

# *Fostering Accountability*

Sub-National (Local Government) PEFA  
Assessment in Tanzania

Mtwara Mikindani Municipal Council –

Final Report

July 2016

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# 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
AG	Attorney General	LPO	Local Purchase Order
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 and Auditor General	MTEF	Medium Term Expenditure Framework
CDCF	Constituency Development Catalyst Fund c	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
HoDs	Heads of Departments		
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

Acronym	Definition	Acronym	Definition
ICT	Information and Communication Technology	PSM	Public Sector Management
IFA	International Federation of Accountants	RAM	Regularity Audit Manual
IFMS	Integrated Financial Management System	RAS	Regional Administrative Secretariat
IIA	Institute of Internal Auditors	RWSSP	Rural Water Supply and Sanitation Project
IMF	International Monetary Fund	SAI	Supreme Audit Institution
INTOSAI	International Association of Supreme Audit Institutions	SEDP	Secondary Education Development Programme
IPSAS	International Public Sector Accounting Standards	SWOT	Strengths, Weaknesses Opportunities And Threats
ISA	International Standards on Auditing	TACAIDS	Tanzania Commission for AIDS
ISSAI	International Standards of Supreme Audit Institutions	TASAF	Tanzania Social Action Fund
KRA	Key Result Areas	TB	Tender Board
LAAC	Local Authorities Accounts Committee	TIN	Tax Identification Number
LAAM	Local Authorities Accounting Manual	TRA	Tanzania Revenue Authority
LGA	Local Government Authority	TZS	Tanzania Shilling
LGDA	Local Government (District Authorities) Act	USD	United States Dollar
LGCDG	Local Government Capital Development Grants	VAT	Value Added Tax
PwC	PricewaterhouseCoopers		

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

# 1. Summary assessment

## 1.1. Overview of ratings

Table 1: Overall ratings

Summary Ratings		
Performance Indicators	Description	PEFA 2015 rating
HLG-1	Predictability of transfers from a Higher Level of Government	NR
<b>A. PFM Out-Turns: Budget Credibility</b>		
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>B. Key Cross-Cutting Issues: Comprehensiveness and Transparency</b>		
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
<b>C. Budget Cycle</b>		
<b>(i) Policy-Based Budgeting</b>		
PI-11	Orderliness and participation in the budget process	C+
PI-12	Multi-year perspective in fiscal planning, expenditure policy, and budgeting	D
<b>(ii) Predictability and Control in Budget Execution</b>		
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	NR
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	D+

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

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

## 1.2. Context of the assessment- Data issues

The variation in data between various source documents referred to in some detail in this assessment is an area of concern. While the basis of compilation of each document is standardized and well established, reconciliation of different figures from documents such as the MTEF, the National Budget, the Audited Annual Financial Statements and others quoted by relevant departments and ministries proved to be challenge. However it needs to be mentioned that this phenomena does not apply to this LGA 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 are provided 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. In addition to this, for certain indicators, relevant information for rating is yet to be made available. Therefore, such indicators/dimensions have not been rated for the purpose of this assessment.

## 1.3. Integrated Assessment of PFM performance

The institutional structures for LGA operations in Tanzania 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. Mtwara Mikindani MC had earlier undergone a PEFA Assessment in 2006 and has been able to leverage the present national structures and regulatory framework to operate in an increasingly challenging environment. The Council Officials, in general, are aware of policies and procedures as well as expectations. Our assessment has also shown that the LGA relative to other areas of PFM has performed well in transparency, classification of budget (allowing analysis as per the development objectives of the Council), and accounting. However, some critical challenges remain. Out of these, some are within LGA's control and while others are extraneous but affecting its operations. It is pertinent to note however that this assessment is not a repeat assessment and treated as a new baseline for reasons discussed in the detailed report.

The budget credibility in Mtwara Mikindani MC is low. There are large variations in revenue realisation as well as expenditure outturn. This is due to various factors such as (i) low predictability of central government transfers (ii) weak planning processes (iii) ineffectiveness in revenue administration systems (iv) weak internal controls and reporting (v) lack of follow-up on external audit recommendations.

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 inter-linkages 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 the LGA. The most important of PFM weaknesses in Mtwara Mikindani MC are discussed here.

### ***Predictability of Fund Flows***

The dependency of Mtwara Mikindani MC on the funds transferred by the Central Government was nearly 90% of its total inflows in 2013-14. The uncertainties in 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 impacts 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 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 processes/techniques requires improvement as reflected by significant deviations between budget and actuals (PI-3), the uncertainties in the tax base for critical items such as produce cess and property tax 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. The comments on under-booking of liabilities by the CAG as a part of his qualifications on the accounts and grave internal control weaknesses in transaction processing and authorisation processes discussed in this report does not give the required degree of confidence on overall systems of execution control.

### ***Accountability Structures and Internal Controls***

Though overall accountability structures are well established for LGAs in general, there are several areas of concern in Mtwara Mikindani MC 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 lack of authorisation of expenditure. The lack of a complete tax registration system and failure to account for all receivables shows the need for strengthening internal systems in these areas. The failure of the Audit Committee to meet in this context is an area of key concern. Absence of a structured system of follow-up of audit observations reflects the general weaknesses in overall accountability structures related to PFM functions.

#### ***1.3.1. Summarised Assessment by Indicators***

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

Local Governments' dependence on the Central Government fund transfers is high in Tanzania. The per capita income of Mtwara Mikindani MC is nearly 2/5<sup>th</sup> of the national per capita income. This leads to low revenue base for the Council. In 2013-14, the Council earned 89.2% of its total revenues from the Central Government grants.

The total Central Government transfers were lower than budgeted in two of the last three years (37%, 2011-12 and 62%, 2012-13). Good performance on the own revenue side helped cover low inflows from the central government partially. Further, the LGA was able to spend on an average only 3/4<sup>th</sup> of the budget during the last three years. Mtwara Mikindani MC has improved its performance over the last three years i.e., budget outturn improving from 54% in 2011-12 to 136% in 2013-14.

The impact of the Central Government transfers was also seen in changing priorities of the LGA during the financial year. The compositional variance of expenditure was 33.5%, 78.1%, 64.7% in 2011-12, 2012-13, and 2013-14 respectively.

In case the government entity excessively delay payments to the creditors, the aggregate expenditure outturn compared with original budget may not reflect the actual credibility of the budget. Therefore, the monitoring of expenditure arrears is essential to assess the budget credibility. The Central Government has directed the LGAs to submit the payment arrears to the Internal Auditor General as per the definition prescribed in December 2014. At the time of assessment, the Mtwara Mikindani MC was yet to operationalise the process. Therefore, reliable data on expenditure arrears in the LGA are not being collected.

##### ***Comprehensiveness and Transparency (PI 5-10)***

Whilst Mtwara Mikindani MC's budget documents follow the GFS 2001 based classification allowing the Council to link budgetary allocations with development objectives, there is no clear evidence of adherence to a functional classification in line with COFOG. The consolidated budget book (MTEF) prepared by the Council did not contain seven of the nine information benchmarks prescribed under the PEFA framework. All funding for donor projects, with the exception of Elizabeth Glaser Pediatric AIDS Foundation (EGPAF) and the Tanzania Health Promotion Support (THPS), is routed through the Central Government. However, the support is less than 1% of the total expenditure. The Council does not have any direct responsibility, administrative or financial, for any autonomous government agency or public enterprise. Although rule-based processes exist for allocation of resources to LLGAs, in practice the present system of allocations have not ensured an objective, fair, transparent and equitable allocation of resources. Furthermore, uncertainties in fund availability from the Central Government undermines any attempt for laying down a rational framework that is fully comprehensive and backed by transparency in the timing and availability of resources. The Council provides five out of the eight budget and expenditure related documents recommended for public access.

### ***Policy based budgeting (PI 11-12)***

Though a clear budget calendar is issued by the Central Government for adherence by the LGA and compliance timelines are tightened for timely budget presentation to the Parliament, the present systems allow budgets to be prepared and approved by the Council without consideration of the ceiling requirements for the financial year. The late receipt of ceilings for the budget year from MoF necessitates wide revisions to the originally prepared budget 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 Mtwara Mikindani MC, 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.

There is a strategic plan reflecting the development priorities of the LGA. However, there is no costing of interventions in the strategic plan. 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)***

Based on the GFS (2001) manual, the relevant sources of revenue which can be classified as taxes for Mtwara Mikindani MC are (i) produce cess, (ii) service levy, and (iii) property tax. The key challenges in revenue administration include (i) low levels of awareness amongst taxpayers on the nature and nuances of taxes due to lack of focused information dissemination efforts by the MC and absence of

any dedicated information desk in the LGA, (ii) absence of a comprehensive database of potential taxpayers constraining a rational assessment of the revenue potential of the Council, (iii) limited capacity of the LGA to carry out tax liability assessments, especially in case of service tax, (iv) absence of any independent tax appeals mechanism in the Council. It should be noted that in 2013-14, the Council had piloted the Local Government Revenue Collection Information System (LGRSIS) that has in-built capacity to generate automatic taxpayer ID numbers; it is integrated to the IFMS (EPICOR) and has link to other business registration databases in the MC. This system was still under the pilot stage and hence, was running in parallel with the manual databases that existed. The Council also has the Integrated Tax Management System (i-Tax) which allows taxpayers to pay taxes in one place and the Council to monitor the payment and maintain proper records of taxes paid. However at the time of the assessment, it was noted that the i-Tax system components were not all installed, and those installed were not used because Council staff members were not trained. Therefore, the system was not used at all by the Council.

### ***Internal control systems (PI 16- 21)***

#### **Cash and debt management (PI 16-17):**

Central Government transfers constitutes significant portion of Mtwara Mikindani MC's revenues. Information on expected periodic transfers from the Central Government is not shared with the Municipal Council. The general uncertainty in the availability and timing of cash flows, therefore, makes any credible cash forecasting a difficult task. There were no cash flow plans for the Municipal Council at the beginning of the financial year. The Council is also not in a position to provide in-year information on ceilings to departments for expenditure commitments. In FY 2013-14, in-year budget adjustments to budget allocations through virement constituted 1.9% of the total expenditure of the Municipal Council. At the end of FY 2013-14, the Mtwara Mikindani MC had an outstanding debt of TZS 32.5 million representing 0.1% of total liabilities. The Council has a total of seven bank accounts. Cash consolidation of bank balances takes place on a monthly basis.

#### **Payroll Controls (PI-18):**

With the implementation of Human Capital Management Information System (HCMIS) payroll systems have improved. The Central Government has conducted a major Payroll Cleaning Exercise through which substantial leakages have been corrected. However, there are some areas which still need to be strengthened. The internal controls over the payroll are still weak although the Paymaster General (PMG) had issued the circular requiring all internal auditors to indicate the status of implementation of previous audit recommendations (both CAG and Internal Audit). There are cases of: salary payments made to transferred employees; promotions without the required qualifications; and non-confirmation of employees on public services for prolonged periods. The absence of documented verification at LGA level on changes made to the personnel database and the absence of focused periodic payroll audits reflect the absence of suitable oversight mechanisms in this important functional area.

#### **Procurement (PI-19):**

Approximately 15% of the contracts were procured through methods other than open competition. Although, local purchase order was used for most of these, information was not available to verify whether there were in line with the legal requirements and therefore justified. 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 been 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.

### **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 on 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. The internal audit as well as CAG audit reports have referred to weaknesses resulting in inadequacy of documentation and records and improper authorisation of expenditure. The CAG's observations indicate serious compliance issues to the internal control requirements.

### **Internal Audit (PI-21):**

Internal Audit in Mtwara Mikindani MC is conducted as per the annual risk based audit plan. The Internal Auditor prepares quarterly audit reports and submits these to the auditees, the CAG and the Internal Auditor General. The time allocation for internal audit is planned according to days being planned for audit of various projects, transactions and activities. A review of the audit reports showed that about 40% of the issues related to systemic weaknesses whilst the balance 60% related to transactions. In addition, the internal audit reports gave clear status on the number of implemented recommendations from the previous periods. Though there was a declining trend of outstanding audit observations, the existence of previous unresolved comments do show the need for further improvements in this area.

