only.
10.	Tanzania Social Action Fund	Implementing Productive Social Safety Net Program	It is 100% funded by the central government and some funds are spent at the council level and some funds are given to communities directly. Transfers to communities are based on the budget/plan submitted.
11.	Other charges	Operational cost	• General Purpose Grants from the Central Government- 20% of funds received are transferred in equal proportion to all LLGs • 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 11 shows, there is a variation of more 53% 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 the discussion with Mvomero District council, lower levels of government (i.e., village authorities) start preparing the budget in September for the next financial year. The proposal goes through various levels of approval and reaches the Local Government Authorities in December-January. The budget of the LGA is approved by Council in February and is submitted to the central government. In case of last completed financial year (2013-14), ceilings on all transfers were not provided for the coming financial year. The LGA do communicate the ceilings as received on the select grants to the departments or the lower level government as applicable. On the other hand, agencies were required to prepare estimates based on the ceiling for the preceding financial year. Actual approved are only finalized by June.

It is to be noted that each LGA do submit their cash flow plan at the beginning of the financial year outlining the distribution of funds requirements across the financial year. However, central government transfers funds only based on the availability of resources. During the financial year, no advance intimation is given on resource transfers. On a monthly basis, ceiling committee sits at the central level and determines the resources to be transferred. Considering the uncertainties of available funds flows from the national government which affects in turn the overall cash allocations by the LGA, the present system cannot make available reliable resource information to the primary units which can be taken into account during their budgeting activities.

(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 and expenditure incurred to the Wards for consolidation 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, hardly any transfer appears 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

LGAs do not have direct responsibility, administrative or financial, for any autonomous government agency or public enterprise. In line with the supplementary guidelines for application of the PEFA framework for sub-national governments, 2013, this dimension therefore, is not applicable to Mvomero DC.

Though as per the clause 23 (d) of the Water Supply and Sanitation Act 2009, the Water Supply and Sanitation Authorities (WSSAs) are eligible for financial support from the LGAs, there is no evidence of financial responsibility on the LGA to take financial risk in case of financial distress at the Authority level. The LGAs cannot provide guarantees to these WSSAs, the authority for which lies only with the Ministry of Finance as per the provisions of the Government Loans, Guarantees and Grants Act, 1974. Moreover, there is no direct reporting relationship between the WSSAs and the LGAs – WSSAs are mandated to submit audited statement of accounts and annual reports only to the Ministry of Water and PMO-RALG. The administrative interface at the local level of the WSSAs with the LGAs is through the District Executive Director who is member on the Board of the concerned WSSA as a representative of the District.

(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.

As per the discussion with the Mvomero District Council, there are no receivables and payables at the LLG level. 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 DC does not contain a separate statement on revenue and expenditure of the LLGs, even though the consolidated overview of the fiscal position of LLGs is reflected through the AFS.

Table 32: Summary of rating under PI-9

Indicator	Rating	Brief explanation
PI-9 Oversight of aggregate fiscal risk from other public sector entities	C	
(i)	NA	LGAs do not have direct responsibility, administrative or financial, for any autonomous government agency or public enterprise. This dimension therefore, is not applicable to Mvomero DC.
(ii)	C	On a quarterly basis, meeting minutes capturing details on revenue and expenditure of the LLGs are submitted to the concerned LGAs. 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.

Mvomero district council does not have its own website. In Table 33 we assess performance of Mvomero District Council 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. The quarterly council financial reports are uploaded on the PMO-RALG website on a quarterly basis. However, for the last completed financial year 2013-14, no quarterly reports are uploaded on the PMO-RALG website.
3.	Year-end financial statements within six months of completed audit	Yes	Summary of the audited financial statements are put up on the notice board and published in the newspaper.

S. No.	Item	Available	Notes
4.	External audit reports within six months of completed audit	Yes	Summary CAG reports are published in the newspaper.
5.	Contract awards with value above approx. TZS 50 million at least quarterly	Yes	The team is informed that summary of all contract awards are published in weekly journal on Public Procurement Regulatory Authority Website. The assessment team checked some sample contracts and they were available.
6.	Resources available to primary service units	Yes	The team was shown the sample photo of the service facility depicting the summary of transfers to facility.
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	Not provided.

Table 34: Summary of rating under PI-10

Indicator	Rating	Brief explanation
PI-10 Public access to key fiscal information	**B**	
(i)	B	Out of eight items, five items are available for public access

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. Table 35 shows timelines as specified in the budget guidelines issued by the Central Government and the actual dates for Mvomero District Council. The Council is given more than eight weeks for completion of the budget proposals. The LGA received the guidelines for preparation of the budget on 1st November 2013. The Budget was approved by the Full Council on 22 January 2014. Therefore, the departments were given more than 10 weeks for preparation of the budget from the receipt of the circular. However the indicative ceilings of specific expenditure heads were available only on 24nd December and therefore about 4 weeks was available to the Council for finalisation. Broadly, the budget calendar is adhered at the Mvomero District Level.

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 applicable for Mvomero 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)	MoF, President's Office – Planning Commission (PO-PC)	01st November 2013
07th of January, 2014	MDAs, RS and LGAs to get budget ceilings for the fiscal year 2014-15	MoF	24th December 2013 (For other charges and National Sanitation Campaign only)
08th -28th 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	24th December 2013- PMO-RALG 05th February, 2014- MOF
29th of January-11th 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	10th February 2014

Instructions to LLGs and line departments for initiation of preparation of budget proposals were issued by the District Council during September to November 2013. These instructions did not include a separate budget calendar containing specific dates for submission, negotiation and finalization of budget estimates by the LLGs and departments.

(ii) Guidance on the preparation of budget submissions

Mvomero LGA issues a letter to wards as well as village councils requiring them to prepare budget proposals for the upcoming financial year. Given that significant portion of the LGA expenditure is financed through central government grants, the budgetary ceilings to the lower level of government are contingent on the ceilings received from the central government. In the last approved budget (2014-15), ceilings were provided only for select expenditure heads. As per the information shared, ceilings were provided for "National Sanitation Campaign" and for "Other Charges" only. These were shared with the departments and the lower level governments as well. There are no other ceilings provided for the concerned financial year. On the other hand, previous year approved ceilings (for the remaining expenditure heads) were suggested as the base for preparation of the budgets for the upcoming year.

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.

(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 Full Council approval	Date of approval by Parliament
2012-13	13th April 2012	14th June 2012
2013-14	10th May 2013	12th June 2013
2014-15	24th January 2014	13th June 2014

Table 37: Summary of rating under PI-11

Indicator		Rating	Brief explanation
PI-11 Orderliness and participation in the annual budget process		**B**	
(i)	Existence of and adherence to a fixed budget calendar	B	. For the last approved budget, i.e. 2014-15, the budget calendar was largely adhered to. Though there was enough time of around 10 weeks from the receipt of budget circular, time for meaningful completion of estimates (after availability of ceilings) was reduced to 4 weeks.

(ii)	Guidance on the preparation of budget submissions	D	While Mvomero 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.
(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;

Budget guidelines for the last two completed financial years (2012-13 and 2013-14) provide for all accounting officers (including LGAs) to incorporate a medium term perspective in their budget proposals. 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. As mentioned in Table 25, relevant macroeconomic variables at the LGA level (such as inflation rate, forecast of agriculture produce) 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 includes a “Budget Frame” which provides projected resources availability and spending limits for next three years.

Mvomero DC in line with the budget guidelines prepares revenue and expenditure estimates for the next three years. These forecasts are prepared as per the GFS classification. As per DC officials, the forecasts are prepared without any scientific analysis of development priorities and resource availability. Rather, the forecasts are only extrapolation of current year figures. This was corroborated in discussions with the Department of Planning, Ministry of Finance wherein Department officials stated how LGAs do not consider medium term estimates seriously and prepare them only for meeting budget guidelines requirements. Consequently forward year forecasts are not used as a starting point when preparing the budgets for that year.

(ii) Scope and frequency of debt sustainability analysis

In the last two years, Mvomero district council has not had any debt outstanding. In 2011-12, Mvomero District Council paid off its entire debt. Since then, there has not been any loan outstanding. Therefore, this dimension is not applicable.

(iii) Existence of costed sector strategies

There is strategic plan (till 2017) reflecting the development priorities of the LGA. The strategic plan provides for interventions in various development sectors including health, education, agriculture and livestock, water, natural resources, lands, community development. However, there is no costing of interventions in the strategic plan. The LGA is currently revising the strategic plan for 2016/17 to 2020/21.

(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 38: Summary of rating under PI-12

Indicator		Rating	Brief explanation
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting		**D+**	
(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	NA	Mvomero didn't have any debt outstanding in the last financial year 2013-14.
(iii)	Existence of costed sector strategies	D	There is strategic plan reflecting the development priorities of the LGA. However, there is no costing of interventions in the strategy.
(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, 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 39 below shows broad structure of own revenue sources of Mvomero district. We have also identified revenue sources which meets the condition for inclusion as "taxes" as provided in GFS manual based on our understanding of the nature of these sources according to the available information and explanations given to us in course of this assessment.

Table 39: 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 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. 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. 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.
2.	Disposal of assets, sale of plots	Not included	As per para 5.10, GFS 2001, the disposal of a nonfinancial asset other than inventory by sale or barter does not increase net worth of the entity and these transactions are not revenue. Hence, it is not included.
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 *production,* leasing, delivery, sale, purchase, or other change of ownership of a wide range of goods and the rendering of a wide range of services.

S. No.	Revenue item	Included/excluded as "Tax Revenue"	Rationale
			Produce cess is a levy on agriculture produce. There are various kinds of produce cesses. These include (i) Cane produce cess (ii) Coffee Crop cess (iii) Tomato Produce Cess (iv) Green Vegetables Produce Cess (v) Banana Produce Cess (vi) Potatoes Produce Cess (vii) Maize Crop Cess (viii) Rice Produce Cess and (ix) Beans Produce Cess.
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 a current grant for the council and not in the nature of tax revenue.
6.	Community Based Organization's registration fees, Traditional title deeds, change of title deeds	Not included	It is part of administration fees which are not considered as tax revenue as defined in GFS 2001 para 5.99.
7.	Mineral extraction fees	Included	As per para 5.95, of GFS payments for license or permit to conduct extraction operations should be classified as taxes on use of goods and on permission to use goods or perform activities.
8.	Hunting license fees, Muzzle loading guns license fees, Local liquor licenses, Intoxicating liquor license, meat inspection charges, Cigarette fees	Not included	It is clear that the objective of imposing a license fee is to control the activity concerned rather than revenue collection. Therefore, in line with para 5.54, receipts from these items have not been considered as tax revenue.
9.	Business licenses, Permit fees for billboards, posters or hoarding, Market Fees, Tender fees, building permit fees, parking fees, plot application fees, Livestock market fees, communication towers fees	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.
10.	Service levy, hotel 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

S. No.	Revenue item	Included/excluded as "Tax Revenue"	Rationale
			providing corresponding services in lieu of the receipts of funds.
11.	Secondary school fees	Not included	Since fees charged for secondary school is in lieu of the services provided, these can't be termed as tax revenues.

As specified in Table 39, we have considered following sources of revenues as taxes (i) Produce cess (ii) Mineral extraction fees and (iii) Service levy and (iv) Hotel levy.

As per Section 7 (1) (u) of the Local Government Finance Act, 1982, all moneys payable under the Hotel Levy Act, by the proprietor of guest houses and collected within the boundaries of the district council are included in Local Government Authority's revenues. Based on our discussion with the district officials, it is found that guest house levy (also called hotel levy) was abolished in 2008. Therefore, guest house levy is not included in the analysis since it is not in operation at the time of assessment. The analysis in the subsequent performance indicators will be catering to three sources of revenues (i) produce cess (ii) mineral extraction fees and (iii) service levy.

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). The latest Mvomero DC bylaws are contained in the Government Notice No.194 dated 27 June 2014, which was published in the Gazette of the United Republic of Tanzania No.26, Volume 95 of 27th June 2014. Part IV of the Local Government District Authorities Act 1982 gives power to district councils to make their own bye-laws. The bylaws provide the type of local taxes, applicable rates, evidence of collection, responsibilities of taxpayers, offensive matters in relation to tax paying responsibilities, and the penalties if convicted guilt of tax offences. In case main-law lapses, the relevant bye-law at the LGA level automatically becomes invalid.