### ***Accounting, Recording and Reporting (PI 22-25)***

Bank reconciliations are performed for all bank accounts on a monthly basis and are available by the 15<sup>th</sup> of the following month for the previous month. There are neither backlogs in bank reconciliations nor unresolved differences between the Council's cash account and the bank statements for all of the bank accounts.

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

With respect to service delivery units, while information on grants (both cash and in-kind) transferred is recorded by the Council, 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.

The EPICOR system is not fully operational in the Municipal Council. Although the information for preparing financial reports is generated through EPICOR, the 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 for discussions with the Finance Committee on a monthly basis and with the full Council on a Quarterly basis.

Mtwara Mikindani MC prepares its AFS, as confirmed by the CAG, based on the International Public Sector Accounting Standards (IPSAS) and the provisions of the LGFA. Para 31(3) of the Local Authority Financial Memorandum (LGFMA) prescribes the composition of the AFS. The CAG's management letter also indicated that the AFS of Mtwara Mikindani MC for the year end on the 30<sup>th</sup> of June 2013 were originally received by the statutory due date. However, the revised AFS were re-submitted on 29<sup>th</sup> December 2014 after rectification of errors and omissions highlighted by the CAG.

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 Mtwara Mikindani MC 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 26-28)***

The Laws and Regulations governing external audit includes The Constitution of Tanzania, the LGFA 1982, Public Audit Act 2008 and Public Audit Regulations 2009. The external audit of the LGA covers a 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 Council's Executive Director. 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 evidence of systematic follow up is absent as evidenced by comments provided and repeat comments in subsequent years.

Whilst there is evidence that the Finance Committee and Full Council reviews CAG's audit report, there was no evidence of the review of budgets and financial statements. Furthermore, the time available for approval of the budget by the Finance Committee appeared to be very short and it was not clear whether informal deliberations preceded such formal approval.

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

## ***1.4. Assessment of the impact of PFM weaknesses***

### ***Fiscal discipline***

Overall, fiscal discipline is maintained by the LGA due to planning for balanced budget and the presence of well-established structures for in-year budgetary controls. However, specific risks remain due to (i) large amount of payables (ii) lack of linkages between medium term development objectives, medium term expenditure planning and annual budgets, and (iii) weak estimation of own source revenue. In the last three years, own revenue outturn has been significantly higher than the budgeted figures.

### ***Strategic allocation of resources***

Strategic allocation of resources is undermined due to (i) lack of a medium term perspective in planning for spending (ii) weak integration of recurrent and investment costs in proposals for capital projects (iii) lack of compliance to rules for internal controls to ensure efficient budget execution, and (iv) poor management response to the recommendations.

### ***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) significant dependency of the LGA (similar to other LGA) and (ii) irregular flow of funds severely impacting achieving cost efficiency in public expenditure.

## ***1.5. Prospects for Reform Planning and Implementation***

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

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

GoT and implementing agencies at all levels have demonstrated commendable ownership and commitment in roll-out activities, as is evidenced by the findings of the Mid Term Review of PFMRP IV as well as by the Joint Supervision Mission for PFMRP held in Sept-Oct 2015. Progress in the LGA component of reforms has been found to be good with most of the milestones being 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 (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, systems at the local government level. With the support of the European Commission, the GoT conducted a Public Expenditure and Financial Accountability (PEFA) assessment at the Central Government level in 2013. The assessment revealed that significant progress had been made in PFM systems, largely reflecting the impact of the PFMRP. Some issues were also highlighted that directly impact the credibility of the budget such as fiscal risks to the budget posed by some public sector enterprises; and weaknesses in non-salary internal control system.

The Government started implementing the action plan drawn to address the gaps identified in the PEFA assessment of Central Government Mainland 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 to the LGAs 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;
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 Mtwara Mikindani Municipal Council (MC).

The Terms of Reference had required the assessment for Mtwara Mikindani MC to be a repeat assessment as the Council was covered in the 2006 PEFA local government exercise. However, based on our discussions with the PEFA Secretariat and KfW, it was agreed that conducting a repeat assessment for Mtwara Mikindani MC would not be possible for the following reasons:

- The PEFA good practices guidance note for repeat assessments issued by the PEFA Secretariat requires the current assessment team to use the previous assessment as the starting point and:
  - Verify the basis on which the previous scores were assigned;
  - Provide an overview of problems with old scores;
  - Track all changes in performance since the previous assessment;
  - Provide reasons for the changes in scores between the previous and current assessments (after ensuring that there are consistent applications of methodology in both the assessments so that they are comparable).

However, our study of the Mtwara Mkindani MC individual assessment report of 2006 revealed that:

- It was a summary of indicator ratings only and not a full report as per the PEFA framework;
  - Though indicators under PEFA framework were rated, individual dimensions of indicators were not rated which is required for comparison under a repeat assessment;
  - The rationale for ratings were not available though there were write ups and description of present practices;
  - Substantial parts of the descriptive text in the report for this LGA appeared to be identical to that contained in the consolidated report for all the seven LGAs (that were part of the 2006 assessment).
- Repeat assessment also suggests access to the Leader of the previous engagement (to understand the rationale for the ratings) and if possible peer review comments apart from the full previous Assessment report. Contact details of the previous assessors were also not available.

We had referred these methodological issues to the PEFA Secretariat who had examined the matter and were of the view that considering (a) the long time period that had elapsed between the earlier 2006 assessment and the present intended one (the normal time frame for a repeat assessment is within 3 to 4 years) (b) lack of comparability due to the dimensions earlier not being rated and (c) non availability of further information from the government to explain the 2006 scores, the present assessment should be treated as a new baseline. These views were also endorsed by KfW who had consulted with other stakeholders in this regard and was also in accordance with the concurrence of PMO-RALG. Copies of our mails dated 22<sup>nd</sup> May 2015 to the PEFA Secretariat, their views received by mail dated 28<sup>th</sup> May 2015 and endorsement of such views by KfW in consultation with other stakeholders by mail dated 3<sup>rd</sup> June 2015 are enclosed as Annexure.11. Therefore this assessment for Mtwara Mikindani MC was undertaken as a new baseline using the PEFA methodology. The assessment of Mtwara Mikindani MC is part of PEFA assessment of 12 LGAs as required by the terms of reference.

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

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

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

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

## ***2.2. Process of preparing the report***

The coordination of this assessment is done by the GoT through the Ministry of Finance (MoF) as it did for the national level assessment in 2013. The overall assessment is being managed by the PEFA Task Force Committee who acts as an oversight team of the assessment in the 12 LGAs. The Committee composed of members from the MoF, PMO-RALG and the PFM Development Partners Group (DPG). The PFM DPG is a subgroup under Cluster working group 4 of the DPG main. The Group's role is to coordinate harmonization and alignment of Development Partner's efforts for effective dialogue with the GoT in the area of Public Financial Management (PFM). 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.<sup>1</sup>

PMO-RALG established two counterpart teams comprising in total of six members<sup>2</sup>. Out of these six members, two are from PMO-RALG, two from Regional Administrative Secretariat (RASs), 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 Planning Division and PFMRP Secretariat (MoF), the Office of the Internal Auditor General (IAG) together with the National Auditor General Office of Tanzania (NAOT), the Accountant General (ACGEN), the President's Office-Public Service Management (PO-PSM) and various other departments of the MoF concerning local government budgeting, planning, and payroll. These interactions were followed up by meetings with key staff of PMO-RALG in Dodoma (The Capital of Tanzania) to understand the functioning of the LGAs in general and to collect preliminary data and information relevant for the assignment. Thereafter, the consultants organized a two-day training workshop facilitated by PMO-RALG which was attended by representatives from PFMRP, PMO-RALG, RASs, PEFA Task Force, District Treasurers and District/City Council Accountants and the Counterparts.

<sup>1</sup> 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.

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

In compliance with the PEFA Secretariat's requirements of a balanced PEFA exercise, the consultants have also held discussions with the Association of Local Authorities of Tanzania<sup>3</sup> (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 Mtwara Mikindani MC was carried out on the 16<sup>th</sup> and the 17<sup>th</sup> of June 2015. Subsequently, an individual draft LGA report was prepared and submitted to the following stakeholders for review and comments on 6 October 2015: (i) PEFA Task Force Committee; (ii) PEFA Secretariat; and (iii) three independent reviewers from the PFM Development Partner Group: KfW; DFID; and the World Bank.

Based on a study of the comments received from stakeholders on the draft report for Mtwara Mikindani MC and consideration of further information and explanations received, a Draft Consolidated Report (DCR) was prepared and submitted on 11 November 2015 containing our findings relating to all the 12 LGAs under this assignment, including our consolidated observations on Mtwara Mikindani MC. 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 Mtwara MC was submitted on 20<sup>th</sup> June, 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, available relevant data/information does not allow the assessor to

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

assign a rating to the dimension/indicator. Similarly, “Not Applicable” implies that the PFM 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 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 Mtwara Mikindani MC. 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 Mtwara Mikindani MC on the Central Government

The intergovernmental transfers are the largest source of financing for Mtwara Mikindani MC (accounting on an average more than 90% of LGA financing) as shown in Table 2Table 2:. This reflects high dependency of the LGA on the Central Government funding.

**Table 2: Mtwara Mikindani MC’s dependency on Central Government, 2011-2013, TZS million**

<i>Item</i>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
<i>Total revenue</i>	24,960	27,025	20,852
<i>Recurrent grants</i>	15,057	14,448	11,612
<i>Development grants</i>	7,515	10,237	6,987
<i>Total grants</i>	22,572	24,684	18,599
<b>Grants as % of Total Revenues</b>	<b>90.43%</b>	<b>91.34%</b>	<b>89.20%</b>

*Source: Annual Financial Statements, 2011-12 (Unaudited), 2012-13 (Audited), and 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 Budgeting Cycle of the Central Government. 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 Development Grants (LGCDG) from the Central Government. As per the guidelines, the annual resources to be transferred can be finalized only after annual assessment results have been completed. One of the key inputs in these assessments is the previous year's audited financial statements by CAG. However, given the present statutory CAG auditing cycle and budgeting timelines, the annual assessment results may not be produced in time for such grants to be reflected correctly in the budget 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 MTEF 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 the analysis above for Mtwara Mikindani MC.