Table 40: Legislative framework of taxes/fees

S. No.	Source of revenue	Bye-law	Main law	Details
1	Produce Cess	√	√	Bye-law: This includes farm produce cess (3%) and (ii) forest produce, from TZS 200 to TZS 3,000 per unit. Main-law: Section 7(1) (g) of the Local Government Finance Act, 1982
2	Mineral Extraction Fees	√	X	Bye-law: It varies between TZS 500 to TZS 1,500 based on the type of the mineral and

S. No.	Source of revenue	Bye-law	Main law	Details
				construction material as well as tonnes of the carrying lorry.
3	Service levy	X	√	Main-law: Section 7 (1) z) of the Local Government Finance Act, 1982

In case of service levy, the main law only provides an upper limit of 0.3% of the turnover that an LGA can impose. It does not specify the exact rate. In the absence of a bye-law, there is no legal document providing for 0.3% of service levy in Mvomero.

The legislation does not provide for administrative discretionary powers to the tax collectors. But as per the discussion with the council officials, there are cases where taxpayers enter into a compromising agreement with the tax collector on the tax payments. For example, in case of service levy, 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. This practice introduces a discretionary element which has 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 bye-laws, taxpayers are informed on the types of local taxes, rates and their expected liabilities through the bylaws. But after that stage, there are no special initiatives for awareness of the target audience.

Section 161 (1) Local Government District Authorities Act, 1982, mandates that every bye-law made in accordance with the Act shall be kept at the township authority by whom it was made and shall at all reasonable times be open to inspection by the public free of charge. Similar provisions are applicable to ward committees in section 161 (3).

There are no special information desks in the district council dealing with briefing on taxes and other select sources of revenues. Any queries related to taxes/fees/levies are to be made to the District Treasury. The assessment team was informed that the council strives to inform taxpayers on tax liabilities and administrative procedures through regular full council meetings, the district councils discusses with the general public on the taxes/fees/levies applicable, rate and procedures for payments. Additionally, it was informed that the taxes/levies/fees are displayed on the collection counters for public consumption.

As per recent studies made on key issues in revenue mobilization[18] , 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 Mvomero 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 and

[18] Revenue Mobilization Issues in the Tanzania LGAs by Siasa Issa Mzenzi, Tanzania Country Level Knowledge Network-Policy Brief No 7, 2013.

- the general weaknesses in revenue related internal controls referred to by the CAG in areas such as (i) ineffectiveness in identification of revenue sources, (ii) timely collection of revenues, (iii) low collections from own source revenues vis a vis budgets, and (iv) functioning of internal audit and the Audit Committee, 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, if the taxpayers are not satisfied with any element of a certain local tax, there is a council's grievances desk. But this desk deals with all kinds of public queries including tax. As per the feedback from our discussions, tax related complaints are handled by District Executive Director (DED). In case the applicant is not convinced with the response, the applicant can appeal to Prevention of Corruption Bureau. 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.

We were informed by Mvomero DC that there have not been any cases of complaints with regard to taxes and no related legal cases are pending.

Table 41: Summary of rating under PI-13

Indicator		Rating	Brief explanation
PI-13 Transparency of taxpayer obligations and liabilities		**D**	
(i)	Clarity and comprehensiveness of tax liabilities	D	Processes for levy and collection of key taxes are not comprehensively documented and intelligible to taxpayers. There appear to be also areas of discretion for collection For example: service levy
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	D	Some organised access by taxpayers to the nature and requirements of taxes exists through council meetings/display of fees/taxes on collection centres but this appears to be seriously deficient 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 Mvomero.

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

(i) Controls in the taxpayer registration system

Produce cess is collected from large group of small farmers. The Council has outsourced the collection to agents except for sugar cess which is collected directly through the processing company – Mtibwa Sugar Company. These agents are required to deposit a fixed amount monthly with the Council as agreed in the contract. These contracts are revised on an annual basis. Hence, the Council does not have its own database of taxpayers of produce cess except for sugar cess. The DC collects the revenue through Mtibwa Sugar Company based on tonnage of sugar canes bought. In case of produce cess, the there is no database of produce cess taxpayers especially for small scale farmers. It was informed that in case of large scale farmers, the information can be extracted from the receipts books.

Trade officer of the District Council does have their own database of taxpayers of service levy. It is a manual database and not linked to any other database such as business license for better monitoring of tax compliance. This information is supplemented by the information provided by Tanzania Revenue Authority database for the council. TRA provides turnover of each business in the Council. The information is entered into an I-tax system. This system also assigns a unique identification number to each tax payer.

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.

Minerals extraction fees are paid based on the volume of the vehicle carrying the materials. Owners are required to pay the fees at the extraction point where the DC has representatives. In addition, the DC has check points for vehicles carrying the mineral/building materials at the entry points for all roads into the extraction points. Vehicles that have not paid the fees inside the extraction point are required to pay at the checkpoint.

Ministry of Finance, Government of Tanzania conducted a revenue potential study in 2013. It found that Mvomero district is rich in reserves of minerals such as copper and iron. However, the Council is not benefitting due to lack of tax registration and poor database of taxpayers.

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

There is no regulation mandating the taxpayer to register with the district council. Therefore, no penalties are provided in case the taxpayers do not register themselves with the council. However, the bylaws provide penalties that are applicable for non-payment of the required taxes. Fines for violation of rules and regulations ranges from TZS 15,000 to TZS 300,000 depending on the nature of violation.

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

At the local government level, there is no separate audit conducted to identify the defaulters. The paying companies compute their tax liabilities based on their reported turnover.

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	Revenue accountant and trade officer maintains a database of taxpayers for service levy (among the three sources of revenues selected). But this database is also not linked to other databases. Districts supplements own database with reference to TRA database which we understand is subject to various weaknesses.
(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.
(iii)	Planning and monitoring of tax audit and fraud investigation programs	D	No special tax audits are conducted.

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, tax arrears are available only for sugar cess. These are defined as actual collection under sugar cess relative to agreed amount with the collection agent as per the contract. It is despite contractual obligations of the collection agent to deposit agreed amount with the council. Tax arrears information for sugar cess are updated annually at the end of the financial year when re-tendering is initiated. Financial Statements provides annual data on arrears on sugar cess. As of 30th June 2014, nearly 500 million TZS of sugar cess was pending for more than one year. This is nearly 50% of total own revenues of the Council in 2013-14. Currently, no tax arrears are estimated for service levy and mineral extraction fees. In spite of an accrual accounting environment, there was also no evidence of a credible system for recording receivables for service levy. Hence collection ratio of the tax arrears cannot be computed.

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

As provided in Table 43, service levy is collected by the revenue accountant and trade officer, sugar cess is collected by Mtibwa Sugar Company, other produce cesses and mineral extractions fees are collected by Village Executive Officers.

Revenue collected across these three sources are directly deposited in the own source revenue account with varying frequency. Service levy collected are reflected in the own source revenue account on a daily basis (if cash) and generally within 3 days for cheques. Produce cess are deposited to own source revenue account on a monthly basis. Mineral extraction fees are deposited on weekly basis depending on the amount collected. If the amount exceeds TZS 50,000 then the collected amount is deposited to the own source revenue account on the same day.

Table 43: Structure of taxes

Cesses	Who collects	Who evaluates	Frequency
Service levy	Service levy charged on services provided to the council: 1. Council deducts from payment to Business entity; and Service levy charged on other activities: 1. Revenue accountant and Trade officer	Revenue accountant and trade officer (Information on business unit in the district is provided by TRA.) In addition to this, they also use their own information sources.	Not fixed, as and when the transaction is processed and chasing is ad-hoc.
Mineral extraction fee	Village executive officer collects in every village Charged per lorries (= 1 tons)	VEO assesses the quantity extracted	Daily
Produce cess	Sugar cess was collected through Mtibwa Sugar Company based on tonnage of purchased sugar canes	Mtibwa Sugar Company	Monthly
	Other cesses : Village Executive Officers	Village Executive Officers	Bi-monthly

District 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.

(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). However, the financial statements as well as comments made by the CAG in their management letters of recent years do show that figures of receivables for sugar cess and instances of under recoveries from collection agents for others are captured by existing recording systems. From our discussions during the field visits and study of existing systems where collection agents are engaged and comments by the CAG in his reports it is clear that the remittance of fixed amount to councils from collection agents and lack of timely recoveries is seriously undermining the process of timely realization of revenues and their receipts into Treasury. We understand that the contracted agents are required to visit the district council on a monthly basis to reconcile their receipts and physical balances with the records of the revenue accountant. However, the internal control weaknesses highlighted in past audit reports on the controls over such receipt books and the overall absence of any system of arrears recording (except for sugar cess) is hindrances to any meaningful reconciliation efforts.

Table 44: Summary of rating under PI-15

Indicator		Rating	Brief explanation
PI-15 Effectiveness in 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, which was collected during that fiscal year (average of the last two fiscal years)	NR	No tax arrears data is available other than for sugar cess. Past management letters of CAG have also pointed out the considerable periods for which such cess is outstanding without collections.
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	C	Produce cess is deposited to own source revenue account on a monthly basis. Mineral extraction fees and service levy are deposited as and when it is collected. But the funds collected are available for spending after gap of at least 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

LGAs, to implement the activities planned during the financial year, 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 the Ministry of Finance, LGAs submit annual cash flow forecasts at the beginning of the financial year detailing fund requirements for each quarter. These forecasts are usually arrived at by a simple division of the annual budget amount into four equal parts. Once submitted, no approvals are received as commitment from the Ministry to release funds as forecasted.

It is understood from discussions with the DC that the cash flow forecasts are reviewed and updated for the remaining year during the mid-year review of the LGA budget. However, evidence of the revised cash flow forecasts could not be shared by the DC officials with the assessment team.

It should be noted that the significant dependence 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 by the District Council a difficult task.

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

As shown in Table 2, central government transfers constitute significant portion of Mvomero expenditure. In this scenario, ability of the LGA to give periodic in-year information to sector departments, villages, wards on ceilings for expenditure commitment is dependent on information received from the central government. Based on our discussion with Ministry of Finance, on a monthly basis, ceiling committee sits and reviews the cash flow position at the central government level. Based on the recommendations of the committee, spending instructions are issued. There is no advance intimation to the LGAs on expected fund transfers allowing them to further communicate to sector departments, wards and villages. Therefore, with regard to central government funded projects, no advance intimation is provided to MDAs to enter into commitments. However, there are projects funded by own source revenue of the LGA. We were informed that no advance intimation is provided to departments with regard to projects/activities funded by LGA own source revenue.

(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. Extracts of para 18 of the Local Government Finance Memorandum is given in the box below.

As per our discussion with Mvomero District Council, annually during December, in-year budget adjustments are undertaken. Available feedback from Mvomero and our discussions suggest that virements are a regular activity and this is also borne out by the findings of internal and external auditors.

Para 18 of Local Government Financial Memorandum

1) Where a Committee wishes to incur expenditure not originally included in the estimates or where the total provision in the annual budget is found to be insufficient, it shall submit to the Finance Committee a supplementary budget which shall be forwarded to ordinary Council meeting for approval.
2) Where actual income has been higher than that budgeted, and it is proposed to increase expenditure as a consequence, it shall be necessary to obtain the approval of the Council for increases in the relevant budget heads.
3) It shall not however be necessary to seek approval of the Council where only virement between item codes within the same vote is proposed; that is if the increased provision on one or more expenditure heads can be met by reducing an equivalent amount the provision on one or more other expenditure heads, provided that:
    i. there was a provision in the original budget, approved by the Council;
    ii. there is no virement from other charged into personal emoluments; and
    iii. the council's overall recurrent budget is expected to be in balance;
    iv. If any of the above conditions are not met, the approval of the Full Council shall be required.
4) There shall be no virement between development and recurrent budgets, except where; with the approval of the Council the recurrent contributions from the Council's own sources of revenue to the development budget may be varied.
5) No expenditure shall be incurred in advance of the Full Council approval, except personal emoluments wholly financed by Central Government, or where the additional expenditure results from the introduction of a national pay award. A Council will be deemed to have incurred expenditure if it orders goods, services or employs staff in anticipation of subsequent approval of supplementary budget.
6) Each application for a supplementary budget submitted to the Full Council shall be accompanied by a brief report explaining the purpose and proposed funding of the supplementary Budget.

For the financial year 2013-14, the virements were approved on 21 February 2014 and discussed on 08th February 2014. The virements amounting TZS 159.76 million were made from funds earmarked for construction of the hospital to various other constructions activities. This is nearly 0.5% of the expenditure in 2013-14.

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	No evidence of either the annual or the revised mid- year cash forecasts could be provided by the -District Council to the assessment team. The cash requirements given to the central government at the commencement of the year is more of a requirement of funds than a cash forecast.
(ii)	Reliability and horizon of periodic in-year information to departments on ceilings for expenditure commitment	D	No advance intimation is provided to s 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 of management of departments	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 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

Based on our discussion with PMO-RALG, LGAs can borrow from financial institutions, pension funds. All loans taken by LGA are to be approved centrally. As per section 11(1) of the Local Government Finance Act 1982, an LGA can take a loan (within United Republic of Tanzania) only after approval from the Minister responsible for local government (who also consults the minister responsible for finance). It is noted that nodal ministry of local governments, i.e. PMO-RALG does not have outstanding debt data for LGAs. Each LGA processes fresh loan requests (only for major projects such as road) to PMO-RALG for approval. The request is accompanied by last three years own revenues, schedule of loan payment and interest payments in the future. Post scrutinization and approval (if given), the request is sent to Prime Minister Office. However, PMO-RALG does not receive any information on whether loan has been approved/ disbursed or not.

As mentioned before, Mvomero district council does not have any debt outstanding as on 2013-14. A loan 45 million TZS was repaid in 2011-12. Therefore this indicator is not applicable to this LGA.

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

As per our discussion with Mvomero District Council staff, there are seven bank accounts following government's order to rationalize the number of bank accounts kept by the Local Government Authorities. All accounts are required to be kept with National Microfinance Bank which has nation-wide coverage. These include (a) Own source collection cash account (b) Miscellaneous deposit cash account (c) Other charges cash account (d) development cash account (e) road fund cash account (f) personnel emoluments cash account (g) National Water Sector Development Programme. Balances as on 30th June 2014 are available in the audited financial statements. The statements also provide details on balances in the accounts of the lower level of governments. As per our discussion, Mvomero district council consolidates cash balances on a monthly basis.

(iii) Systems for contracting loans and issuance of guarantees

As mentioned before, Ministry of Finance is the only agency authorized to issue guarantees. Local government authorities do not have any role in approval or issuance of guarantees to agencies. Therefore, this indicator is not applicable for assessment in this study.

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	NA	At the time of assessment, Mvomero DC did not have any outstanding debt.
(ii)	Extent of consolidation of the government's cash balance	C	Mvomero district council calculates and consolidates cash balances in different bank accounts on a monthly basis.
(iii)	Systems for contracting loans and issuance of guarantees	NA	Issuance of guarantees is the mandate Ministry of Finance. Hence, it is not applicable for Local Government Authorities.

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 President's Office-Public Service Management (PO-PSM). Payroll is controlled through a computerized database known as Human Capital Management Information System (HCMIS) located in PO-PSM. 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 while payroll processing is done by Department of Computer Services, Ministry of Finance. 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 labors 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. 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 Mvomero 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 then have to be scanned and uploaded on HCMIS by the HR Department officials in the Council for approval by 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 should take not more than 4-5 working days. In case of new recruits, depending on the time of joining, salaries may be processed only by the next month.

However, based on our discussion with Mvomero DC and reports generated, there are various cases of salary arrears. As on 30th June, 2014, there were nearly 172 cases where salary was in arrears. Out of these cases, 125 were related to non-payment of revised salary with promotion and 47 related to lack of payment for new hires. These cases were pending as on 20th March, 2015 as well.

CAG in its management letter for 2013-14 also highlights delay in deleting 64 ex-council staff from the HCMIS and salaries continued to flow to those retired employees.

(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, Ministry of Finance 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. Some of them include (i) number of staff aged more than 65 (ii) duplicate bank accounts report (iii) action taken status report. PO-PSM regularly generates these reports and informs specific cases to the Staff Inspection Department of PO-PSM for further investigation. At the time of assessment, PO-PSM generated reports for Mvomero District Council which found cases of duplicate bank accounts and employee aging more than 60. The report generated list of such employees and it was informed that the report will be shared with the staff inspection department to investigate matters. The CAG Management letter for 13-14 has also pointed out instances of payments of salaries to 64 retired officers and further test checks by the auditors have shown considerable payments of over Tzs 42 mn to staff who were deceased, retired, absconding or absent.

At the local government 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, Internal Auditor General 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 current procedure requires each employee to provide one bank account to be entered into the HCMIS for payment of salary. However, the Report finds that across Tanzania and also in Mvomero, there were cases where payments were made to employees in the accounts which were not recognized by HCMIS (i.e., account which is not entered in the system). This shows that current procedure allows salary payments to be made to the employee outside HCMIS entered information.

Internal Audit in its quarterly review reports on systems related to payroll. In the last four quarterly internal audit reports, there were some references relating to payroll weaknesses. These include payment of salaries to retired employees for the month of retirement month, overstatement of salary arrears, and lack of refund of unclaimed salaries to central treasury. However, 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 Management letter of the CAG has pointed out to certain weaknesses resulting in payments to non-existing employees in earlier years.

In addition, the Controller and Auditor General of Tanzania in its annual general report for 2012-13 on local governments provides key issues with regard to internal controls. It included section on various internal control weaknesses relating to LGAs as a whole such as those without updated employee register, those with inadequate staff appraisal, and others with payment of salaries to employees different from personnel emoluments grants received. Mvomero was referred to as one of the LGAs where salaries paid were less than the personnel emoluments received. In addition to that, CAG also pointed out that in case of Mvomero deductions amounting to TZS 48 million were not remitted to various institutions. These include, among others, social security funds, national health insurance fund, and income tax.

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 are reconciliation between the two once PO-PSM approves the request. However, changes to the establishment list are still outside the HCMIS and reconciliation is not regular.

(ii)	Timeliness of changes to personnel records and the payroll	D	Review of reports generated from HCMIS suggests cases of long delays in salary payments. There are various past cases where LGA has had significant arrears which were over 3 months and delayed deletion of retired staff
(iii)	Internal controls of changes to personnel records and the payroll	C	There are no audit trails currently reflecting the changes made to the system. Authority for changes to the personnel records is clear and restricted. But implementation is weak.
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	B	Internal auditor general completed a payroll audit for the entire public sector including Mvomero District Council in December 2013. However, there are no existing systems that require an annual payroll audit to be conducted.

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

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

In order to achieve value for money in procurement, there must be robust legal and regulatory framework. The framework should be accessible to the public, applicable to majority of the public procurements. It should mandate open competitive procurement as the primary method of procurement with clear list of cases of deviations. It should promote transparency in procurement to bring in accountability. It should also provide for an independent appeal mechanism for procurement related complaints. In the subsequent paragraphs, we have assessed the legal and regulatory framework in Tanzania on these dimensions only. Procurement in Tanzania is mainly governed by Public Procurement Act, 2011 and corresponding regulations Public Procurement Regulations, 2013.

Public Procurement Act, 2011 and Public Procurement Regulations 2013

Application

Public Procurement Act, 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 procurement and disposal by tender undertaken by “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 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 penetration[19]. 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 Ministry of Finance 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.

The Act also provides for establishment of Public Procurement Regulatory Authority 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 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 Procurement Management Unit.

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., Ministry of 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

[19] 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
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 procurement and disposal 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 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 48), methods for selection and limit 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 undertaken by “procuring entity”	√ applicable to all procurement and disposal by tender undertaken by “procuring 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 Public Procurement Act 2011	√ Mechanism provided in Sections 104 to 107 of the Regulations

(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, Mvomero district council procured goods and services worth TZS million 3302.74. Out of these, nearly 80% of the procurement was done through open competition. Remaining 20% was minor value procurements using alternative methods of procurement.

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	16	RWSSP	4	Nil	21
Amount (TZS million)	Nil	2478.74	100.7	56.6	Nil	2636.04
Minor value procurements						
Number of Local Purchase Order	175	Nil	Nil	67	Nil	242
Amount (TZS million)	518.4	Nil	Nil	148.3	Nil	666.7
Total procurement						3302.74

The justification of the procurements conducted other than open competition in line with the four conditions specified above have been assessed based on the CAG/Internal auditor comments if any on the procurements procedures.

CAG in its management letter for 2013-14, do not comment on the justifications for the procurements conducted through alternative methods. Therefore, the percentage of the procurements conducted through alternative methods and was justified in line with legal requirements is not available. In the absence of such data, the dimension has been rated as "D" in line with clarification 19-d in the PEFA field guide.

(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 disclosure of data on resolutions of procurement complaints.

On the other hand, as per the Public Procurement Act 2011, each procuring entity is required to publish summary of the general procurement notice prepared based on the annual procurement plan. In case of Mvomero, it was shown to the assessment team that general procurement notice was published in the newspaper at the beginning of the current financial year. The assessment team was also shown a sample of the procurement notice in the newspaper. Summary of contract awards are furnished to the PPRA which are published in its weekly journal.

(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…" This may affect unrestricted access by affected parties and compromise independence. 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	Nearly 20% of the contracts were procured through alternative methods of procurement i.e., local purchase order method and framework agreements were used. However, the CAG in its management letter has not commented on the justification behind these procurements. Therefore, in line with PEFA field guide clarification 19-d, the dimension has been rated D.
(iii)	Public access to complete, reliable and timely procurement information	D	Bidding opportunities and contract awards are published. General procurement notice (summary of the procurement plans) is published. Data on resolution of the procurement complaints are not published. The assessment team however does not have access to data on whether this covers at least 75% of procurement operations 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 labor, and discretionary staff allowances. Other controls for cash management, payroll, and procurement are covered in PI – 17 to 19.

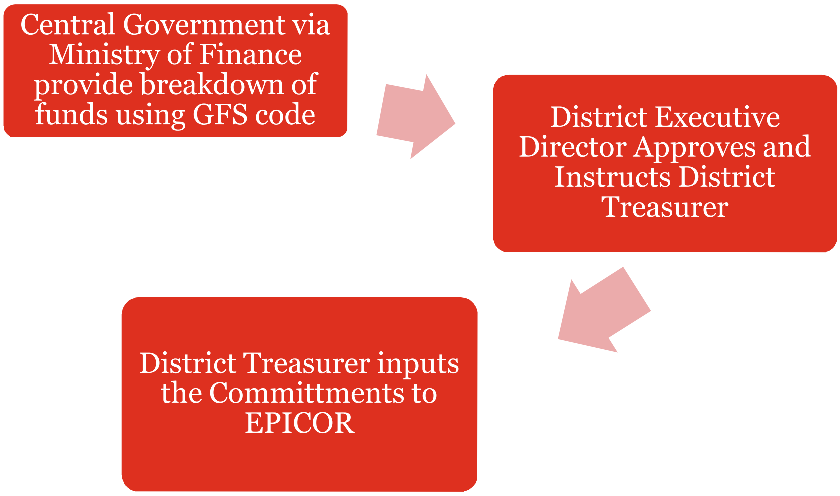
Para 8 (2) of the Financial memorandum specifies that one of the responsibilities of the Council Treasurer is to ensure that an effective system of internal control is operated including the writing and subsequent revision of detailed financial procedures. Para 11 (1) provides mandate to (i) the Finance 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 audit reporting on effectiveness of internal control and internal audit functions.

In our assessment of Mvomero we noted that there were no detailed financial procedures documented in a consolidated manner nor a manual for such procedures at the Council level. Local Authority Accounting Manual was used to guide recording of financial transactions and the Internal Audit Guide (July, 2013) was used to guide the internal audit procedures.

(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 has been assessed separately under PI-4.

During our assessment, it was observed that Mvomero DC was using the integrated financial management system (EPICOR) that had already been installed and was functioning. 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. In collecting evidence of effectiveness of the commitment controls available at Mvomero District Council, we reviewed IA reports for six (6) quarters from 1 July 2013 to 31 December 2014 and CAG's report summary for financial years 2011-12 to 2012-13. Examples of weaknesses in commitment control were reported that included:

- Payments made in excess of the budgeted expenditure, including development grants (,);
- Utilization of funds for unplanned activities ()
- Expenditure charged to wrong GFS codes without proper reallocations
- Noticeable sums of money overdue for 1-2 years on account of creditors, contractors and staff claims.

The general inability of the LGA to produce a statement on arrears vis a vis commitments made (only a statement of liabilities as per the Annual Financial statements is available) is a reaffirmation of the lack of effective commitment control procedures that will need to be addressed.

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

As noted in the introductory paragraph of this indicator, at the time of our assessment, Mvomero DC had no financial procedures' manual to document the internal controls. The council staff made a use of LAAM and the LGFM for LGAs. In addition, staff responded that they apply other internal control procedures from their experience.

Table 52 indicates our assessment of the comprehensiveness of available internal controls and staff understanding of them as noted in course of our discussions at Mvomero and as evidenced by weaknesses pointed out by the internal and external audit reports.