## 3. Country background

### 3.1. Country Economic Situation

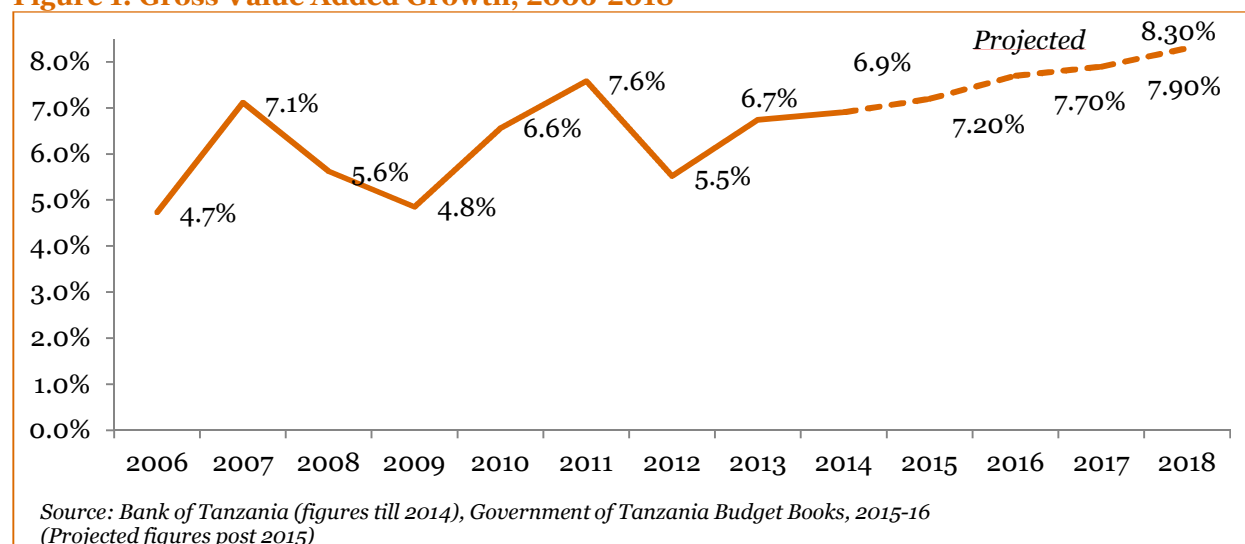
#### 3.1.1. Country Context

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<sup>4</sup> to “lower middle income” category in 2015. Figure 1 shows growth rate of Tanzania's Gross Value Added (GVA). The economy has been growing at an average annual growth of 6.2% since 2006 as compared with growth rate of 4.7% for developing countries in Sub-Saharan Africa as a group. As per the Government of Tanzania's projections, the economy is expected to achieve 8.3% growth by 2018. In comparison with its eight bordering countries, Tanzania's performance has been better than Kenya, Burundi, and Malawi. Though economies such as Rwanda, Uganda, Mozambique and Democratic Republic of Congo are growing at a higher rate relative to Tanzania, it should be noted that these economies are at earlier stages of economic development and are therefore, at a smaller base of GVA in comparison with Tanzania

**Figure 1: Gross Value Added Growth, 2006-2018**



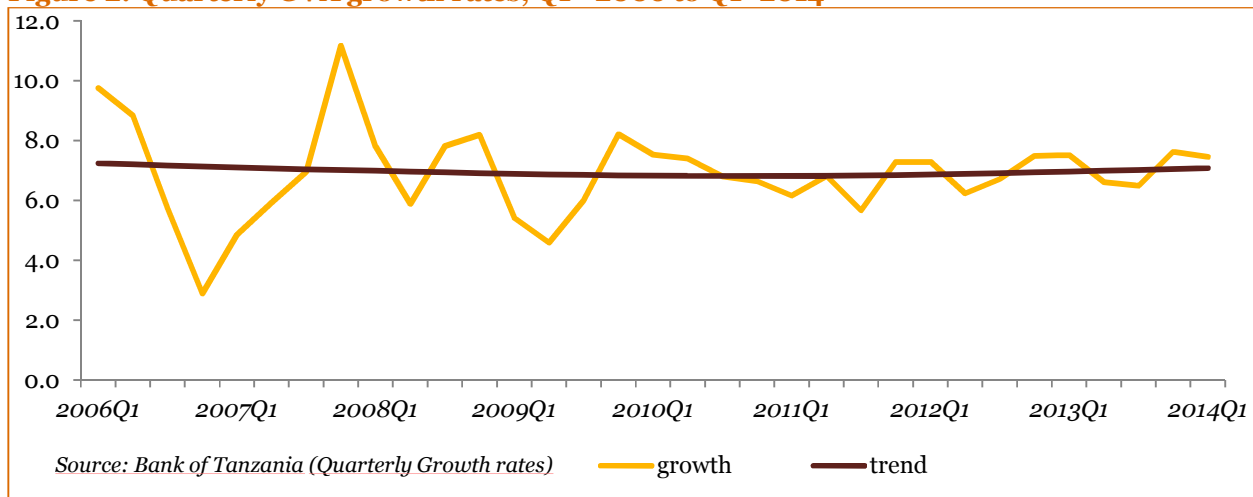
Apart from high growth, Tanzania has also achieved greater economic stability within the year, i.e. quarterly growth rates closely revolve around “trend growth rates (or average sustainable growth rate)<sup>5</sup>”. Figure below shows quarterly growth rates for the Country since 2006. It can be inferred that

<sup>4</sup> With per capita income of \$1,045 or less, (World Bank )

<sup>5</sup> The average sustainable rate of economic growth over a period of time estimated through Hodrick-Prescott filter method.

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

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



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

### Growth inclusiveness

While the Country has managed to sustain economic growth over the years, this trend has not translated into accelerated poverty reduction<sup>6</sup>. 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

<sup>6</sup> In 2012, nearly 28.2% of population was below basic needs poverty line.



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

### **Price movements**

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

### **Savings and external sector**

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

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

Worsening of current account has impacted the foreign exchange reserves but ability to meet foreign obligations remains high. This is majorly due to accumulation of foreign exchange reserves in the first decade of 21<sup>st</sup> 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<sup>7</sup>. 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**

<sup>7</sup> June 2005, Monetary Policy Statement, Bank of Tanzania

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

<i>domestic</i>	0.6%	1.6%	0.3%
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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%
<b>Total Expenditure</b>	<b>18.9%</b>	<b>20.6%</b>	<b>24.0%</b>

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**

<b>Name</b>	<b>Functional area</b>
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	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	Responsibilities for financial administration, Processes of budgeting, accounting, borrowings, investments, inventories, tendering and contracting, personal emoluments etc.
Local Authority Accounting Manual	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.

Name	Functional area
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)<sup>8</sup> 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.

<sup>8</sup> Organizational Structure for MoF has been given in Annexure.5

The Prime Minister's Office (Regional Administration and Local Government Authority)<sup>9</sup> 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 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. 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 neighbourhood and Ward organs. The word village in the administrative arrangements for the City Council has been used to represent the neighbourhood. Governance at the village

<sup>9</sup> Organizational Structure for PMO-RALG has been given in Appendix 6.

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

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

The Judiciary exercising jurisdiction over the LGAs is represented by District Courts that hold public hearings for all cases including those for violation of the bye-laws or non-payment of the respective council charges or taxes. However, the law in Tanzania does not provide for specific hearing against the LGA in the event of injuries caused to the public<sup>10</sup>.

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.

<sup>10</sup> 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).

### 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.

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 10<sup>th</sup> 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. LGA Background Information

### 4.1. Economic situation

Mtwara Mikindani MC is a part of Mtwara region, with 2 divisions, 15 wards and 85 mitaa (hamlets). Its economy is primarily dependent on services and agriculture which employs 38% and 33% respectively of the population along with other sources of income being such as raising small scale animals keeping, fishing, trade, small and medium enterprises. The Municipal is famous for its cash crop farming specifically cashew nuts, with availability of 90,000 hectares land size present for that activity.

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

**Table 6: Factsheet-Mtwara Mikindani MC**

Item	Value
Area	6,709 km <sup>2</sup>
Share in Region's Area	32.3%
Population (2012 census)	108,229
Population growth rate	1.8% per annum
Municipal Income	TZS 14,710,275,000/- (for the year 2012)
Per Capita Income	TZS 490,000/-
Leading sector	Services and Agriculture
Agriculture share in employment	33%

*Source: Preamble, Medium Term Expenditure Framework, Mtwara Mikindani MC*

**Table 7 : Broad Development Indicators (region wise)**

Category	Indicator	Total	Arusha	Kilimanjaro	Tanga	Morogoro	Lindi	Mtwara	Kigoma	Mwanza	Mara
<b>Economy</b>	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%
<b>Land Share</b>	Land Area (Sq. km)	885,803	37,576	13,250	26,677	70,624	66,040	16,710	37,040	9,467	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
<b>Size of serving population</b>	Population (2012) in "000"	43,625	1,694	1,640	2,045	2,218	1,377	941	2,458	1,425	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%

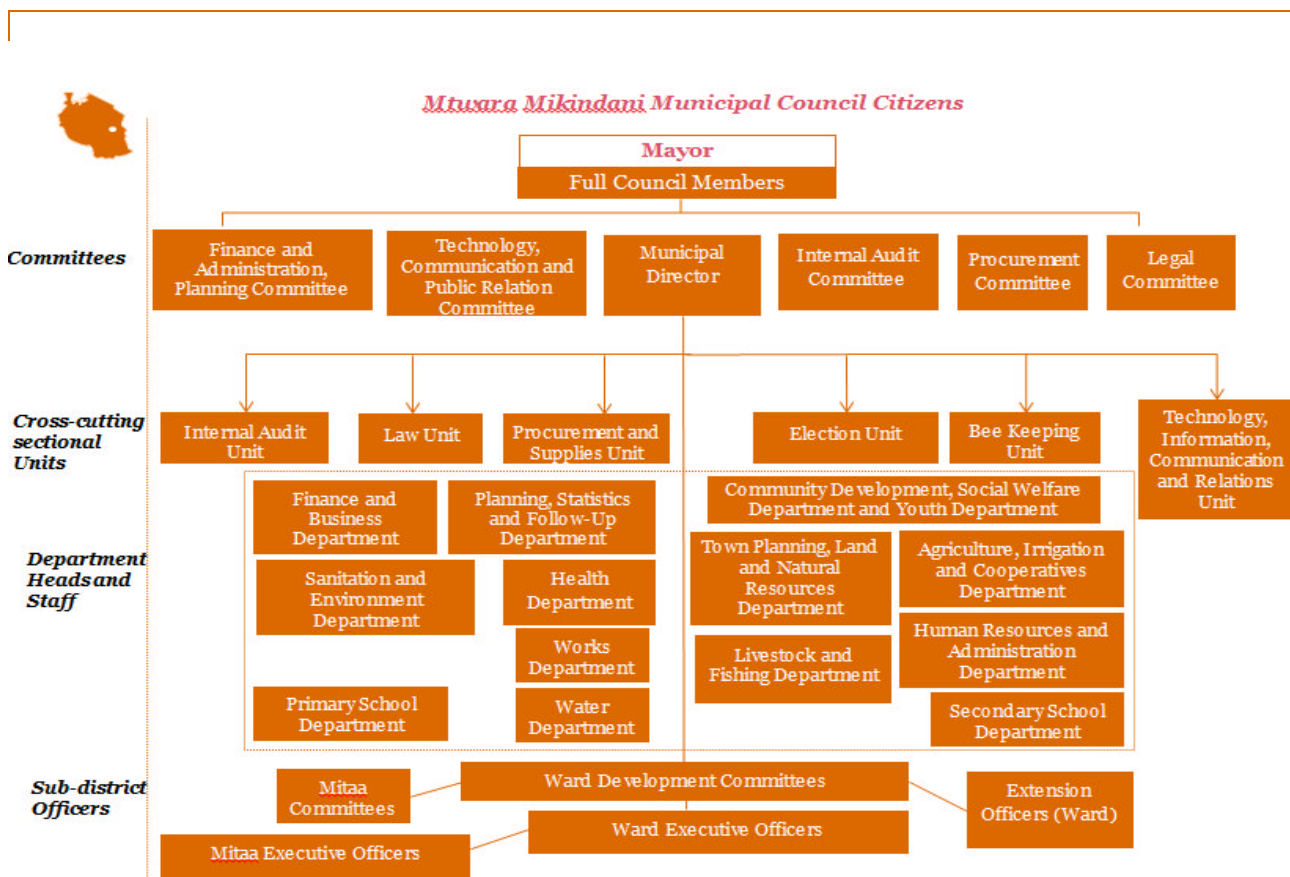
Category	Indicator	Total	Arusha	Kilimanjaro	Tanga	Morogoro	Lindi	Mtwara	Kigoma	Mwanza	Mara
<b>Public awareness</b>	Median years of schooling completed (Male-2010)	4.6	4.7	6.2	4.7	4.9	3.4	4.6	3.5	4	4.7
	Median years of schooling completed (Female-2010)	3.6	4.7	6.1	4	3.9	2.2	3.5	3.2	3	3.8
	% of women (15-49 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
<b>Employment</b>	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. Institutional Structure of LGA

Figure 3 shows the organizational structure of Mtwara Mikindani MC. At the apex of Mtwara Mikindani MC's organization structure are the people of Mtwara Mikindani MC (citizens) who are represented by the Councillors (Full Council), headed by the Mayor. 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, Mtwara Mikindani MC has thirteen departments headed by a Departmental Head. Council staff are recruited by PO-PSM and paid by the central government.