Table 52: Assessment of internal control areas

Internal control areas	Present provisions prescribed for LGAs	Observation
1. Segregation of duties	• 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.	• 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. The latest available Management letter for 12-13 of the CAG has also referred to lack of job rotation
2. Authorization of transactions and activities.	• 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)	While familiarization with authorization processes do not appear to be an issue in Mvomero, the existence of some payments without appropriate documentation/pre-audits are pointers to the weaknesses in execution of authorization processes though it may not be comprehensive.
3. Adequacy of verification processes	• The verification requirements for transactions and their frameworks are defined by the LGAM and LGFM	• Internal audit reports have pointed out certain instances of inadequate documentation which are pointers to the fact that laid down operating controls can be compromised.
4. Physical control of assets and records	• Para 88 of LGFM prescribes maintenance of a Motor Vehicles register and Para 103 of a Register of Fixed Assets	• Weak controls on access to the cashier office where people making payments have full access to the office.
5. Internal Oversight function	• Audit Committee is a mandatory requirement under Para 12 of the LGFM performing functions of oversight, review of all audit reports, coordination and advice to the Accounting officer.	• CAG's management letter has cited numerous weaknesses on performance of the Audit Committee as part of the internal control. These include absence of documented terms of reference, failure to meet at intervals, non-consideration of external audit comments, no review of financial statements of the Council etc.
6. EPICOR system	• The entire accounting and financial reporting system	• Discussions with internal audit revealed that they do not possess the

Internal control areas	Present provisions prescribed for LGAs	Observation
	is expected to be done through EPICOR	required skills for an EDP audit and presently mostly audits around the IT system. • CAGs management letter for 2013/14 cited numerous weaknesses related to ICT in general, including the EPICOR operating environment. These include the necessity of large scale manual reconciliations, handling of LPOs, etc.

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

LAAM describes in details the rules for processing and recording transactions. We also note that the CAG issued a qualified opinion on the financial statements of the LGA for 2012-13 and 2013-14 on the basis of notable errors, omissions, and understatements and overstatement of figures in the submitted financial statements. This included:

- Missing payment vouchers (various)
- Revenue collected by agents not banked
- Revenue collected but not remitted to Main cashier
- Salaries paid to non-existing employees

On closing of accounts on 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 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 53: Summary of rating under PI-20

Indicator	Rating	Brief explanation
PI-20 Effectiveness of internal controls for non-salary expenditure	**C**	
i. Effectiveness of expenditure commitment controls	C	Commitment control in EPICOR system is not in full operation 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	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. In addition, findings from various reviews indicate some compliance issues to the internal control requirements.
iii.	Degree of compliance with rules for processing and recording transactions	C	The Council uses the LAAM as a reference document in processing and recording transactions, however in practice, Mvomero DC have had instances of significant divergences from the principles of transaction processing and recording including errors and omissions in figures included in the financial statements.

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 Local Government Finances Act. Additionally, the Local Government Financial Memorandum (2009) provides the roles and responsibilities of the Internal Audit Unit.

The Internal Audit Manual for LGAs (revised in July 2013) provides guidance on 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 (IPPFs) issued by the Institute of Internal Auditors (IIA).

Para 13(2) of the Financial Memorandum articulates the mandate for the Internal Auditor to appraise the soundness and application of accounting, financial and operational control. In sub-para (a) to (e) of Para 14 of the LGFM, the memorandum specifies areas under which 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 Ministry of Finance 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 and one of the departments in the Mvomero District Council set up. The Internal Audit unit is headed by the Chief Internal auditor who reports to the District Executive Director and is presently supported by 2 other audit staff. Financial Regulations are silent on the size (number of staff) of the Internal Audit Unit. All Internal Audit members of staff are recruited centrally by the Prime Minister's Office – Public Service Management that determines their required entry qualifications and progression criteria as they acquire further qualifications and on the job experience.

In our assessment of Mvomero DC we observed that the Internal Audit function at Mvomero was independent of the payment and accounting processes. We also confirmed that the IAF's cover all activities of the council, public service delivery units and the village level governments.

An observation of the current audit plan for 2014-15 shows that it is risk based and drawn up based on a careful consideration of potential risk exposures of critical LGA areas. Out of the total effective audit time expected to be available of 1296 hours, 1088 hours (84%) was for performance audit of various functions and departments, 96 hours (7.5%) was for follow up of audit points of earlier periods and 112 hours (8.5%) was for non-audit services as requested by management.

Though a specific split between system based and transaction based audit was not readily available in the audit plans, the performance 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 on the whole, that about 70% of the focus was on systemic issues and the balance on transactions. Notable low systems coverage is on the quarter 1 July – 30 September 2013, where the coverage was below 40% (i.e. below 50%). Breakdown of internal audit focus per quarter is presented in Table 54.

Table 54: Breakdown of internal audit issues in reports per quarter

Quarter	Systems – areas (%)	Transaction/compliance – areas (%)
1 July – 30 September 2013	2 (40%)	3 (60%)
1 October – 31 December 2013	3 (50%)	3 (50%)
1 January – 31 March 2014	6 (86%)	1 (14%)
1 April – 30 June 2014	5 (83%)	1 (17%)
1 July – 30 September 2014	1 (50%)	1 (50%)
1 October – 31 December 2014	2 (67%)	1 (33%)
Average	**3.17 (68%)**	**1.50 (32%)**

The CAG in its latest available Management letter for the year 2013-14 had referred to several weaknesses in the internal audit function that included non-comprehensive working papers; insufficient review of internal controls; lack of clarity in disclosing follow up comments of previous audit findings; non adherence to audit plans and lack of sufficient budget for the internal audit.

(ii) Frequency and distribution of the reports

Para 14(7) of the Financial Memorandum 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 IA reporting structure presented in the Internal Audit Manual for LGAs, Head of IA Unit is administratively required to report to the Council Director, and technically/professionally to the Audit committee. Para 14 (6) and 14(8) of the Financial Memorandum 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 PMORALG, and RAS within 15 working days from the date of receipt from the Internal Auditor.

In addition, the Accounting Officer is also required to submit the signed Internal Audit Report to the office of the Internal Auditor General 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.

In our assessment carried out for Mvomero we reviewed a total of 6 quarterly internal audit reports for quarters that ended from 30 September 2013 to 31 December 2014. The Head of the IAG informed us that they do not prepare a specific annual report. However, the last quarterly report summarizes the IAG's observations for the year by incorporating accumulated issues that remained outstanding at the end of the year and summarizes the challenges the IAF faced for the year. Other than the IAG not preparing the annual report, we noted that the IA reports were submitted to the Council within the prescribed dates as summarized in the table below.

Table 55: Dates for distribution of Internal Audit Reports

SN	Period	Date submitted to Council Director
1.	1 July – 30 September 2013	12 October 2013
2.	1 October – 31 December 2013	10 January 2014
3.	1 January – 31 March 2014	-
4.	1 April – 30 June 2014	15 July 2014
5.	1 July – 30 September 2014	9 October 2014
6.	1 October – 31 December 2014	14 January 2015

(iii) Extent of management response to internal audit findings

Section 12 of the LAFM requires that there shall 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.

Council Director is responsible to provide responses to the matters raised by the IA through Heads of Departments. Evidence contained in the IA's reports indicated that the responses to the IA findings are either delayed or sometimes not forthcoming at all. The IA has commented that, delays in responding to IA findings lead to recommendations being repeated from one quarter and year to another.

However, from the IA reports layout, it was difficult to quantify the number of recommendations or issued raised during each period. In addition, five (5) out of the six (6) quarterly reports we reviewed did not specify a number of recommendations from the previous quarter that were implemented during the reporting quarter. Because three (3) out of the six (6) IA reports reproduced the issues that were still outstanding from previous quarters, we were able to count the outstanding matters as per the summary in the table below. The remaining three (3) quarterly reports neither indicated the number of recommendations implemented or that remained outstanding, nor reproduced the recommendations. The reports only stated that the management responded to and implemented some issues and other issues remained outstanding.

Table 56: Status on recommendations

Quarter	No. of implemented recommendations from previous quarter	No. of recommendations still outstanding from previous quarter
1 July – 30 September 2013	Not specified	Not specified
1 October – 31 December 2013	Not specified	Not specified
1 January – 31 March 2014	Not specified	Not specified
1 April – 30 June 2014	5	3
1 July – 30 September 2014	Not specified	2
1 October – 31 December 2014	Not specified	5

On the whole the quality of the reports therefore fails to provide a clear picture of the nature and extent of recommendations that are due for implementation for long periods of time. Due to such lack of clarity it is difficult to understand as to how a credible system of follow up is in existence in Mvomero DC.

Considering the grave limitations in internal audit referred to in (i) above and the inherent weaknesses in the functioning of the Audit Committee pointed out by the CAG in its Management letter this further aggravates the weaknesses in the prompt response to audit observations which forms an integral part of the overall accountability processes in the LGA.

Table 57: 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.	B	While there were targeted coverages based on risk based plans that included both transaction and system based audits and sample audit reports showed considerable systems coverage the inadequacies in the budget and resources limit the actual coverage.
(ii) Frequency and distribution of reports	B	Issue of Reports adhere to a fixed quarterly and annual schedule. They are distributed to the Council, CAG, PMORALG, IAG and RAS. However, their specific dates of distribution is not available.
(iii) Extend of management response to internal audit findings	C	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 contributed to the rating of 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 Financial Memorandum prescribes that the 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 Local Authorities Accounting manual (LAAM) prescribes the modalities of preparation of bank reconciliation statements.

Mvomero DC has 7 active Bank accounts and the status of reconciliations at the time of our visit on 5th and 6th February 2015 is shown in Table 58.

Table 58: Reconciliation status

S. No.	Name of Account	Last completed Reconciliation month
1	Development Cash Account	30/6/2014
2	Own Source Revenue Cash Account	30/6/2014
3	Road fund cash account	30/6/2014
4	NWSDP Cash Account	30/06/2014
5	Personal Emolument Cash Account	30/6/2014
6	Other charges Cash Account	30/06/2014
7	Misc. Deposits Cash Account	30/6/2014

An additional account has been opened for Road Fee for the USAID project for which transactions are yet to commence. We were informed that since the bank reconciliation is being effected through EPICOR, no bank reconciliations were possible through the system since the beginning of the current financial year due to issues of network connectivity for which a solution is yet to be found. An observation of the periodicity of reconciliations for the last completed set shown above also showed that they were bunched together all being completed on or around the same dates in August 2014.

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

In terms of the provisions of Section 40 of the Local Government Finances Act (LGFA), LGAs are authorized to make advances and operate deposit and suspense accounts. However, we were informed that based on instructions issued by the Ministry of Finance, there is no usage of suspense accounts in LGA transactions at present. Our discussions confirmed that staff advances for salaries were being given and this is also borne out by the latest audited financial statements for 2012-13. 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 3 months salary recoverable over a maximum 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. The CAGs Management letter for 2013-14 reported noticeable sums as overdue beyond 2 years as shown in Table 59. The observation on the salary advance was made in 2011-12 audit. The CAG recommended the Council to establish proper controls to ensure that salary advances paid are recovered. However, as per the management letter for 2013-14, the council had not implemented the recommendations.

Table 59: Salary advances to secondary school teachers

Age of over dues	Salaries paid to staff through other charges funds not refunded (TZS)
	30th June 2014
More than two years	5,068,190

Apart from salary advances, para 39 of the FM permits the LGA 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 has to be settled within 2 weeks failing which surcharge has to be levied. Feedback received from Mvomero DC shows an amount of TZS 68.5 million was outstanding as on 21 April 2015 as imprest.

Table 60: Summary rating for PI-22

Indicator	Rating	Brief Explanation
PI-22 Timeliness and regularity of accounts reconciliation	**D+**	
(i) Regularity of Bank Reconciliations	D	Reconciliations are in backlog for several months in the current financial year
(ii) Regularity of Reconciliation and clearance of Suspense Accounts and advances	C	Though in general there are no other staff dues as per the audited accounts, significant number of accounts with recoverable balances >2 years exist.

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 service delivery units that are under the responsibility of the LGAs. SDUs which are the responsibility of the central government and only execution is done through LGAs are not covered.

Local government authorities 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.

The council informed assessment team that resources received by the primary schools and primary health centers is put up on the respective notice boards. This is mandatory as per the Guidelines for local government reforms.

Current accounting system is not geared to capture resources received by service delivery units (specifically primary schools and primary health centers). There are no annual reports consolidating the resources received by the service delivery units. However, information on funds transferred by each school is available with the district council. The council shares quarterly report on type of transfers made to each school with PMO-RALG. Funds are transferred directly to schools' bank accounts monthly/quarterly keeping the concerned ward officer in loop. This gives an opportunity for LGAs to monitor the inflow and outflow of funds at the facility level. On the other hand, school committees and local communities also check the resources availability. District council receives acknowledgement receipt from respective schools on each transfer made. The assessment team was shown the acknowledge receipt for one quarter.

There are broadly three categories of funds transferred at the district level. These include (i) capitation grants (ii) in-kind transfers (such as books/desks) (iii) special allowance (such as meal). There are nearly 142 primary schools and 22 secondary schools in Mvomero District. The assessment team was provided details of transfers made to schools in 2011-12, 2012-13 and 2013-14 covering both cash and in-kind transfers from the district.

In the last three years, there have not been any special surveys undertaken to collect data on resources to services delivery units. In 2013, a mapping exercise on transfer of funds to LGAs was undertaken. The scope of the study was to carry out a critical review of the existing processes and systems that are currently being used to allocate, release and transfer funds from both Government and external sources to LGAs with a special attention on the predictability, completeness, timeliness and transparency of funds transfer.

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) significant disparities in allocations between urban and rural councils and to primary education (ii) discretionary funding channels involving multiple ministries and disbursement channels.

In case of primary health centers, it was informed to the assessment team that the quarterly report on transfers is available. But the report does not include transfers made by facility and in-kind transfers are not reflected in the reports.

Table 61: Summary of rating under PI-23

Indicator	Rating	Brief explanation

PI-23 Availability of information on resources received by service delivery units	B	
(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	Our findings are • 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 structure (eg a particular school or PHC). But collated information is available from the system eg 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 on transfers both cash and kind for education and only cash for health • Quarterly reports are available but no consolidated annual report • PETS survey has examined systemic issues but there is no data available on service delivery units.

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

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

In-year budget reports are prepared by Mvomero DC on a quarterly basis on Microsoft Excel using information drawn from the EPICOR system. The report provides information on actual expenditure as well as the revenues collected for the month as well as cumulatively. The in-year reports do not include information on commitments. Since reports are generated through the EPICOR system, the in-year budget reports conform to the classification of expenditure and revenue classification as adopted centrally (GFS). At the local level, reports are generated by the Planning and Finance departments off line on budget performance due to certain problems with EPICOR data

(ii) Timeline of the issue of reports

As mentioned before, the in-year budget reports are prepared off line on a monthly basis. As per our discussion, these reports are discussed with the finance committee on a monthly basis and with the full council on a quarterly basis. The reports for a particular month are distributed to the finance committee in the subsequent month.

(iii) Quality of information

The reliability of the statements generated quarterly from EPICOR is sub optimal as per feedback received from Mvomero DC during our discussions. This necessitates preparation of off line reports locally for informing the Council. Ideally all reports should be available from established integrated financial management systems which include the accounting systems (EPICOR) which enhances their credibility.

Table 62: 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 budgets. This allows for direct comparison to the original budget. However, the expenditure information does not include details on commitments.
(ii)	Timeline of the issue of reports	A	Reports by the LGA are prepared on a quarterly basis and are issued within two weeks in the subsequent month.
(iii)	Quality of information	C	Although reports are prepared using information generated from the IFMS, they are prone to errors and omissions that take place during the exporting process from the EPICOR system to MS Excel sheets.

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 recognized Accounting standards.

(i) Completeness of the financial statement

Para 31(3) of the Local Authority Financial Memorandum (LAFM)[20] 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 (f) statement of comparison of budget and actuals by nature and by function. The LAFM further prescribes that the formats of (a) and (b) above shall be those prescribed by the International Accounting Standards Board (IASB) 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 itemized schedules are not stipulated to form part of the published accounts but the LAFM also specifies that supporting schedules must be made available to the CAG for audit.

[20] References to the Local Authority Financial Memorandum 1982 includes amendments through CAP290 in 2002)

Results of our study of the last available audited financial statements for the year 2013-14 and underlying systems from the perspective of completeness is given in Table 63.

Table 63: Comments on audited financial statements

Topic	Comments
Components of financial statements	Based on the last financial year audited till the date of our visit it was noted the financial statements for 2013-14 include statements on (i) financial performance, (ii) financial position, (iii) change in net assets, (iv) the cash flow. In addition, the following matters are included: • 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 accounts • 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	We noted that the accounting information reflected in the financial statements includes 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 (eg 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 reporting within the overall accounting system

However, it was observed that the Management letter of the CAG records that the initial financial statements submitted for audit were not of the desired quality and had numerous omissions, errors including overstatement and understatement of amounts, and instances of non-disclosure as well as improper disclosures. Though these should not affect the quality of the final statements produced after audit, it points to the fact that internal controls for improvements in the quality of reporting require to be strengthened.

(ii) Timeliness of the submission of the financial statements

Para 31(1) of the LAFM prescribes that the final financial statements must be properly compiled and are to be submitted to the Full Council and thereafter to the CAG within 3 months from the end of the financial year. We note that for the latest audited financial year 2013-14, the financial statements were approved by the Full Councilors meeting on 19th September 2014 and submitted for CAG audit on 15th October 2014. However, due to the numerous inconsistencies in the accounts pointed out by the CAG they had to be resubmitted. Table 64 shows timelines for submission of annual financial statements to the National Audit Office in the last three years.

Table 64: Mvomero: Submission timelines for financial statements

Activity	2012-13	2013-14
Approval by Full Council	25.9.2013	19.9.2014
Submission to National Audit office	30.9.2013	15.10.2014
Revised submission to National Audit office	Not revised	16.01.2015

(iii) Accounting standards used

Para 31(4) of the LFM 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 International Public Sector Accounting Standards (IPSAS) and the provisions of the Local Government Finances Act. The notes also describe all the significant Accounting policies applicable to the financial statements. Finally the CAGs audit opinion confirms that the statements of financial position, financial performance and cash flows present, in all material aspects, the information in accordance with IPSAS and Chapter IV of the Local Government Finances Act (LGFA).

It may be noted that based on 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 Report of the CAG for 12-13 has 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 65: 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	The individual service delivery units are not considered cost centres. However the finances of such service units are reflected as a part of the financial statements of corresponding functions/departments of the LGA.
(ii)	Timeliness of submission of the financial statements	B	The financial statements for the last audited year 2013-14 were initially submitted to the external auditors within 3 months from close of the fiscal year and the corrected statements was submitted to the National Audit Office on 16th January 2015.
(iii)	Accounting standards used	B	Standards applied are a mix of IPSAS as well as practices prescribed by the LGFA.

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 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 66: 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
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 of the country (SAI) and headed by the CAG.

A perusal of the LGA report for Mvomero shows that in essence it is in the nature of financial audit but 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 specifics 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 LGA it was noted that Special Audits are also conducted by the CAGs office and the last one done was on projects in the year 2010. 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 delivery 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 was covered during the audit assessments. We also note from the CAGs comments on the scope of audit in his audit report for Mvomero DC for 2012-13 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 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.

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

As per the present practices as contemplated by the existing regulatory framework, the presentation of audited accounts is at two levels-the Council or local legislature of the LGA and finally at the National Assembly. Section 48(4) of the LGFA mentions 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 made 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.

Although the Annual General Report on the financial statements of all LGAs for the year 2013-14 was submitted by the CAG to the President on 26 March 2015. As per the discussion with the LGA, the audit report for 2013-14 was not submitted to the Council for review. The dates for submission of the LGA Reports to the National Assembly for the last few years were as follows:

Table 67: Receipt of LGA reports by National Assembly

Financial years	Dates of receipt by National Assembly
2009-10	30th of March, 2011
2010-11	31st of March, 2012
2011-12	10th of April, 2013
2012-13	7th of 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 Mvomero DC, the financial statement was submitted in 15th October 2014 for 2013-14 and the audited financial statement was not submitted to the local legislature in 2013-14.

(iii) Evidence of follow up of audit recommendations

Para 7 of the LAFM which defines the responsibilities of the 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 LAFM 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 Mvomero shows that there were outstanding issues from previous years yet to be resolved. Though there were responses provided by the LGA on individual issues raised by the CAGs office in their Management letters, the similarity of the nature of many of the issues from year to year and the repetitiveness to 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 considerable improvement. The shortfalls indicated by CAG in its management letter for 2013-14 in the audit committee points towards the areas for improvement. Some of the shortfalls includes: (i) the audit committee do not have any document terms of reference in accordance with the terms of reference issued by PMO-RALG. (ii) The audit committee do not review the financial statements (iii) the audit committee only met once during 2013-14 on 05th June 2014. (iv) the Audit committee did not meet to discuss the CAG's management letter and management responses.

Table 68 shows the status of implementation of CAG audit recommendations. Out of 48 recommendations made in the previous year audit reports, 10 recommendations are under implementation and 38 recommendations are not implemented.

Table 68: Status of implementation of CAG audit recommendations

Year	Implemented	Under-implementation	Not Implemented
2009-10	0	0	2
2010-11	0	0	5
2011-12	0	0	18
2012-13	0	10	13
Total	**0**	**10**	**38**

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 69: Summary rating for PI-26

Indicator		Rating	Brief Explanation
PI-26 Scope, nature and follow-up of external audit		**D+**	
(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.
(ii)	Timeliness of submission of audit reports to legislature	D	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. Mvomero DC submitted the final statements for 13-14 to CAG on 15th October 2014. The CAG completed the audit in March 2015. The audit report for 2013-14 was not submitted to the Council.
(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 large portion of recommendations not implemented. Additionally, serious shortfalls in the audit committee as indicated by the CAG indicates absence of committed structures for follow up on audit findings

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

Mvomero 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 LGA. There is a Finance 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 both, the budget for the coming year as well as the progress made in the previous year till December. Our review of the minutes of the Full Council's meetings revealed that the Full Council deliberates on the following issues relating to budgets:

- The basis of preparation of the budget proposals, i.e. MKUKUTA II etc.
- Details of the revenues by different sources for the coming financial year
- Details on the expenses, by PE and OC for the coming financial year.

The minutes of the full council meeting of the budget do not provide for medium term forecasts. It should be noted that there are no additional comments provided by the Full Council on the budget proposals post review of the finance committee.

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

Part IV A and B of the Local Government (District Authorities) Act, 1982 lay down the framework for carrying out proceedings of all meeting District Council in general and of the Standing Committees constituted by the Council, in particular. Clause 42 of the Act provides for constitution of six Standing Committees for assisting operations of the Council. The Act also empowers District Authorities to issue standing orders that define the composition and functions of these Standing Committees.

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 Council for approval.

Apart from the Finance, Planning and Administrative Committee, Mvomero DC also has 2 other Committees –the Education, Health and Water Committee; and the Economy, Works and Environmental Committee. We note that though Section 74 of the Local Government (District Authorities) Act (LGDA) speaks of 6 distinct Committees, Mvomero has combined the functions of these into 3 operating ones. The overall proceedings of meetings are conducted in line with the provisions of Part IV of LGDA. Full standing orders issued by the council is not available.

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

Clause 15 (2) of the LGFM requires submission of the annual plan and budget to the Finance Committee by not later than 15th May each year. Clause 19 (1) states '*the Finance Committee after considering and if necessary revising the budget from other committees, shall consolidate the budget, prepare such reports and memoranda as it may deem necessary for the information of the Council and submit the same to the full Council not later than thirty first day of May in each year*', effectively providing the Finance Committee two weeks to review and finalize the budget for approval by the Full Council. Clause 19(2) requires the accounting officer of the District Council to ensure that members of the Full Council receive budget documents within seven days before the date of the meeting.

A review of the minutes of the Full Council meeting for approval of budget in 2013-14 reveal that the budget was reviewed, discussed and approved on the day of the meeting itself.

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

According to Para 18(3) of the LGFM, Full Council approval is not required where (i) virements are between items within the same vote provided these items were part of the original budget, (ii) there are no virements from other charges to personal emoluments, and (iii) 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 the District Council's contribution to the development budget out of own sources of revenue.

As per provision 18 (1) of the LGFM, where a Council wishes to incur expenditure not originally included in the estimates or where the total provision in the annual budget is found to be insufficient, it is required to submit to the Finance Committee a supplementary budget for approval. Clause 18 (6) of the LGFM also states that each application for a supplementary budget submitted to the Full Council shall be accompanied by a brief report explaining the purpose and proposed funding of the supplementary budget.