**Figure 3: Organization Structure of Mtwara Mikindani MC**



Additionally, Mtwara Mikindani MC has six units namely: Internal Audit; Law; Technology, Information, Communication & Relation; Procurement & Supplies; Bee Keeping; and Election. Staff within these sections has the responsibility for ensuring that the departments perform as required by the law and provide assistance in the efficient operation of council.

Externally, there are five standing committees in Mtwara Mikindani MC that also assists in the operations of the council. The committees are:

- Finance, Administration and Planning Committee;
- Technology, Communication and Public Relation Committee;
- Internal Audit Committee;
- Procurement Committee;
- Legal Committee.

### 4.3. Fiscal performance of LGA

As shown in Table 2, the Central Government grants constitutes significant portion of LGA's total revenues (on an average 90%). Table 8 shows trend of revenues of the Mtwara Mikindani MC for the last three years. The LGA's own source revenue has been declining in the last three years. In 2012-13, the own source revenue declined by 2% while in 2013-14 it declined by 4%.

**Table 8: Revenue performance, 2011-12 to 2013-14, TZS million**

Item	2011-12	2012-13	2013-14
Local Taxes	1800	645	1375
Fee, fines, penalties and licenses	579	272	715
Revenue from exchange transactions	0	13	23
<b>Total Own Revenue</b>	<b>2379</b>	<b>931</b>	<b>2114</b>
Land rent	9	1410	139
Recurrent grant	15057	14448	11612
Development grant	7515	10237	6987
<b>Total Revenues</b>	<b>24960</b>	<b>27025</b>	<b>20852</b>

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

Table 9 shows function wise expenditure for the last three years. Functions such as Administration, Human resource management and development, education, community development, gender and children are the top three functions with average share of 21%, 30% and 23.4% respectively.

**Table 9: Department wise expenditure, 2011-12, 2012-13 and 2013-14, TZS million**

Department Name	2011-12	2012-13	2013-14	Average Share
Administration, Human resource management and development	6031	4184	3446	20.7%
Agriculture & Livestock	226	247	519	1.5%
Education	4580	7637	7778	29.3%
Primary health services	1947	1335	1671	7.5%
Water	31	184	1100	1.9%
Works	406	572	950	2.8%
Natural Resources	0	0	2	0.0%
Community development, gender and children	2872	6183	7066	23.4%
Others	4147	3136	1165	12.9%
<b>Total Expenditure</b>	<b>20240</b>	<b>23478</b>	<b>23696</b>	<b>100%</b>

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

Table 10 shows total expenditure of Mtwara Mikindani MC for the last three years by economic categories. The component, “Wages, salaries and employees benefits”, similar to the other LGAs, remains leading component of total public spending of Mtwara Mikindani MC. The total expenditure of the LGA increased by 17% in 2013-14 from the base year 2011-12 mainly due to spike in capital expenditure.

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

Item	2011-12	2012-13	2013-14	Average share
Wages, salaries and employee benefits	9522	9601	10602	45.9%

Item	2011-12	2012-13	2013-14	Average share
Supplies and consumables used	3369	5496	1835	25.0%
Maintenance expenses	559	745	394	12.7%
Grants and other transfer payments	1564	122	1078	3.3%
Finance costs	10	2	6	0.0%
Capital Expenditure	5216	7512	9781	13.2%
<b>Total Expenditure</b>	<b>20240</b>	<b>23478</b>	<b>23696</b>	<b>100%</b>

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

Table 11 shows deficit/surplus for Mtwara Mikindani MC. In one of the last three years, Mtwara Mikindani MC had deficit. In 2013-14, Mtwara Mikindani MC had a deficit of TZS 2844 million.

**Table 11: Deficit/surplus, Mtwara Mikindani MC, TZS million**

Item	2011-12	2012-13	2013-14
Total Revenue	24960	27025	20852
Total Expenditure	20240	23478	23696
<b>Surplus</b>	<b>4720</b>	<b>3547</b>	<b>-2844</b>

Source: Annual Financial Statements, 2011-12 (Unaudited), 2012-13 (Audited), and 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 12 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, actual Central Government transfers were lower than budgeted. In 2011-12 and 2012-13, actual transfers were 37% and 62% lower than budgeted transfers respectively. In 2013-14, actual total transfers were higher than the planned transfers at the beginning of the financial year by 30%. The predictability of amount of transfers was lower in case of development grants. In 2011-12 and 2012-13, actual development transfer was 44% and 65% lower than budgeted transfers. Our discussion with the District Council officials indicates that such low predictability in quantum of transfers is impacting quantum and efficiency in project implementation. It is in fact one of the key reasons undermining the reliability of the overall budgeting objectives and adversely affecting LGA performance.

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

<i>In TZS million</i>		<i>Recurrent Grants</i>	<i>Development Grants</i>	<i>Total Grants</i>
2011-12	Budget	22384	13432	35816
	Actual	15057	7515	22572
	<b>Deviation</b>	<b>-33%</b>	<b>-44%</b>	<b>-37%</b>
2012-13	Budget	35933	29170	65102
	Actual	14448	10237	24684
	<b>Deviation</b>	<b>-60%</b>	<b>-65%</b>	<b>-62%</b>
2013-14	Budget	10209	4149	14357
	Actual	11612	6987	18599
	<b>Deviation</b>	<b>14%</b>	<b>68%</b>	<b>30%</b>

Source: Annual Financial Statements, 2011-12 (Unaudited), 2012-13 (Audited), and 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 only three kinds of grants i.e., recurrent block grants, subventions, and development grants. While data on actual transfers by various categories is available in the AFS of the LGA, the reliable information on budgeted transfers for recurrent items is not available. In the absence of the above information, this dimension of HLG-1 cannot be assessed and is being marked as "Not Rated".

**(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 Supplementary Guidelines for Application of the PEFA Framework to Sub-National Governments<sup>11</sup>, in the absence of disbursement timetable, a default of a quarterly distribution is to be used. Information on dates of actual transfers across the financial year is not available to rate the dimension.

**Table 13: Summary rating for HLG-1**

<b>Indicator</b>	<b>Rating</b>	<b>Brief explanation</b>
<b>HLG-1: Predictability of Transfers from a Higher Level of Government</b>	<b>NR</b>	
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget	D	In two of the last three years, the HLG transfers have fallen short of the estimate by more than 15%.
(ii) Annual variance between actual and estimated transfers of earmarked grants	NR	In the absence of information on the budgeted transfers, this indicator has not been rated.
(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within of month of the start of the SN fiscal year)	NR	Sufficient information for rating the dimension is not available.

## **5.2. PFM-out-turns: Budget credibility**

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

Government's ability to deliver the public services as promised in the financial year depends on its overall budgetary performance. In case of local governments such as Mtwara Mikindani MC which is highly dependent on Central Government transfers of funds, the budgetary performance is dependent

<sup>11</sup> Page 10, footnote 4

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 46% in 2011-12, 65% in 2012-13 and positive deviation of 36% 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 expenditure outturn as compared with budget 2011-12 to 2013-14, TZS million<sup>12</sup>**

Item <sup>13</sup>	2011-12		2012-13		2013-14		Deviation		
	Budget	Actual	Budget	Actual	Budget	Actual	2011-12	2012-13	2013-14
Total Expenditure	37498	20240	66859	23478	17345	23696	-46.0%	-64.9%	36.6%

Source: Annual Financial Statements, 2011-12 (Unaudited<sup>14</sup>), 2012-13 (Audited), and 2013-14 (Audited)

**Table 15: Summary rating PI-1**

Indicator	Rating	Brief explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	D	In all three preceding years, total actual expenditure deviated from budgeted expenditure by more than 15%.
(i) The difference between actual primary expenditure and the originally budgeted 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 may not be able to analyse the quality of budgetary performance which is only possible by examining the variations in each component of expenditure. The objective of this indicator is to analyze the variation in the composition of the total expenditure after controlling for variation in the aggregate expenditure.

The PEFA framework recommends analysis of expenditure outturn by each of the main functional classifications. In Mtwara Mikindani MC, expenditure is classified by nine functions. The list of functions are (1) Administration, Human resource management and development, (2) Agriculture

<sup>12</sup> PEFA Field guide requires comparison of aggregate primary expenditure outturn as against the budget. Firstly, in case of Mtwara Mikindani MC, there was no interest payment made on the borrowings in the last three years. Secondly, donor funded expenditure as mentioned in the Data Note has been included in the analysis. Therefore, aggregate expenditure has been used. Additionally, the Audited Financial Statements has been used as the source for analysis under HLG-1 dimension (i), PI-1, PI-2 and PI-3. Annual financial statement contains original budget data as well as actual outcomes.

<sup>13</sup> Details on our method for calculating revenues and expenditure is provided in Annexure.6.

<sup>14</sup> Audited statement on capital expenditure and its financing is not available for 2011-12.

and Livestock (3) Education, (4) Primary health services, (5) Water (6) Works, (7) Natural resources (8) Community Development, gender and children, and (9) others.

**Table 16: Variation in the composition of aggregate expenditure, 2011-12 to 2013-14<sup>15</sup>**

Year	for PI-2 (i) composition variance
2011-12	33.5%
2012-13	78.1%
2013-14	64.7%

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

Analysis of the composition of total expenditure on an administrative basis reveals variation of 33.5% in 2011-12, 78.1% in 2012-13, and 64.7% in 2013-14. Table 17 shows function-wise deviations in actual expenditure from the budget. Key functions of the LGA are Education, Administration, Human resource management and development, Community development, gender and children together contribute on average 83% 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: Function wise deviation in actual expenditure from budget (Adjusted), 2011-12, 2012-13, and 2013-14**

Function Name	Average Share	2011-12	2012-13	2013-14
Administration, Human resource management and development	20.7%	-35.3%	12.1%	11.9%
Agriculture & Livestock	1.5%	-41.0%	-30.6%	-0.2%
Education	29.3%	-34.7%	3.5%	35.0%
Primary health services	7.5%	7.4%	-21.9%	20.2%
Water	1.9%	-89.7%	-60.3%	267.8%
Works	2.8%	-56.0%	1.0%	-73.6%
Natural Resources	0.0%	-	-	-93.6%
Community development, gender and children	23.4%	-74.3%	-78.0%	11047.1%
Others	12.9%	-36.8%	-87.2%	-55.3%

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

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

<sup>15</sup> It should be noted that in the absence of department names against each capital expenditure, the assessor has mapped the capital expenditure items to various departments based on supplementary information. In case the project can't be mapped to a specific department, the Project has been taken as a separate department.

It is understood that at the LGA there is no contingency fund in which contributions are made to meet expenditure during any unforeseen circumstances. The assessors didn't encounter any specific expenditure item under which funds are reserved for unforeseen circumstances.

**Table 18: Summary rating for PI-2**

Indicator	Rating	Brief explanation
<b>PI-2 Composition of expenditure outturn compared to original approved budget.</b>	<b>D+</b>	
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	Variance in expenditure composition exceeded 15% across all 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 Mtwara Mikindani MC's budget, and there is neither accounting of any kind. Hence, the dimension has been rated in line with clarification 2-1 of the PEFA Field Guide.

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

The revenue data in the financial statements of the LGA is sufficiently disaggregated by major revenue heads. Revenue for the Council can be clubbed into three categories (i) Local Taxes (77%); (ii) Fee, fines, penalties and licenses (22.5%); and (iii) Revenue from exchange transactions (0.5%)<sup>16</sup>. Table 19 shows revenue performance of Mtwara Mikindani MC in the last three completed financial years.