In Mvomero DC, we were informed that virements are done after approval by the Finance Committee and Full Council approval and inputs of such virements are provided to PMORALG. As per feedback from Mvomero, no supplementary budgets are being raised for additional expenditure. However, on 21st February 2014, the Full Council approved the amounting TZS 159.76 million from funds earmarked for construction of the hospital to various other constructions activities.

Table 70: 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 finalized.

ii. Extent to which the Council's procedures are well established and respected	C	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.
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 Finance Committee in significantly less than one month while the Full Council approves the budget within a day. 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. However, they do not set strict limits on the extent of these amendments. The District Council adhered to the rules for carrying out virements and sought approval 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 to be tabled before the Council. In addition Section 51(4) requires that the Minister submits 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 to submit the same to the Minister who will place it before the National Assembly. A copy of consolidated responses and action plans will also 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 country 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.

Under Section 38 of the Public Audit Act, the Local Authority Accounts Committee (LAAC) is 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 71 provides the dates for approval of the LGA reports by the Full Council for the last 3 audited years. The CAG audit report for 2013-14 was not submitted to the Full Council due to the general elections.

Table 71: Various dates for LGA reports

	2011-12	2012-13	2013-14
Month of the report	March 2013	March 2014	March 2015
Date of approval of audit report by Council	05th August 2013	25th June, 2014	Not Discussed

(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.

The Management Letter on the Financial Statements of the Mvomero DC for 2013-14, however, highlighted various shortfalls in the audit committee including lack of discussion of the CAG reports and the management response. Other weaknesses identified by the CAG for the audit committee have been discussed in PI 26 dimension (iii). As per the letter, the Audit Committee met once in the last financial year (2013-14) on 05th June, 2014.

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. As per the CAG management letter for 2013-14, the LAAC meeting for the Council was held on 10th October 2013.

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 responses[21].

(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 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, PMG is under no obligation to do so. Furthermore, under Section 38(3) of the amendment, the CAGs report cannot be tabled unless the responses to the report are also available at the same time. It is also noted that there

[21] Parliamentary Centers' Report on the Role of Parliamentary Committees on Budget Oversight in Tanzania, 2012.

is no legal timeline within which responses are to be submitted by the PMG. The relative lack of a regulatory time frame for submission of comments on findings to CAG reports, completion of discussion by the LAAC and issue of their instructions/recommendations tends to prolong the activities related to actions on audit reports.

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

- The Council or the Director is generally responding to the audit observations and not making any recommendations, per se
- Extensive recommendations are being made by the LAAC based on their review of the audited accounts
- Nature of the management responses to the audit reports shows an emphasis on correction of errors/omissions detected rather than proposing also preventive measures to strengthen the controls environment. The repetitiveness of the nature of many of the systemic as well as transaction weaknesses pointed out by the CAG which recur in subsequent years and the delays in actions on LAAC recommendations (for Mvomero this ages back to the year 2009 onwards as referred to in respective Management letters and the consolidated CAG report) are realities that will have to be remedied.

Table 72: 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)	D	The CAG audit report was not submitted to the Full Council in 2013-14. In 2012-13, the CAG audit report was approved within three months. In 2011-12, the CAG audit report was approved within six month.
(ii)	Extent of hearings on key findings undertaken by the legislature	D	Although LAAC at the national level meets at least on an annual basis to discuss specific LGA reports, the committee cannot substitute Audit Committee at the LGA with various shortfalls have been reported by the CAG in its management letter. These include (i) lack of review of the financial statement (ii) lack of any document terms of reference etc.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive.	B	Many of the recommendations made by the legislature are outstanding and resolved over longer time periods.

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 sub-national guidelines for PEFA assessment, these indicators are applicable on when sub-national government receives any direct donor funding. Based on our discussion with Mvomero district council, it is understood that there are no direct donor funding. Hence, these three indicators are not applicable to Mvomero district council.

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 governance[22]. 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

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

Phase were the Medium Term Expenditure Framework, Strategic Budget Allocation System (SBAS), 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 Parasternal and Public Enterprises; the Commission of External Finance; the Enhanced Public Accounts Committee; and the Reform Coordination Unit[23].

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 MoF to LGAs; (iv) enhanced use of IFMS at Regional Secretariats and LGA level; (v) training LGA

[23] 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

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 2015[24] 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

[24] Joint Supervision Mission 2015, Aide Memoire (Report)

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 manner[25]. 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 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

[25] 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.

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 73 maps the key weaknesses identified for Mvomero DC across the performance indicators against the main stakeholders responsible.

Table 73: 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			
			c. Cash rationing resulting in distortions in rule based transfers			
			d. Lack of reliable forecasting through MTEF			

<table>
<tr><th rowspan="2">Sl</th><th rowspan="2">Topic</th><th rowspan="2">Key Weaknesses</th><th rowspan="2">Details</th><th colspan="3">Key Stakeholder Responsible</th></tr>
<tr><th>LGA</th><th>PMO-RALG</th><th>MoF/GoT</th></tr>
<tr><td></td><td></td><td></td><td>e. Raising of manual LPOs outside the IFMS</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td rowspan="3">Limited institutional capacity</td><td>Budget execution capabilities of LGA affected by:</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>a. Vacancies in key positions</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>b. Lack of adequate supervision capacity for project execution</td><td></td><td></td><td></td></tr>
<tr><td rowspan="7">4</td><td rowspan="7">Internal controls and Accountability</td><td rowspan="7">Key weaknesses in internal control and oversight functions</td><td>Weaknesses in internal controls evidenced by:</td><td></td><td></td><td></td></tr>
<tr><td>a. Preparation of final accounting statements off line (outside EPICOR /IFMS)</td><td></td><td></td><td></td></tr>
<tr><td>b. Lack of comprehensively documented byelaws and standing orders</td><td></td><td></td><td></td></tr>
<tr><td>c. Inefficiencies in the Audit Committee</td><td></td><td></td><td></td></tr>
<tr><td>d. Conflict of interest in tax assessment related complaints</td><td></td><td></td><td></td></tr>
<tr><td>e. Weaknesses in Internal Audit such as non-comprehensive working papers; insufficient review of internal controls; lack of clarity in disclosing follow up comments of previous audit findings; non adherence to audit plans and lack of sufficient budget for the internal audit</td><td></td><td></td><td></td></tr>
<tr><td>f. Lack of timely follow up of LAAC and audit recommendations</td><td></td><td></td><td></td></tr>
</table>

Annexure.3 Disclosure of the Quality Assurance Mechanism

The following quality assurance arrangements have been established in the planning and preparation of the PEFA Local Government final assessment report for the Mvomero District Council dated 22 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 Mvomero DC was submitted for review at different dates to the following reviewers:

i) Viviana Klein – KfW on 04th May 2015
ii) Vivek Misra – DFID on 04th May 2015
iii) Denis Biseko – WB on 04th May 2015
iv) PEFA Secretariat, Washington on 11th May 2015
v) Government of United Republic of Tanzania on 04th May 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 9 February 2016
ii) Vivek Misra – DFID on 9 February 2016
iii) Denis Biseko – World Bank on 9 February 2016
iv) PEFA Secretariat, Washington on 9 February 2016
v) Government of United Republic of Tanzania on 9 February 2016

4. *Additional information*

Date of establishment of the assessment Oversight Team (PEFA taskforce)	December 2013
Chairperson and Members of the Oversight Team	**Co-chairs**

	o Mr. Kagyabukama E. Kiliba – Deputy Permanent Secretary, PMO-RALG ***Members*** o Mr. R.L. Mkumbo – DPD, MoF o Mr. Shomari Mukhandi – ADLG (F), PMO-RALG o Mr. Deogratius Ruhanmvya (ADRA), PMO-RALG o Mr. M. Yangwe - (ADICT), PMO-RALG o Mr. Nyingi J. K. L. (LGRP II - Coordinator), PMO-RALG o Mr. Faraja Tarimo – ACGEN Division (Senior Accountant MoF) o Mr. Raheli Ntiga - Budget Division (Budget Officer, MoF) o Mr. Omari Msuya – Auditor, Internal Auditor General Department (MoF) ***Reviewers*** from Development Partners Group o Viviana Klein – KfW o Vivek Misra – DFID o Denis Biseko – WB ***Taskforce secretariat*** o Mr. Sebastian E.L. Ndandala – Program Coordinator, PFMRP o Ms. Chausiku Nyanda - (FMO, DLG – PMOLARG) o Mr. Alexander Lweikila – Communication Specialist, PFMRP o Mr. Linus Kakwesigabo – Finance Expert – PFMRP o Mr. Denis Mbilinyi, (FMO, DLG – PMO-RALG) o Mr. Niva Kahuluda (Accountant, LGRP II), PMO-RALG o Ms. Fortunata Soka, FMO, MoF o Mr. Ernest K. Laiton, FMO, MoF
Name of the Assessment Leader (individual/entity/organization)	Ministry of Finance (MoF)
Names of the Assessment Team	Mr. Anjan Kumar Roy –Team Leader Mr. Bimal Gatha –Member Mr. Salum Lupande -Member ***Technical Backstopping Team*** Ranen Banerjee Neha Gupta Mehul Gupta ***Local Support Team*** Martin Kinyaha

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

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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 22, 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_.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 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.

2 dimensional indicators		
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**

3 dimensional indicators			
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**

4 dimensional indicators				
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 across performance indicators is given in Table 74.

Table 74: 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 75.

Table 75: Criteria for A rating across dimensions

PI	Description	Criteria for "A" Rating
HLG-1	**Predictability of transfers from a higher level of Government**	
(i)	Annual deviation of actual total HLG transfers from the original total estimated	In no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 5%.

PI	Description	Criteria for "A" Rating
	amount provided by HLG to the SN entity for inclusion in the latter's budget	
(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 loading4) in all of the last three years.
A. PFM Out-Turns: Budget Credibility		
PI-1	**Aggregate expenditure out-turn compared to original approved budget**	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 out-turn compared to original approved budget**	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 according to those standards. (Program classification may substitute for sub-functional classification, if it is

PI	Description	Criteria for "A" Rating
		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
C. Budget Cycle		

PI	Description	Criteria for "A" Rating
(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 RA supplements this with active taxpayer education campaigns.

PI	Description	Criteria for "A" Rating
(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-17	**Recording and management of cash balances, debt and guarantees**	

PI	Description	Criteria for "A" Rating
(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-20	**Effectiveness of internal controls for non-salary expenditure**	

PI	Description	Criteria for "A" Rating
(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.5Structure of Ministry of Finance and PMO-RALG, Government of Tanzania

Figure 4: Organizational Structure for MoF

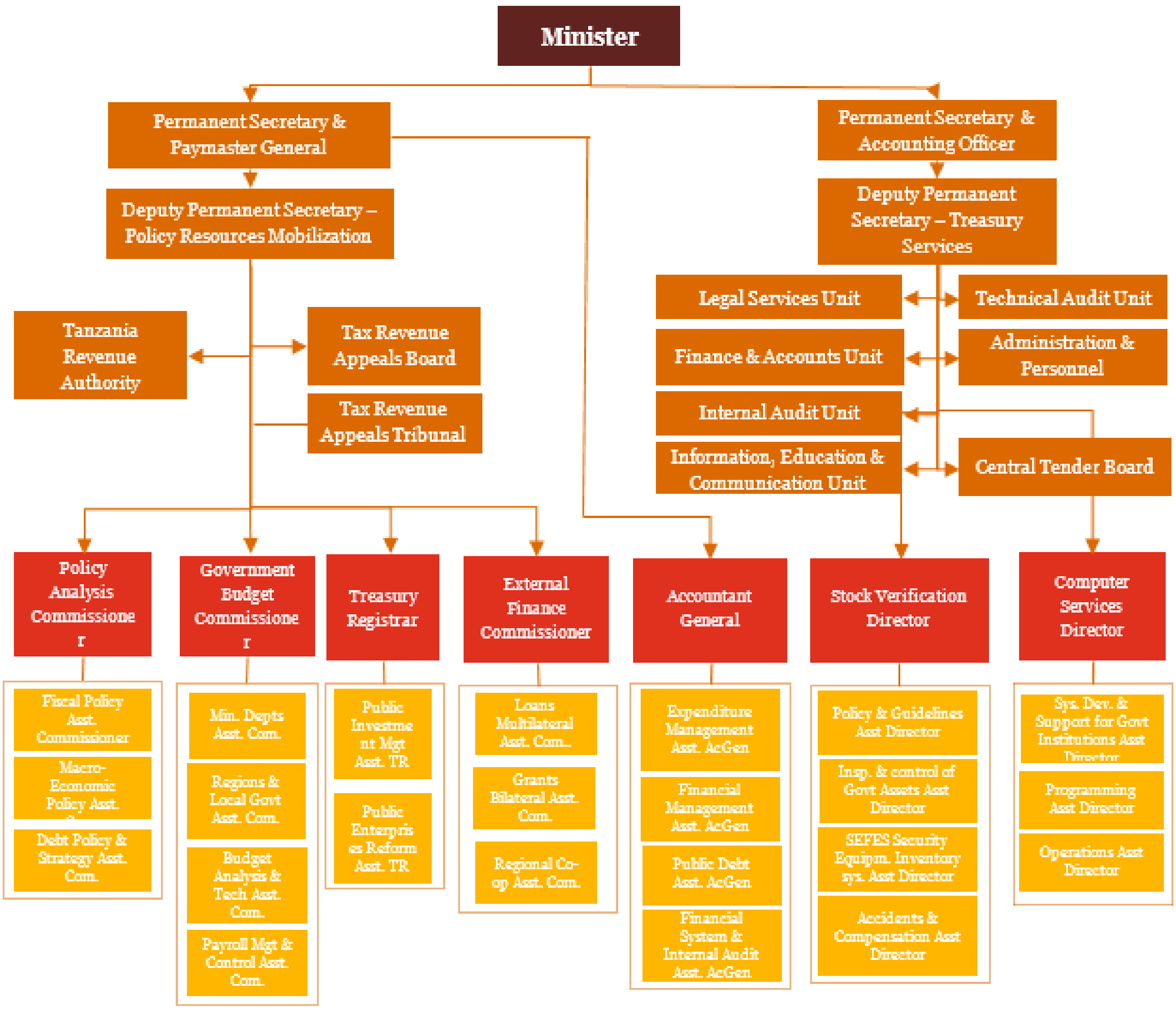
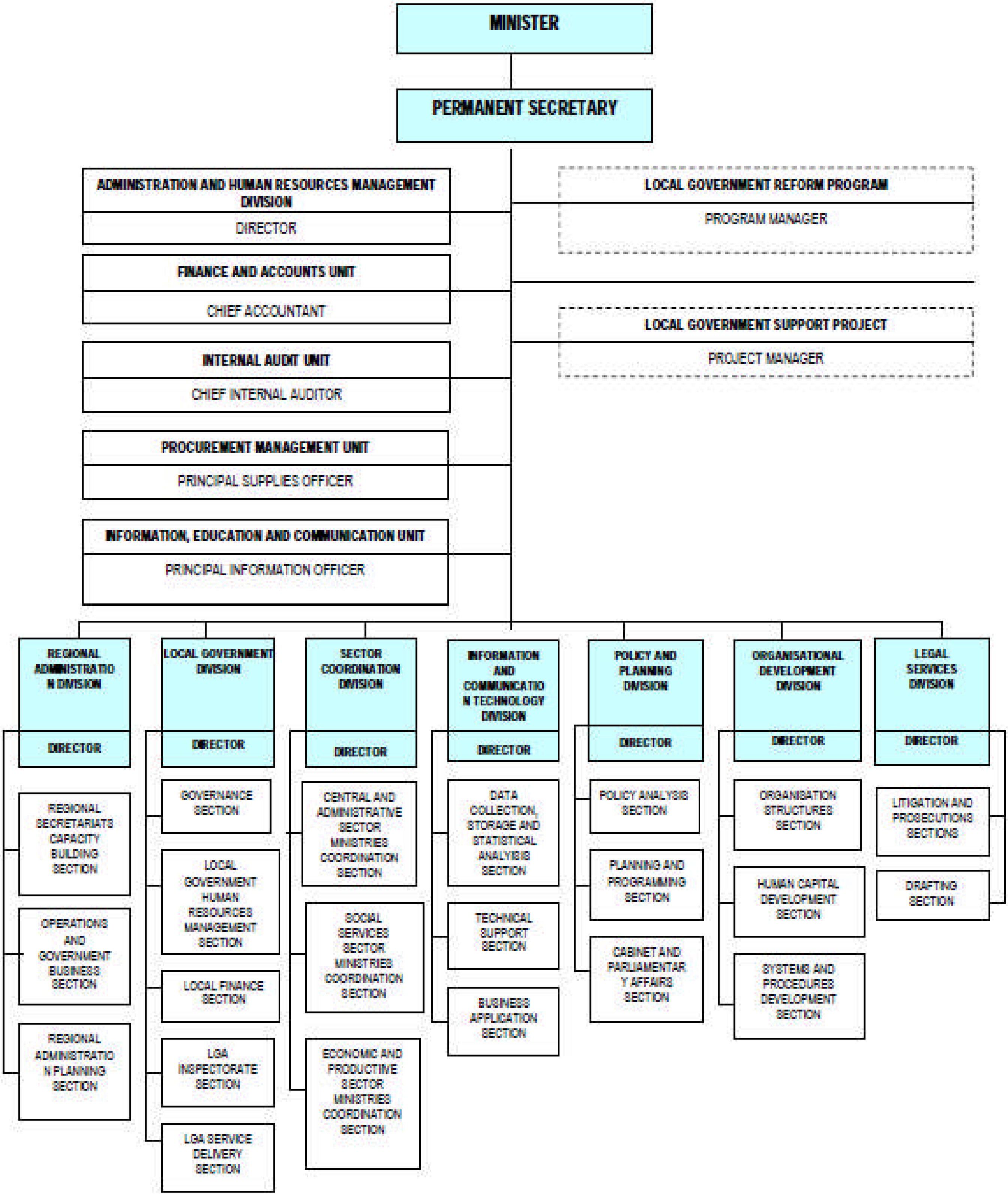


Figure 5: Organizational Structure for PMO-RALG



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 Mvomero 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 the same details except that expenditure is classified by various 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 76 and Table 77 shows example of adjustment made for the financial year 2011-12, 2012-13 and 2013-14 for total expenditure and total revenue respectively.

Table 76: Adjustment for Total Expenditure[26], TZS million

	2011-12		2012-13		2013-14		Source	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total Expenditure as per AFS	23001	22800	25369	29591	28972	27987	Statement of comparison of budget and actual amount by nature	
Deduct (-): Depreciation	0	1307	0	1505	0	1718	Statement of comparison of budget and actual amount by nature	
Add(+): Capital Expenditure	7021	3940	6257	2241	6669	3797	Notes to Financial Statement: Capital Expenditure and Its Financing	
Adjusted Total Expenditure	30022	25433	31626	30327	35641	30067		

Table 77: 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	23001	24100	25369	29906	28971	28249	Statement of comparison of budget and actual amount by nature	
Deduct(-): Recurrent Grants	21547	21741	23855	27634	27142	25579	Statement of comparison of budget and actual amount by nature	
Deduct(-): Amortization of capital grants		1306		1505		1717	Statement of comparison of budget and actual amount by nature	
Add(+): Actual Receipts of Recurrent Grants	21547	19211	23856	28162	27142	26275	Sheet "BudVsActN"	Note 10 to the Financial Statement
Add(+): Actual Receipts of Capital Grants	7021	4538	6257	4491	6669	3103	Notes to Financial Statement: Capital Expenditure and Its Financing	
Adjusted Total Revenues	30022	24802	31626	33420	35640	30331		

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

Annexure.7Screenshots for HLG -1 and PI -1 and PI -2

7.1. HLG-1 dimension (ii)[27]

Table 1							
In TZS 000	2011-12						
S/N	Expenditure Item	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
1	Personal Emoluments	16771661	15031520	14071197	-960322	960322	6.8%
2	Other Charges	2330583	2003953	1955328	-48625	48625	2.5%
3	Health	165246	165246	138639	-26607	26607	19.2%
4	Water	100115	100115	83995	-16120	16120	19.2%
5	Works	1300	1300	1091	-209	209	19.2%
6	Secondary	188409	188409	158072	-30336	30336	19.2%
7	Primary	160613	160613	134752	-25861	25861	19.2%
8	Tamisemi	11100	11100	9313	-1787	1787	19.2%
9	Internal Audit	63908	63908	53618	-10290	10290	19.2%
10	General Purpose grant	65954	65954	55334	-10619	10619	19.2%
11	Medical store department	206939	206939	173619	-33320	33320	19.2%
12	Women and Youth fund	9573	9573	8032	-1541	1541	19.2%
13	National Health Insurance Fun	5457	5457	4579	-879	879	19.2%
14	ASDP	692842	671025	581285	-89740	89740	15.4%
15	LGCDG	1351435	716450	1133836	417386	417386	36.8%
16	PEDP	36100	34938	30287	-4651	4651	15.4%
17	SEDP	711121	113153	596621	483468	483468	81.0%
18	HIV/AIDS	76377	41408	64079	22671	22671	35.4%
19	LGDG	1613025	881678	1353306	471628	471628	34.9%
20	WAJIBIKA	27500	19700	23072	3372	3372	14.6%
21	TUNAJALI	13998	13998	11744	-2254	2254	19.2%
22	CBG	42442	43894	35608	-8286	8286	23.3%
23	WSDP	689089	30390	578136	547746	547746	94.7%
24	HSBF	604782	608122	507404	-100718	100718	19.8%
25	CONSTITUENCY	85426	37930	71672	33742	33742	47.1%
26	DIDF	1180000	1188505	990004	-198501	198501	20.1%
27	Road fund cash account	664620	898873	557607	-341266	341266	61.2%
28	TASAF II cash account	422826	422826	354746	-68081	68081	19.2%
29	HSDG	0	0	0	0	0	#DIV/0!
30	NMSF	0	0	0	0	0	#DIV/0!
31	Livestock Development Fund	0	0	0	0	0	#DIV/0!
32	EAMCEF	0	0	0	0	0	#DIV/0!
33	Land Development	0	0	0	0	0	#DIV/0!
		28292441	23736977	23736977	0	3960028	16.7%

[27] It should be noted that the total grants as per the schedule of grants (both budget and actual) as given in the notes to annual financial statement varies marginally from the total grants given in the Budget v.s Actual sheet. The variation is shown in the table below.

	Budget 2011-12	Actual 2011-12	Budget 2012-13	Actual 2012-13	Budget 2013-14	Actual 2013-14
Difference between Audited AFS and schedule of grants	-1.0%	-0.1%	8.1%	0.0%	-6.5%	-6.5%

Table 2							
In TZS 000	2012-13						
S/N	**Expenditure Item**	**Budget**	**Actual**	**Adjusted Budget**	**Deviation**	**Absolute Deviation**	**Percent**
1	Personal Emoluments	21172420	23076780	21229110	-1847670	1847670	8.7%
2	Other Charges	2380234	2258347	2386607	128261	128261	5.4%
3	Health	0	0	0	0	0	#DIV/0!
4	Water	0	0	0	0	0	#DIV/0!
5	Works	0	0	0	0	0	#DIV/0!
6	Secondary	0	0	0	0	0	#DIV/0!
7	Primary	0	0	0	0	0	#DIV/0!
8	Tamisemi	0	0	0	0	0	#DIV/0!
9	Internal Audit	0	0	0	0	0	#DIV/0!
10	General Purpose grant	303161	423052	303973	-119079	119079	39.2%
11	Medical store department	0	209105	0	-209105	209105	#DIV/0!
12	Women and Youth fund	0	0	0	0	0	#DIV/0!
13	National Health Insurance Fun	0	0	0	0	0	#DIV/0!
14	ASDP	493572	60980	494894	433914	433914	87.7%
15	LGCDG	1608904	997571	1613212	615641	615641	38.2%
16	PEDP	0	0	0	0	0	#DIV/0!
17	SEDP	970212	438247	972810	534563	534563	55.0%
18	HIV/AIDS	114159	114160	114465	305	305	0.3%
19	LGDG	2370000	2196250	2376346	180095	180095	7.6%
20	WAJIBIKA	0	0	0	0	0	#DIV/0!
21	TUNAJALI	294420	49832	295208	245377	245377	83.1%
22	CBG	0	0	0	0	0	#DIV/0!
23	WSDP	1128881	1025364	1131904	106540	106540	9.4%
24	HSBF	666910	684444	668696	-15748	15748	2.4%
25	CONSTITUENCY	0	56951	0	-56951	56951	#DIV/0!
26	DIDF	0	0	0	0	0	#DIV/0!
27	Road fund cash account	516160	606494	517542	-88952	88952	17.2%
28	TASAF II cash account	384580	295915	385610	89695	89695	23.3%
29	HSDG	151986	124893	152393	27500	27500	18.0%
30	NMSF	0	0	0	0	0	#DIV/0!
31	Livestock Development Fund	10415	20830	10443	-10387	10387	99.5%
32	EAMCEF	0	14000	0	-14000	14000	#DIV/0!
33	Land Development	0	0	0	0	0	#DIV/0!
		32566015	**32653211**	**32653211**	**0**	**4723782**	14.5%