**Table 19: Summary of Mtwara Mikindani MC domestic revenue, 2011-12 to 2013-14 (in TZS million)**

Revenue sources	2011-12		2012-13		2013-14		Actual as % of budgeted		
	Budget	Actual	Budget	Actual	Budget	Actual	2011-12	2012-13	2013-14
Local Taxes	1150	1809	636	2055	986	1514	157.3%	323.0%	153.6%
Fee, fines, penalties and licenses	406	579	968	272	1122	715	142.5%	28.1%	63.7%
Revenue from exchange transactions	0	0	0	13	23	23	-	-	100.0%
<b>Total Own Source Revenue</b>	<b>1556</b>	<b>2388</b>	<b>1604</b>	<b>2340</b>	<b>2131</b>	<b>2252</b>	<b>153.5%</b>	<b>145.9%</b>	<b>105.7%</b>
Deduct Land Rent	0	9	0	1410	73	139	-	-	191.0%
<b>Adjusted Own Source Revenue</b>	<b>1556</b>	<b>2379</b>	<b>1605</b>	<b>931</b>	<b>2059</b>	<b>2114</b>	<b>152.9%</b>	<b>58.0%</b>	<b>102.7%</b>

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

<sup>16</sup> Figures in parenthesis are average share in 2011-12, 2012-13 and 2013-14.

The volatility of actual realised revenues as against those estimated shows the absence of robust forecasting systems. On the whole, there is a noticeable trend of under estimation of own source resources in revenue budgets reflecting lack of controls in this important area of liquidity planning.

Local taxes include land rent, produce cess, service levy and other levies on business activity. Land rent is collected by the local government authorities but the rate, structure, frequency of payment, penalty for non-compliance are decided by the Ministry of Lands, Housing and Human Settlements Development, Government of Tanzania. In case of Mtwara MC, actual land rent collection was 6.1% of the total own source collections in 2013-14. The LGAs only receives 30% commission on the amount collected. The Commission fee is reimbursed by the Central Government post transfers of collection receipts to the Central Government. Since land rent is not fully in the control of the LGA, it should not be included in the analysis. It should be excluded from the budget as well as actual own revenue collections. Therefore, the Land rent has been excluded in the analysis.

On an overall basis, nearly 153%, 58% and 102% of the budgeted LGA’s actual domestic revenue (or own source revenue) was collected in 2011-12, 2012-13, and 2013-14, respectively.

**Table 20: Summary rating for PI-3**

Indicator	Rating	Brief explanation
PI-3 Aggregate revenue out-turn compared to original approved budget	D	Actual domestic revenue was 153%, 58% and 102% of the budget revenue in 2011-12, 2012-13, and 2013-14 respectively.
Dimension (i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget		

### ***PI-4 Stock and monitoring of expenditure payment arrears***

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

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

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

It is noted that the above guideline is in line with the internationally accepted best practice as also referred to in the National PEFA Assessment of 2013 and the PEFA Field Guide 2012. Table 21 shows stock of arrears during 2011-12, 2012-13 and 2013-14.

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

Outstanding for	2011-12	2012-13	2013-14
1-3 months	122	77	521
3 to 12 months		-	-
Over 1 year	82.68	68	-
<b>As % of Total Expenditure</b>	<b>1%</b>	<b>0.6%</b>	<b>2.2%</b>

Source: Annual Financial Statements, 2011-12 (Unaudited), 2012-13 (Audited), and 2013-14 (Audited) Accruals have significantly grown in the last two years. In FY 2011-12 and 2012-13, payables were 1.0% and 0.62%, of total expenditure, respectively. This has grown up to 2.2% in FY 2013-14.

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

GoT is monitoring the 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<sup>17</sup>. With respect to recording of arrears, the key findings for LGAs were<sup>18</sup>:

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

As per new guidelines, accounting officers have now been directed to submit information of payment arrears first to the Chief Internal Auditor of the Local Government Authority who verifies the same on a monthly basis. The Auditor is then required to submit the signed report of arrears to the Internal Auditor General on or before the 10<sup>th</sup> 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.

<sup>17</sup>Three common LGAs were covered by the PER Study and this assessment, namely Kasulu DC, Sengerema DC and Mwanza CC

<sup>18</sup> Source: Final Report of the Study dated November 2014

**Table 22: Summary rating for PI-4**

Indicator	Rating	Brief explanation
<b>PI-4 Stock and monitoring of expenditure payment arrears</b>	<b>D+</b>	
(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	We have used ageing analysis for payables provided as arrears in line with the definition of arrears provided by MoF. The stock of payables for the past three years was between 0.6% and 2.2% of the total expenditure, which has increased in the last two years.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	D	In view of the findings of the PER study on arrears and given that reforms to reduce payment arrears have only recently been introduced at the LGA level such as defining what constitutes payment arrears and establishing formal mechanisms for reporting of arrears, the data on stock of arrears currently maintained by the LGA cannot be considered to be reliable.

### 5.3. Key Cross-Cutting Issues: Comprehensiveness and Transparency

#### PI-5 Classification of the budget

At the national level, the Central Government (Mainland Tanzania) migrated to the classification as per the Government Finance Statistics (GFS) Manual 2001 in its budget for 2009-10. All ministries, regions and independent government departments (including Zanzibar government) are using GFS 2001 classification. This was done through converting GFS 1986 based economic classification to GFS 2001 based classification after bridge tables were prepared for the budgets of those MDAs, regions and LGAs which were still in GFS 1986.

Budget for the Mtwara Mikindani MC is presently following 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). The LGA uses the planrep software for classification of the expenditure. Administrative classification is presented as cost center at 4 digit level. Economic classification is reflected by GFS codes at the six digit level.

We note that there are no specific stipulations for coding/classification in line with the GFS either in the Local Authorities Accounting manual (LAAM) or in the Local Government Financial



Memorandum (LGFM). However, Local government annual budgets are prepared as per the annual planning and budgeting guidelines issued by the Ministry of Finance, Government of Tanzania. As per the annual budget guidelines for 2013-14 issued by the Ministry of Finance, the plan and budget committees in each of the institutions is responsible for ensuring that activities are properly classified in accordance with the GFS codes 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 GFS manual 2001 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. For example Vote No. 77 stands for Mara region
2	Council	4	Council	Each council has its own code. e.g. 8017-Mtwara Mikindani MC
3	Cost center	4	Cost center	Represents sector/department, for example 500A stands for General Administration
4	Fund Type	1	Fund Type	Denotes nature of grants/ expenditure, e.g. 1 stands for recurrent and 2 for development
5	Fund Source	1	Fund Source	Classifies the source of funding, e.g. block grants, LGCDG, RWSSP
6	Project	4	Project	Stands for national projects, e.g. road rehabilitation, construction of irrigation schemes
7	Activity	6	Activity	Generated for each target in MTEF for which inputs are identified. Depicted as a combination of objective, target, target type and activity, e.g. B01S03
8	GFS	6	GFS Codes	Represents Government Finance Statistic (GFS) Codes, e.g. 210101-salaries/civil servant

S. No.	Code	No. of digits	Type	Example
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Source: PMO-RALG

### **Current and planned activities:**

With assistance from IMF, the GoT has prepared a road map for the introduction of formal programme based budgeting within the medium term framework. This will require significant simplifications of the budget classification system so that programme managers have the flexibility to manage their inputs effectively to meet the programme objectives.<sup>19</sup>

**Table 24: Summary rating for PI-5**

Indicator	Rating	Brief explanation
<b>PI-5 Classification of the budget</b>	<b>C</b>	
(i) The classification system used for formulation, execution and reporting of the local government's budget.	C	LGAs prepare budgets based on the classification in the 2001 GFS manual. A roadmap for introduction of formal programme based budgeting has been prepared. However, there is no clear evidence of functional classification in line with COFOG.

### **PI-6 Comprehensiveness of information included in budget documentation**

Annual budget documents presented to the Legislature ("Full Council" in case of LGA) 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 Mtwara Mikindani MC is based on the budget presented to the Full Council for FY 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 and received by Mtwara Mikindani MC on 10<sup>th</sup> December 2013. The Council submitted a consolidated budget book named "Medium Term Plan and Budget Framework for FY 2013/14 to 2015/16" to the Full Council on 19 December 2013. The document can be divided into four sections: (i) Introduction (Overview and Policy Statements); (ii) Environmental Scan; (iii) Budget Performance Review for FY 2011/12 and Mid-Year Review for FY 2012/13; and (iv) Estimates for MTEF (2013/14 – 2015/16).

<sup>19</sup> PEFA (National) 2013

The first section “Introduction” provides an overview of the Council and policy statements by the Honourable Mayor and the Council Director. The Section also provides a brief profile of the Mtwara Mikindani MC.

The second section, “Environmental Scan” provides an analysis of needs and expectations of various stakeholders from the budget. The stakeholders include Mtwara Mikindani MC employees, residents of Mtwara Mikindani MC, lower level government authorities of Mtwara Mikindani MC, Mtwara Regional Secretariat, PMO-RALG, sector ministries of United Republic of Tanzania, development partners, political parties, and NGOs/CBOs. The Council also conducts a SWOT (Strength, Weaknesses, Opportunities and Threats) analysis related to the general environment of the Municipal. The section also explains the key issues faced by the district. This is followed by the Council’s institutional perspectives including: vision; mission; objectives; policies and strategies.

The third section on “Budget performance review” outlines the fiscal performance of the Municipal as well as the achievement of physical targets in the preceding completed year (11-12). It also provides a mid-year performance review in the current financial year (13-14) till December. The comparison between budgeted and the actual performance is provided at an aggregate level. Performance against the physical targets is also provided. The Council also states key challenges in implementing the plan for the ongoing financial year and strategies for overcoming them.

The fourth section “Estimates for MTEF” provides the projected revenues and expenditure for three years 2013-14, 2014-15, and 2015-16 at a detailed level. In 2013-14 MTEF document there are 16 forms outlining different information on revenue and expenditure. Table 25 provides assessment on each of the required information benchmarks.

The budget documentation evaluated under this indicator includes the consolidated budget book which was presented to the Full Council for 2013-14.

**Table 25: Information provided in budget documentation**

S. No.	Dimension	Availability	Notes
1.	<b>Macroeconomic assumptions:</b> including at least estimates of aggregate growth, inflation and exchange rate;	NA	While macroeconomic assumptions, economic growth, exchange rate and inflation are included in the Central Government budget documentation, inflation and economic growth for each region in the country differs from the national assumptions. These assumptions would have bearing on the projections for own source revenue of the District Council, but are not included in the consolidated budget book.
2.	<b>Fiscal deficit:</b> defined according to GFS or other internationally recognized standard;	NA	Macroeconomic assumptions, economic growth, exchange rate and inflation are included in the Central Government

S. No.	Dimension	Availability	Notes
			budget documentation and are hence, not applicable at the LGA level.
3.	<b>Deficit financing:</b> describing anticipated composition;	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
4.	<b>Debt stock:</b> including details at least for beginning of the current year	No	LGAs are allowed to borrow as per the Constitution of Tanzania and the conditions are stipulated in Section 14 and 15 of the LGFA. Mtwara Mikindani MC also had a debt of TZS 32.5 million outstanding as per the Annual Financial Statement for the year FY2013-14. The budget documents submitted to the legislature does not contain information on debt stock.
5.	<b>Financial assets:</b> including details at least for the beginning of the current year;	No	Information on the stock of LGA's financial assets (such as bank balances) is not provided in the budget for FY2014-15.
6.	<b>Prior year's budget out-turn:</b> presented in the same format as the budget proposal;	Yes	Prior year's budget outturn is provided at an aggregate level and for specific items of expenditure in the consolidated budget book. These include items such as recurrent expenditure on local government block grant, HSBF, and recurrent revenue collections.
7.	<b>Current year's budget out-turn:</b> presented in the same format as the budget proposal;	Partially complied	Budget guidelines require LGAs to present actual performance for first half of current year's budget and likely outturn for remaining part. In case of Mtwara Mikindani MC, performance up to December of the current financial year is provided with no forecasts for the remaining year.

S. No.	Dimension	Availability	Notes
8.	<b>Summarised budget data:</b> for both revenue and expenditure according to the main headings, including data for the current and previous year;	Partially complied	Summarized budget data for both revenue and expenditure as per the main headings is provided for the prior year. But in case of current year, information is provided only till December.
9.	<b>Explanation of budget implication of new initiatives:</b> with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	No	The budget document does not provide any statement/section listing down new policy initiatives in ensuing financial year and their budgetary implications. The policy statement by the Council Chairman outlines the broad development goals of the council in the medium term and specific goals for the ensuing budget. The statement by the Council Director also mentions focus areas for the ensuing budget. However, the expected budgetary implications of these are not articulated.

**Table 26: Summary of rating under PI-6**

Indicator	Rating	Brief explanation
<b>PI-6 Comprehensiveness of information included in budget documentation</b>		
(i) Share of the above listed information in the budget documentation most recently used by the local government	C	Of the six information benchmarks applicable, only one element is fully provided in the budget documentation.

### **PI-7 Extent of unreported government operations**

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

The assessment team ascertained that certain equipment such as specific drugs are being supplied by the GoT’s Medical Stores Department (MSD) directly to hospitals/health centres. These are not included in the LGA’s budget, but the expenses are budgeted in the Central Government’s (Ministry of Health’s) budget. These transfers are not accounted for in the LGA’s in-year budget reports, however, they are accounted for in the LGA’s annual financial statements as ‘receipt in kind’.

The financial value of these contributions is included in the MTEF documentation though not in the fiscal reports.

It is understood from discussions with DC officials that a small proportion of development expenditure is also financed through community contributions under their respective community benefiting projects. The financial value of these contributions is included in the MTEF documentation though not in the fiscal reports.

In view of the community contributions and transfers from MSD which are reflected in the MTEF and/or AFS but not in both, these have been treated as extra budgetary expenditure for the LGA. In 2013-14, the value of these receipts constituted 0.09% of the expenditure of the Mtwara Mikindani MC as indicated in Table 27.

**Table 27: Extra-budgetary expenditure, 2013-14**

Category	Reported in			Meets eligibility for extra-budgetary expenditure	As % of total expenditure 2013-14
	MTEF 2013-14	AFS 2013-14	Quarterly Financial Report, 2013-14		
Drugs/ Equipment from MSD	No	Yes	No	Yes	0.06%
Community Contributions	No	No	No	No	NA
Total					0.06%

There are also some NGOs currently working in Mtwara Mikindani MC providing support directly to the beneficiaries. The funds/in-kind support is not routed through the Council. The assets created through these interventions are later on entered in the financial records of the Council, once these are handed over after completion of construction, as Council assets at Council's own revalued amounts. With the available information, the level of unreported extra-budgetary expenditure is insignificant.

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

As per discussions with Council officers, for 2013-14, practically all donor funded project expenditure was routed through the central government budget and included in the District Council's MTEF and annual financial statements. There was a notable exception for funding by the (i) Elizabeth Glaser Paediatric AIDS Foundation (EGPAF); and (ii) Tanzania Health Promotion Support (THPS). Both of these organisations were channelling their funds directly to the Council. However, since funds from EGPAF and THPS contributed to less than 1% of the total expenditure of the District Council in 2013-14 and are hence, insignificant, they have not been included in the assessment for this dimension.

**Table 28: Summary of rating under PI-7**

Indicator	Rating	Brief explanation
<b>PI-7 Extent of unreported government operations</b>	<b>A</b>	
(i) Level of extra-budgetary expenditure (other than donor-funded project), which is unreported, i.e. not included in fiscal reports	A	Supplies from MSD contributing to 0.06% of the total expenditure of the LGA in 2013-14 were the only identifiable extra –budgetary operations of the LGA. Therefore, the level of unreported extra-budgetary expenditure is insignificant.
(ii) Income/expenditure information on donor-funded projects included in the fiscal reports	NA	All donor funds are routed through the central budget and direct donor funding from EGPAF and THPS to the LGA is minimal comprising less than 1% of total Council expenditure in 2013-14.

### **PI-8 Transparency of inter-governmental fiscal relations**

This indicator assesses the transparency of transfers from local governments to lower levels of government (i.e., wards) during the last completed financial year 2013-14. As per MTEF 2013-14, Mtwara Mikindani MC comprises of two divisions, 15 wards, and 85 Mitaa (Hamlets).

As per the discussion with the council officials, lower levels of governments do not have their own sources of revenues but are permitted to collect revenue on behalf of the LGA. All of the expenditure at the lower level government is financed by transfers from the LGA or some in-kind transfers (such as drug supplies) from the Central Government. The council in turn finances its expenditure through own sources of revenue as well as grants from the Central Government.

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

Table 29 below gives the nature of the resources transferred to the LLGs during FY 2013/14 and the contemplated rationale for such transfers as per the present systems for devolution of such resources.

**Table 29: Funds transfer to lower levels of governments and criteria, TZS million**

S. No.	Transfer item	Purpose	Rationale for transfer
1.	Health Sector Basket Fund (HSBF)	Renovation of health facilities, procurement of	Transfers to health centers are made as per the budget submitted. A

S. No.	Transfer item	Purpose	Rationale for transfer
		medicines and administrative cost for health facilities	significant portion of these funds are retained at the LGA level.
2.	Primary Education Development Programme (PEDP) and Secondary Education Development Programme (SEDP)	Funds for overall development of primary and secondary education	<p>Capitation grant: 100% transferred-distributed to units by equal amount for each student in primary schools</p> <p>Construction of classes, toilets, and staff offices: No money is transferred to primary schools and all procurement is done at the LGA level only</p>
3.	Tanzania Commission on AIDS (TACAIDS)	Support in terms of procuring medicines and syndromes for cure of HIV-AIDS	<ul style="list-style-type: none"> <li>- Part of TACAIDS money is distributed to community based organizations by the coordinator and rest is used at the district level</li> <li>- Allocation of money to be spent at the city level and to be distributed among CBOs based on the budget proposal submitted by CBOs</li> </ul>
4.	District Agricultural Sector Investment Project (DASIP)	For increasing productivity and incomes of rural households in the project areas	<ul style="list-style-type: none"> <li>- Transfers to Village Councils determined through local participatory planning and budgetary processes</li> </ul>
5.	District Irrigation Development Fund	To increase irrigation facilities in the District	As per the budget/plan submitted to the Council.
6.	Local Government Capital Development Grants		50% of the Central Government transfers under the programme is to be spent at the council level and 50% is to be transferred to lower levels of government. Distribution across LLG is through local participatory planning and budgetary processes.
7.	ASDP	For Agriculture development	<p>Funds are transferred only to communities. And these transfers are based on the budget/plan submitted by these communities.</p> <p>At the council, expenses include supervision cost, and in some cases procurement of goods.</p>



S. No.	Transfer item	Purpose	Rationale for transfer
8.	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.
9.	Other charges	Operational cost	<ol style="list-style-type: none"> <li>1. General Purpose Grants: 20% of funds received are transferred in equal proportion to all LLGs</li> <li>2. LGA's own source money for OC is transferred based on budget submitted by wards.</li> </ol>

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 cannot be implemented in practice.

Moreover, as Table 12 shows, there is a variation of about 68% 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 does 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 Mtwara Mikindani MC officials, lower level governments (i.e.,LLGs) start preparing their annual budget proposals in September for the next financial year. These proposals go through various levels of approval and reach the concerned Local Government Authority in December- January. The budget of the LGA is approved by Full Council in February and is subsequently submitted to the Central Government.

In the last completed financial year (2013-14), in the absence of information from the Central Government on expected allocations for the ensuing financial year, LLG were required to prepare estimates based on the ceilings for the preceding financial year. Actual approved transfers from the Central Government were only finalized by June in the budget year.

It is to be noted that while LGAs do submit their cash flow plan at the beginning of the financial year, Central Government transfers are based only on the availability of resources. During the financial

year, no advance notification is given to LGAs on actual transfers. Given the uncertainties in funds flows from the Central Government which, in turn, impacts transfers made by LGAs to LLGs, reliable information on transfers cannot be made available to the LLGs even after the start of the financial year.

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

Service delivery units such as secondary schools and health facilities have the authority to charge fees. Expenditure by such entities is incurred with prior approval from the LGA. Information on revenues of these entities is expected to be shared with the LGA through monthly financial reports and bank statements. However, instructions for these reports do not specify relevant GFS account codes as adopted by the LGA.

It is understood from discussions that Mitaa Councils do not submit periodic fiscal reports to the Municipal Council. All transfers made to Mitaa Councils are accounted for as expenditure in the LGA’s accounts.

**Table 30: Summary of rating under PI-8**

Indicator	Rating	Brief explanation
<b>PI-8 Transparency of inter-governmental fiscal relations</b>	<b>D</b>	
(i) Transparent and rules based systems in the horizontal allocation among LLGs of unconditional and conditional transfers from LGAs (both budgeted and actual allocations)	D	Rated in line with clarifications received from Secretariat and PMO-RALG. In the absence of clarity/guidelines on revisions to allocations disbursed to LLGs in the event of budget cuts in grants from the Central Governments, all LGAs have been rated D for this dimension
(ii) Timeliness of reliable information to LLGs on their allocations from LGAs for the coming year	D	No ceilings/reliable estimates on allocations are provided ahead of finalization of budget proposal. At the budget execution stage as well, no advance information is provided to lower levels of governments on expected transfer of funds.
(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is	D	The classification of information on budgeted and actual revenue and expenditure received from these LLGs in not in line with the GFS classification.

Indicator	Rating	Brief explanation
collected and reported for general government according to sectoral categories		

**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 Mtwara Mikindani MC.

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 LGAs to take financial risk in case of financial distress at the Authority level. 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. All reporting by the WSSAs to the LGAs is done through the Municipal Director who is a member on the Board of the concerned WSSA as a representative of the Municipal.

**(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 Council may direct in writing.

However, all LLGs are substantially dependent on fund transfers from the LGA/ Central Government and are required to submit reports on revenue collected and expenditure incurred on monthly basis to the Council. As per discussions with MC officials, it is understood that there is no independent borrowing done by any of the LLGs in the Municipal. In addition, annual accounts of the village council are also submitted to MC. These reports are also consolidated in annual expenditure/revenue of the Council reflected in the annual financial statements. However, the AFS of the MC does not contain a separate statement on revenue and expenditure of the LLGs nor a consolidated overview of the fiscal position of LLGs

**Table 31: Summary of rating under PI-9**

Indicator	Rating	Brief explanation
<b>PI-9 Oversight of aggregate fiscal risk from other public sector entities</b>	<b>C</b>	
(i) Extent of local government monitoring of autonomous government agencies and public enterprises	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 Mtwara Mikindani MC.
(ii) Extent of local government monitoring of lower levels of governments' fiscal position	C	On a quarterly basis, meeting minutes capturing details on revenue and expenditure of the LLGs are submitted to the concerned LGA. Information on receivables and payables of the LLG is also included in these minutes. Additionally, on an annual basis, LLG accounts are submitted to the LGA 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.**

The indicator assesses the extent to which relevant information on local government’s financial health, its operations are available to the public.

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.

In line with the requirements of Component 3 of the LGRP II “Enhanced Citizen Participation and Accountability”, Mtwara Mikindani MC has developed a pilot website ([www.mtwaramikindanimc.go.tz](http://www.mtwaramikindanimc.go.tz)). Although most of the contents are yet to be published on the website, the structure and layout is already there. When fully functional, the website will have the following information: guidelines for various activities undertaken by the Council; Council’s budget; CAG reports; By laws; Policies; Speech; Newsletters; Leaflets; Strategic Plans and various reports.

In Table 32 we assess performance of Mtwara Mikindani MC as regards information dissemination.