Table 3							
In TZS 000	2013-14						
S/N	Expenditure Item	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
1	Personal Emoluments	24651913	21205978	21423683	217705	217705	1.0%
2	Other Charges	2798978	2106885	2432445	325560	325560	13.4%
3	Health	0	0	0	0	0	#DIV/0!
4	Water	0	0	0	0	0	#DIV/0!
5	Works	0	0	0	0	0	#DIV/0!
6	Secondary	0	0	0	0	0	#DIV/0!
7	Primary	0	0	0	0	0	#DIV/0!
8	Tamisemi	0	0	0	0	0	#DIV/0!
9	Internal Audit	0	0	0	0	0	#DIV/0!
10	General Purpose grant	0	0	0	0	0	#DIV/0!
11	Medical store department	113337	113337	98495	-14842	14842	15.1%
12	Women and Youth fund	0	0	0	0	0	#DIV/0!
13	National Health Insurance Fun	0	0	0	0	0	#DIV/0!
14	ASDP	862200	862200	749293	-112907	112907	15.1%
15	LGCDG	359701	359701	312597	-47104	47104	15.1%
16	PEDP	0	0	0	0	0	#DIV/0!
17	SEDP	130112	130112	113073	-17038	17038	15.1%
18	HIV/AIDS	0	0	0	0	0	#DIV/0!
19	LGDG	986973	986973	857726	-129247	129247	15.1%
20	WAJIBIKA	0	0	0	0	0	#DIV/0!
21	TUNAJALI	37111	37111	32251	-4860	4860	15.1%
22	CBG	0	0	0	0	0	#DIV/0!
23	WSDP	39702	39702	34503	-5199	5199	15.1%
24	HSBF	655881	655881	569992	-85889	85889	15.1%
25	CONSTITUENCY	0	0	0	0	0	#DIV/0!
26	DIDF	0	0	0	0	0	#DIV/0!
27	Road fund cash account	680201	680201	591127	-89074	89074	15.1%
28	TASAF II cash account	0	0	0	0	0	#DIV/0!
29	HSDG	132124	132124	114822	-17302	17302	15.1%
30	NMSF	84984	84984	73856	-11129	11129	15.1%
31	Livestock Development Fund	0	0	0	0	0	#DIV/0!
32	EAMCEF	0	0	0	0	0	#DIV/0!
33	Land Development	66235	66235	57561	-8674	8674	15.1%
		31599452	27461423	27403862	8674	1077855	3.9%

Table 4 - Results Matrix

year	for HLG 1 (ii) composition variance
2011-12	16.7%
2012-13	14.5%
2013-14	3.9%

Score for indicator HLG-1 (ii) D

7.2. PI-1 and PI-2

Table 5 - Fiscal years for assessment

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

In TZS

Table 6

Data for year =	2011					
administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute	percent
Administration	3,271,086,111	3,714,202,602	2,771,067,602.1	943,135,000	943,135,000	34%
Human resource management and development	54,635,000	29,111,000	46,283,489.1	-17,172,489	17,172,489	37%
Finance	184,262,000	146,471,255	156,095,694.6	-9,624,440	9,624,440	6%
Trade and economic affairs	42,643,000	20,058,670	36,124,587.3	-16,065,917	16,065,917	44%
Agriculture	2,829,168,000	1,377,842,999	2,396,701,132.2	-1,018,858,133	1,018,858,133	43%
Education - Primary	10,196,418,006	9,279,903,548	8,637,792,658.6	642,110,889	642,110,889	7%
Education - Secondary	3,485,266,784	2,194,659,121	2,952,508,598.5	-757,849,477	757,849,477	26%
Primary health services	3,471,752,658	3,887,204,772	2,941,060,243.0	946,144,529	946,144,529	32%
Water	177,219,166	233,001,913	150,129,428.6	82,872,485	82,872,485	55%
Works	1,870,829,224	997,406,005	1,584,854,105.0	-587,448,100	587,448,100	37%
Lands	187,478,606	184,656,045	158,820,609.9	25,835,435	25,835,435	16%
Natural resources	15,128,000	4,270,000	12,815,532.6	-8,545,533	8,545,533	67%
Community development, gender and children	112,722,232	89,115,831	95,491,501.5	-6,375,670	6,375,670	
Others	4,123,288,465	3,274,843,651	3,493,002,229.5	-218,158,579	218,158,579	
allocated expenditure	30,021,897,250.95	25432747412.58	25432747412.58	0.00	5280196676.36	
contingency						
total expenditure	30021897250.95	25432747412.58				
overall (PI-1) variance						15%
composition (PI-2) variance						20.8%
contingency share of budget						0%

Table 7 (in TZS)

Data for year =	**2012**					
administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Administration	10,590,839,050	12,116,993,429	8,971,922,466.9	3,145,070,962	3,145,070,962	35%
Human resource management and development	0	6,353,600	0.0	6,353,600	6,353,600	#DIV/0!
Finance	158,561,859	168,561,859	134,324,079.4	34,237,780	34,237,780	25%
Trade and economic affairs	68,980,000	68,980,000	58,435,711.2	10,544,289	10,544,289	18%
Agriculture	1,808,922,645	112,522,645	1,532,410,571.3	-1,419,887,927	1,419,887,927	93%
Education - Primary	7,052,148,117	7,415,781,767	5,974,156,139.3	1,441,625,627	1,441,625,627	24%
Education - Secondary	4,610,603,489	5,333,337,667	3,905,826,236.3	1,427,511,431	1,427,511,431	37%
Primary health services	1,949,419,015	1,880,499,322	1,651,430,654.1	229,068,667	229,068,667	14%
Water	956,359,455	143,401,986	810,170,265.1	-666,768,279	666,768,279	82%
Works	408,077,837	408,077,837	345,699,023.2	62,378,814	62,378,814	18%
Lands	72,769,396	72,769,396	61,645,859.8	11,123,536	11,123,536	18%
Natural resources	5,317,800	5,317,800	4,504,920.6	812,879	812,879	18%
Community development, gender and children	105,589,720	67,139,000	89,449,266.2	-22,310,266	22,310,266	25%
Others	3,838,492,639	2,526,964,114	3,251,740,318.6	-724,776,205	724,776,205	22%
allocated expenditure	31,626,081,022	30,326,700,421	26791715512	3534984909	9202470263	
contingency						
total expenditure	31626081021.88	30326700420.81				
overall (PI-1) variance						4%
composition (PI-2) variance						34.3%
contingency share of budget						0%

Table 8 ('TZS")

Data for year =	2013					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Administration	6,981,854,456	5,791,158,917	5,914,607,573.8	-123,448,657	123,448,657	2%
Human resource management and development	69,967,608	67,743,850	59,272,353.3	8,471,497	8,471,497	14%
Finance	167,858,500	168,566,374	142,199,635.0	26,366,739	26,366,739	19%
Trade and economic affairs	0	0	0.0	0	0	#DIV/0!
Agriculture	1,696,005,340	641,705,271	1,436,753,815.2	-795,048,544	795,048,544	55%
Education - Primary	11,914,486,223	10,120,947,318	10,093,236,817.5	27,710,500	27,710,500	0%
Education - Secondary	5,112,207,299	4,762,746,354	4,330,754,844.4	431,991,509	431,991,509	10%
Primary health services	4,901,183,983	4,763,494,824	4,151,988,570.8	611,506,253	611,506,253	15%
Water	2,290,507,071	1,623,551,510	1,940,379,959.6	-316,828,450	316,828,450	16%
Works	256,470,400	842,321,663	217,266,312.2	625,055,350	625,055,350	288%
Lands	108,931,080	111,278,068	92,279,865.6	18,998,203	18,998,203	21%
Natural resources	33,929,700	25,631,960	28,743,203.2	-3,111,243	3,111,243	11%
Community development, gender and children	142,118,693	138,058,739	120,394,417.2	17,664,322	17,664,322	
Others	1,965,132,329	1,009,745,998	1,664,742,029.8	-654,996,031	654,996,031	39%
allocated expenditure	35640652682.29	30066950844.97	30192619397.48	-125668552.51	3661197298.18	
contingency						
total expenditure	35640652682.29	30066950844.97				
overall (PI-1) variance						16%
composition (PI-2) variance						12.1%
contingency share of budget						0%

Table 9 - Results Matrix

year	for PI-1 total exp. deviation	for PI-2 (i) composition variance	for PI-2 (ii) contingency share
2011	15.3%	20.8%	
2012	4.1%	34.3%	0.0%
2013	15.6%	12.1%	

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

Annexure.8 Performance indicators summary

Table 78: PEFA performance indicators summary

Performance Indicators	Description	PEFA 2015 rating
HLG-1	Predictability of transfers from a higher level of Government	D+
(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	C
(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 of 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	C
(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

Performance Indicators	Description	PEFA 2015 rating
PI-6	Comprehensiveness of information included in budget documents	C
PI-7	Extent of unreported government operations	A
(i)	The level of extra budgetary expenditure (other than donor funded projects) which is reported	A
(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	NA
(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	B
(i)	Existence and adherence to a fixed budget calendar	B
(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+

Performance Indicators	Description	PEFA 2015 rating
(i)	Preparation of multi-year fiscal forecasts and functional allocations	C
(ii)	Scope and frequency of debt sustainability analysis	NA
(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	D
(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	C
(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

Performance Indicators	Description	PEFA 2015 rating
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	D
(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	NA
(ii)	Consolidation of government's cash balances	C
(iii)	System for contracting loans and issuance of guarantees	NA
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	C

Performance Indicators	Description	PEFA 2015 rating
(i)	Effectiveness of expenditure commitment controls	C
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/procedures	C
(iii)	Degree of compliance with rules for processing and recording transactions	C
PI-21	Effectiveness of internal audit	C+
(i)	Coverage and quality of the internal audit function	B
(ii)	Frequency and distribution of reports	B
(iii)	Extent of management response to internal findings	C
(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	D+
(i)	Regularity of bank reconciliation	D
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	C
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	B
(iii)	Accounting standards used	B
(iv) External Scrutiny and Audit		
PI-26	Scope, nature, and follow-up of external audit	D+

Performance Indicators	Description	PEFA 2015 rating
(i)	Scope/nature of audit performed (including adherence to auditing standards)	B
(ii)	Timeliness of submission of audit reports to legislature	D
(iii)	Evidence of follow up on recommendations	C
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	C
(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	D
(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

Performance Indicators	Description	PEFA 2015 rating
(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 79: List of people met

S. No.	Name	Designation	Organisation
At the central level			
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

S. No.	Name	Designation	Organisation
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
27.	Raheli Ntiga	Budget Officer	Budget Division, MoF
At the district level			
28.	Lucas Mwairaka	Ag. Regional Administrative Secretary	Morogoro Regional Administrative Secretariat
29.	Anthony Mtaka	District Commissioner	Mvomero District Council
30.	Diana Muywanga	Ag. District Executive Director	Mvomero District Council
31.	Stephen Sindagulu	District Treasurer	Mvomero District Council
32.	Amos Migire	Economist	District Planning Officer
33.	Michael Ligola	Education Officer - Primary	Mvomero District Council
34.	Gideon Shangwel	Education Officer - Secondary	Mvomero District Council
35.	Dr Mbena Omari	District Health Officer	Mvomero District Council
36.	Mugeri Kemberete	Internal Auditor	Mvomero District Council
37.	Jacob Kechibi	Head of Procurement Management Unit	Mvomero District Council

S. No.	Name	Designation	Organisation
PEFA Counterpart Team			
38.	Steven Benedict	PEFA Counter Part	Lindi Regional Office
39.	Daria Bujilu	PEFA Counter Part	PMO RALG
40.	Fulgence Luyagaza	PEFA Counter Part	Kinondoni Municipal Council
41.	Ally Waziri	PEFA Counter Part	Bagamoyo District Council
42.	Munguatosha Macha	PEFA Counter Part	Geita Region
43.	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 (incomplete) and 2013-14
22. CAG's Management Letter on Financial Statements of Mvomero DC for 2013-14
23. MTEF of Mvomero DC for 2014-17
24. Quarterly Internal Audit Reports for Mvomero DC, 2013-14 and 2014-15
25. Budget guidelines issued by Ministry of Finance for 2014-15