**Table 32: Public access to key fiscal information**

S. No.	Item	Available	Notes
1.	Annual budget documentation submitted to council	Yes	Summary of the budget by village and ward is put up on the notice board of the district council.
2.	In-year budget execution reports within one month of completion	No	Quarterly revenue and expenditure information are prepared and discussed in council meeting which include community members. However, these reports are not put up on the notice board.
3.	Year-end financial statements within six months of completed audit	Yes	The annual financial statement for 2012-13 was published in the Mwananchi newspaper on 3 August 2014. The report was issued by CAG in March 2014.
4.	External audit reports within six months of completed audit	Yes	In the last completed financial year (2013-14), the CAG audit report for 2012-13 was issued in March 2014 and was published in Mwananchi newspaper on 3 August 2014.
5.	Contract awards with value above approx. TZS 50 million at least quarterly	Yes	Summary of all contract awards are published in Public Procurement Regulatory Authority's (PPRA's) weekly journal on PPRA's website.
6.	Resources available to primary service units	Yes	The team was informed that the summary of resources transferred to and available at facilities is displayed outside the facility and the Municipal Council office. The team confirmed this information at the MC notice board.
7.	Fees, charges and taxes	No	We were informed that council bye-laws are available with the Municipal Treasurer and provided to the taxpayers along with the demand note. However, these are not explicitly published on the notice board or through other accessible means.
8.	Service provided to communities	No	Information on services provided to communities could not be found on the Municipal Council's notice board.

**Table 33: Summary of rating under PI-10**

Indicator	Rating	Brief explanation
<b>PI-10 Public access to key fiscal information</b>	<b>B</b>	

(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)	B	Out of the eight applicable criteria, five items are available for public access.
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## 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

The timetable for budget submissions by the LGAs is specified in the budget calendar issued by the Central Government. Each LGA, Mtwara Mikindani MC in this case, does not prepare/ issue a separate budget calendar to the spending units under it. **Table 34** shows the relevant sections of the budget calendar as per the Central Government’s guidelines for 2014-15.

**Table 34: Relevant sections of the budget calendar as per budget guidelines 2014-15**

Date as per the calendar	Main Activity	Key Actors	Actual Date of receipt/actions by Mtwara Mikindani MC
August-October, 2013	Preparation of plan and budget guidelines	Ministry of Finance (MOF), PO-PC	-
November-December, 2013	Circulation of guideline to ministries, regional and local government authorities (LGAs)	Ministry of Finance (MoF), President’s Office – Planning Commission (PO-PC)	10 December 2013
07 <sup>th</sup> of January, 2014	MDAs, RS and LGAs to get budget ceilings for the fiscal year 2014-15	MoF	Not available
08 <sup>th</sup> -28 <sup>th</sup> 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	Budget estimates submitted to PMO-RALG and MoF on 24 December 2013
29 <sup>th</sup> of January-11 <sup>th</sup> 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	Not available

Though the budget calendar for 2014-15 was received by the Municipal Council only on 10 December 2013, instructions to LLGs, line departments and programme coordinators for initiation of preparation of budget proposals were issued on 6 September 2013 by the MMC so as to ensure timely completion of budget review and negotiation processes at the LGA level. It should be noted that these instructions were based on the previous budget year guidelines.

Review of the budget preparation schedule reveals that majority of the budget preparation process is completed by the time guidelines are received by the Council. The proposal from Village and Wards are received based on previous year guidelines. The budget proposal is submitted to the Central Government for discussion within two weeks of the receipt of the relevant budget circular.

## **(ii) Guidance on the preparation of budget submissions**

Guidelines issued to LLGs for preparation of budget proposals for 2014-15 in line with the O&OD methodology did not contain indicative fresh budgetary ceilings for administrative units or functional areas and instead recommended the use of previous year allocations as ceilings.

Budget circular issued to the LGA does not contain budgetary ceilings for the ensuing financial year. Budget proposals from LLGs undergo several rounds of revisions before finally being presented to the Full Council for submission to MoF. The LLGs submit their proposals to the respective line departments at the Municipal level by the Municipal Planning and Logistics Officer (MPLO). 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 municipal 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 LLGs/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 35 shows relevant dates for approval of the budget.

**Table 35: Final budget approval dates**

<b>Year</b>	<b>Date of approval by council</b>	<b>Date of approval of budget by the national assembly</b>
2012-13	13 <sup>th</sup> of April, 2012	14 <sup>th</sup> June 2012
2013-14	29 <sup>th</sup> of January, 2013	12 <sup>th</sup> June 2013
2014-15	24 <sup>th</sup> of December, 2013	13 <sup>th</sup> June 2014

**Table 36: Summary of rating under PI-11**

Indicator	Rating	Brief explanation
<b>PI-11 Orderliness and participation in the annual budget process</b>	<b>C+</b>	
(i) Existence of and adherence to a fixed budget calendar	C	In the absence of a separate budget calendar issued by LGAs, this dimension has been assessed on adherence to the timelines of the calendar issued by MoF. Majority of the budget preparation process at the LGA level is completed before receipt of the guidelines. The budget proposals are submitted to the Central Government within in two weeks of receipt of the relevant budget circular which does not contain ceilings.
(ii) Guidance on the preparation of budget submissions	D	While Mtwara Mikindani MC does issue guidelines to spending units, these do not contain fresh budget ceilings for administrative units or functional areas for the ensuing financial year. As per the discussions with the Council staff, the Departments are advised to use previous year ceilings as the base for preparation of budget proposal for ensuing 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;**

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

Mtwara Mikindani MC, in line with the guidelines, prepares revenue and expenditure estimates for three years. These forecasts are prepared as per the classification prescribed under GFS Manual 2001. As per the Mtwara Mikindani MC, the forecasts for years following the budgeting year are prepared without any scientific analysis of development priorities and resource availability. Rather, the forecasts are only an extrapolation of budgeting year figures. . This was corroborated in discussions with the Department of Planning of Ministry of Finance, wherein Department officials stated how LGAs do not consider medium term estimates seriously and these are provided only for meeting budget guidelines requirements.



Consequently, forward year forecasts are not used as a starting point when preparing the budgets for that year. Instead, as specified in the budget guidelines issued by MOF, previous years approved budget is used as the ceilings for preparing the budget for the ensuing financial year.

However, since multi-year forecasts are made annually and therefore, the years of their coverage are overlapping, they can be considered to be prepared on a rolling basis.

## (ii) Scope and frequency of debt sustainability analysis

Table 37 shows debt for Mtwara Mikindani MC in the last three years. The amount of total debt has been reducing every year and in 2013-14, the Council did not have any long term borrowing outstanding. There is no evidence of any debt sustainability analysis conducted by the LGA, and this is considered to be because debt amount has been negligible.

**Table 37: Debt, 2011-12 to 2013-14, TZS million**

	2011-12	2012-13	2013-14
Debt	82.7	68.2	32.6
Current portion of long term loan	62.1	62.1	32.6
Long-term borrowing	20.6	6.1	0

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

## (iii) Existence of costed sector strategies

Mtwara Mikindani MC has a five year strategic plan (2013 to 2017). The Strategic Plan provides sectoral objectives, quantifiable targets, strategies and key performance indicators. However, there is no overall costing of interventions in the strategic plan.

## (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. LGA's 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 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
<b>PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting</b>	<b>D</b>	

Indicator	Rating	Brief explanation
(i) Preparation of multi - year fiscal forecasts and functional allocations	C	Forecasts of all line items are prepared as per the classification prescribed under GFS Manual 2001 on a rolling basis for three years. However, there are no links between multi-year estimates and subsequent setting of annual budget ceilings.
(ii) Scope and frequency of debt sustainability analysis	D	Mtwara Mikindani MC had an outstanding debt of TZS 32.6 million in 2013-14. There is no evidence of any debt sustainability analysis either in the financial statements or as a part of any separate document. This is considered to be because debt amount has been negligible.
(iii) Existence of costed sector strategies	D	There is strategic plan reflecting the development priorities of the LGA. These strategies are however, not sector specific, Also, costing of activities is (i) for the entire Plan period, i.e. not done on an annual basis, (ii) does not specify the investment and recurrent cost implications, (iii) is not revisited annually to ensure consistency with fiscal forecasts.
(iv) Linkages between investment budgets and forward expenditure estimates	D	Forward budget estimates are not prepared through any scientific analysis. There are no linkages between investment budgets and forward budget estimates.

### 5.4.2. Predictability and Control in Budget Execution

As per the sub-national guidelines for PEFA assessment, performance indicators (13-15) are applicable to entities which raise revenue through taxes or other forms of revenue similar to taxes as per IMF GFS (2001) manual. As per para 5.2 of the GFS Manual 2001, tax revenue is composed of compulsory transfers to the General Government sector. Certain compulsory transfers, such as fines, penalties, and most social security contributions, are excluded from tax revenue. We have also identified revenue sources which meet 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<sup>129</sup>**

S. No.	Revenue item	Included/excluded as “Tax Revenue”	Rationale
1.	Property tax	Included	As per para 5.40, property taxes are charged as a percentage of the value of the immovable properties which include buildings and other structures.

S. No.	Revenue item	Included/excluded as "Tax Revenue"	Rationale
2.	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.
3.	Produce cess	Included	As per para 5.48 of the GFS manual, tax revenue includes taxes charged on <i>production</i> , leasing, delivery, sale, purchase, or other change of ownership of a wide range of goods and the rendering of a wide range of services. Produce cess is a levy on agriculture produce. There are various kinds of produce cesses. These include cess for (i) Cashew nuts (ii) sesame (iii) Coconut (iv) ocean produce and (v) other produce.
4.	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.
5.	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.
6.	Hotel levy	Not included	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.
7.	Service levy	Included	Unlike forest levy, it is charged as well as collected by the LGA themselves; therefore it is being included since it does not call for providing corresponding services in lieu of the receipts of funds.
8.	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 for the current assessment of Mtwara Mikindani MC (i) Property Tax; (ii) Cashew Nut Cess Fees; (iii) Other Crop Cess Fees (iv) Service Levy; and (v) Hotel/ Guest House Levy. Given that Guest House levy has been abolished, it has not been considered for the analysis of PI-13, PI-14 and PI-15.

### 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 byelaw and/or main law (Central Government legislation). In case mainlaw lapses, the relevant byelaw at the LGA level automatically becomes invalid.

Part IV of the LGDA act gives powers to district councils to make their own byelaws. Mtwara Mikindani MC has separate byelaws that govern other taxes and levies including service levy; property tax; cashew nut crop cess and other crop cess. These are called: (i) “Mtwara Mikindani Municipal Council Byelaws (Levy and Markets), 2010”; Mtwara Mikindani Municipal Council (Service Levy) By-laws of 2011 and Mtwara Mikindani Municipal Council (Property Taxes) By-laws of 2011.

**Table 40: Legislative framework of taxes/fees**

S. No.	Source of revenue	Byelaws	Main law	Details
1.	Produce Cess		√	Byelaws: This is said to include cashew nut and other crops. Main-law: Section 7(1) (g) of the Local Government Finance Act, 1982 provides for up to 5% of the farm-gate price.
2.	Service levy	√	√	Byelaws include it at 0.03% of turnover. Main-law: Section 7 (1) z) of the Local Government Finance Act, 1982
3.	Property tax	√	√	Main-law: Section 7(1)(y) of the Local Government Finance Act, 1982 Property tax is charged at the flat rate depending on the location of the property and property use i.e. residence, business or both.

The legislation does not provide for administrative discretionary powers to the tax collectors.

In case of Service Levy, the law provides for imposition of 0.3% of turnover on all economic activities in the Council including manufacturing, agricultural production, distribution of goods, rendering of services, and commerce. The actual amount of service levy to be paid is based on the financial returns shared by the payees. Once taxpayers submit the financial returns to the revenue collecting officer, the Officer may either (i) accept the financial accounts and later evaluate the service levy

based on assumptions, or (ii) in case of doubt, the Officer is empowered to estimate the service levy using his judgement.

As per the discussion with Council officials as well, it is informed that there are cases where taxpayers enter into a compromising agreement with the tax collector on the tax payments. There are situations where tax as assessed by the LGA varies from tax payer's assessment. These differences mainly emerge from the differences in the value of turnover. In these cases, the representative LGA enters into a mutual settlement with the tax payer. This practice introduces a discretionary element which has to potential to lead to loss of revenue for the Council.

It is noteworthy however that the CAG in his Management Letter for FY 13/14 has indicated that the basis for assessment of property tax is not correct as the Council charges the tax based on the location, type and size of the building rather than value of the building.

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

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

Section 161 (1) Local Government District Authorities Act, 1982, mandates that every byelaw 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. The Bylaws are not available on the Mtwara Mikindani MC's website nor on the notice board. Any queries related to taxes/fees/levies are to be made to the Municipal Treasurer or the Revenue Accountant. The assessment team was informed that the council strives to inform taxpayers on tax liabilities and administrative procedures through following means:

- a) Full council meetings: Through regular full council meetings, the Councils discuss with the general public on the taxes/fees/levies applicable, rate and procedures for payments;
- b) Ward executive officers educate the target population on various taxes/levies/fees applicable;
- c) Tax education campaigns conducted by Social Workers.

As per recent studies made on key issues in revenue mobilization<sup>20</sup>, 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 Mtwara Mikindani MC specifically. However, keeping in mind

- the absence of a computerized tax information system, and

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<sup>20</sup> Revenue Mobilisation Issues in the Tanzania LGAs by Siasa Issa Mzenzi, Tanzania Country Level Knowledge Network-Policy Brief No 7, 2013.

- the lack of adequate resources to disseminate knowledge of the various taxes and their procedural and administrative requirements,

it can be concluded that the existing operating environment may not encourage accessibility of taxpayers to the nuances of the taxes as regards their nature, conditions and their administrative requirements for collections.

### (iii) Existence and functioning of a tax appeals mechanism

At the municipal level, there is Council Complaints Officer who is the nodal person for all governance related complaints including taxes. The Complaint Officer is appointed by the Council Director, in consultation with the head of Administration Department. The Officer reports to the Head of the Administration Department. The Officer is only responsible for receiving and recording complaints received from various stakeholders and directing them to the responsible personnel within the Council. The Officer is not authorised to provide official responses to the complaints but can provide clarifications. These complaints are discussed during the management meeting.

In case the complainer is not satisfied with resolution, he/she can approach the municipal court or the Regional Administrative Secretariat. In addition, one of the bodies the applicant can appeal to is the Prevention and Combating of Corruption Bureau (PCCB)<sup>21</sup>.

The Municipal Director is the administrative head of the council and is involved in tax assessment indirectly, therefore there is lack of independence in dealing with complains. Furthermore, the procedures for tax appeal are not documented and no timelines are provided for council’s response to the appeal.

**Table 41: Summary of rating under PI-13**

Indicator	Rating	Brief explanation
<b>PI-13 Transparency of taxpayer obligations and liabilities</b>	<b>D+</b>	
(i) Clarity and comprehensiveness of tax liabilities	D	In case of service levy collection, there appear to be elements of administrative discretion provided in existing byelaws in assessing tax liabilities. Service levy collection officers often enter into mutual agreement with the taxpayers where differences in tax liabilities are noticed; while property tax is charged on a flat rate instead of property value.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	C	Some organised access by taxpayers to the nature and requirements of taxes exists through council meetings/education by ward officers but this appears to be seriously deficient due to lack of comprehensiveness

<sup>21</sup> PCCB’s scope of operations includes examination of the practices and procedures of public organizations (including LGAs), in order to facilitate the detection of the corruption or prevent corruption and secure the revision of the methods of the work or procedure which appear to add to the efficiency and transparency of the institution concerned.

			and as revealed by the end results of tax collections from own sources.
(iii)	Existence and functioning of a tax appeals mechanism	D	We were informed that currently, first point of contact for tax related complaints was the Municipal Director who is indirectly involved in tax assessments and hence assumed not to be independent in dealing with complains. We did not come across any evidence of a functioning tax appeals mechanism at the LGA level in Mtwara Mikindani MC.

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

#### **(i) Controls in the taxpayer registration system**

Mtwara Mikindani MC has in place the Local Government Revenue Collection Information System (LGRCIS) which has been developed as part of a World Bank funded project. LGRCIS, which is currently being rolled out on pilot basis in a few LGAs, is centrally controlled by PMO-RALG and is connected to the LGAs through GIS. Mtwara Mikindani MC uses the LGRCIS for Service Levy and thus businesses operating within the Mtwara Mikindani MC are registered on this system. The system issues an ID Number for all registered business. However, the system is currently not fully functional. For example, it is unable to issue demand notices and therefore the Council issues demand notices manually to businesses.

The LGA also has an Integrated Tax Management (i-tax) system. The System, has an electronic database of taxpayers. As per the report on implementation of i-tax, the system allows the taxpayers to pay taxes in one place. It also allows the Council to monitor the payments and maintain proper records of taxes paid. However, this system is also currently not functioning and therefore not being used because of multiple issues, including (i) the system was not yet fully installed; (ii) those components that were already installed, there was no staff who was trained on how to use and operate; and (iii) connectivity was also an issue at certain times. There are no databases for produce cesses such as cashew nut crop cess and cesses on other crops.

Both the LGRCIS and i-tax are not linked to any other database such as business license for better monitoring of tax compliance. The databases when used are supplemented by the information provided by Tanzania Revenue Authority (TRA) database for the Council. TRA provides turnover of each business in the Council.

However the PEFA 2013 highlighted gaps in TRA database. A study conducted by TRA confirmed that significant part of the large informal sector is not captured in the database. In case a business entity is included in Council's own database but is not reflected in TRA database, the Council approaches TRA for further details (such as turnover). Each taxpayer in the country is required to have a Tax Identification Number. It is being reported that some businesses in the district have TIN but small businesses do not have any TIN. It was also informed to the assessor that level of compliance in case

of service levy is low. This is majorly due to lack of complete information on evaders and absence of voluntary payment.

The CAG in his Management Letter for FY 2013-14 has indicated a number of control weaknesses in Council's taxpayer registration system. For example, the report indicates that:

- A test check of the property tax register and physical visit to verify the effectiveness and efficiency of property tax collections noted that buildings located in four specific locations were not included in the property tax register and therefore no taxes were collected from buildings in those four areas for a long period of time;
- Although the Council maintains the property tax register, it has not been regularly updated with amount of tax paid by taxpayers and amounts that are outstanding. Also, the basis for assessment of tax is not correct as the Council charges the tax based on the location, type and size of the building rather than value of the building;
- A review of the service levy register maintained by the Council revealed that register had missed important information as required by the LAFM 2009 including: name of the company; type of business; location and address; assessed returns; amount payable; and date of assessment. Names of some of the major companies operating in Mtwara Mikindani MC were also missing.

The assessment team was informed that Mtwara Mikindani MC has not conducted any specific taxpayer survey in the last few years.

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

At Mtwara Mikindani MC, there is no regulation mandating the taxpayer to register with the LGA. Thus, no penalties are provided in case the taxpayers do not register themselves with the Council. However, there are penalties for incorrect information. The byelaws provide for penalties as follows: general defaulters of property tax are fined TZS 50,000 and/or provided a jail term of 12 months or in some cases both. In addition, they are charged general damages as well; defaulters of service levy are charged a penalty of 15% to be paid along with the tax payable. Additionally, the agents that make late submission of their collection as according to the contract signed with the Council, they are required to pay that amount owed to council and add 50% of daily amount agreed with the Council. However, The Mtwara Mikindani MC byelaws do not provide for any penalties for non-compliance with registration for the related tax. However, the Council could not produce any evidence of cases where taxpayers were convicted in line with the byelaw requirements.

In absence of (i) a regularly updated and comprehensive taxpayer registration system, and (ii) accurate information on business activities of service taxpayers in the District, the Council has no way of effectively imposing penalties for non/ incorrect declaration of liabilities by taxpayers.

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

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



**Table 42: Summary of rating under PI-14**

Indicator	Rating	Brief explanation
<b>PI-14 Effectiveness of measures for taxpayer registration and tax assessment</b>	<b>D+</b>	
(i) Controls in the taxpayer registration system	D	The LGRCIS is still being piloted and yet to be stabilised, whilst the i-tax system is non-functional. The Council supplements their own databases with reference to TRA database which we understand is also still subject to various weaknesses.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	No registration requirements are provided, and hence penalties are also not provided for its non-compliance. However, penalties for non-compliance with declaration and payment obligations relating to these taxes are articulated in the Byelaws.
(iii) Planning and monitoring of tax audit and fraud investigation programs	D	There are said to be surprise visits to the taxpayers. But there is no comprehensive and documented audit plan nor any risk assessment criteria to select the tax evaders.

**PI-15 Effectiveness in collection of tax payments**

**(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)**

As per our discussion with the Municipal Council, there is no database on tax arrears. The Annual Financial Statements do not include any receivables under taxes. Therefore a comprehensive recording of tax arrears is not in existence. Lack of systematic revenue arrears tracking system affects the overall revenue collection efficiency.

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

Table 43 shows details on frequency of transfer of collected amount to the treasury for various cess/levies. Some cesses/levies are transferred to the treasury on a daily basis and some are transferred on monthly basis. In case of cashew nut crop cess, the frequency of transfer to the treasury depends on the Agriculture Marketing Cooperative Society. The assessment team was informed that the frequency of transfers to the LGA for cashew nut crop cess is erratic and does not follow any pre-determined timelines.

**Table 43: Frequency of transfer of collected amount to the treasury**

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: 2. 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.	Daily, as and when the transaction is processed and chasing is ad-hoc using field officers who are responsible for following up collections.
Property taxes	Revenue accountant and Trade officer	Revenue accountant and trade officer in assistance from the Municipal Community.	Daily, as and when the transaction is processed and chasing is ad-hoc using field officers who are responsible for following up collections.
Cashew nut Crop Cess (Produce cess)	Agriculture Marketing Cooperative Society	Agriculture Marketing Cooperative Society	No frequency, depending on time of transfer from the Agriculture Marketing Cooperative Society
Other crop cess (Produce Cess)	LLG officers	LGA officers including revenue accountant, agriculture and planning officers	Monthly.

It should be noted that funds are transferred to Own Source Revenue account only. Section 39 (2) of the Local Government Finances Act, 1982 requires the Municipal Council not to spend through own source revenue account. In case of spending from the revenue collected, the amount should be transferred from the own source revenue account to other spending accounts (such as development account, Road fund). The assessment team was informed that twice per week transfers are made from own source revenue account to the spending accounts (i.e., Tuesday and Thursday). This is irrespective of requests made by sector departments, transfers are made only on the specified days. Therefore, the transfers are made on different frequencies (daily/monthly/less regularly than monthly).

**(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 (e.g. income tax, VAT). It was informed that in the absence of any information of arrears and adequate assessments, there is no reconciliation performed between tax assessments, collections, arrears records and receipts by the treasury. However, reconciliation between tax collected and amount transferred to treasury is done on a monthly basis.

**Table 44: Summary of rating under PI-15**

Indicator	Rating	Brief explanation
<b>PI-15 Effectiveness in collection of tax payments</b>	<b>NR</b>	
(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	Data available on tax arrears is not sufficient to compute collection ratio. Therefore, this dimension has not been rated.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	D	Different cess/levies are transferred to the treasury on different frequencies (daily/monthly/less regularly than monthly).
(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***

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

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

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

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

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

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

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

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

Para 18 of the LGFM specifies the modalities for virements and supplementary budget. It is understood from discussions with Council officials that intra-year adjustments to budget allocations are only made once in the financial year during the mid-year review of the Council accounts. Once discussed and approved by the Full Council, requests for virements are submitted to the Regional Administration Officer for approval and onward submission to PMO-RALG. After approval is received from the PMO-RALG, the figures are updated in the EPICOR system.

In 2013-14, the Mtwara Mikindani MC requested the PMO-RALG for

- Virements totalling TZS 423.9 million (constituting 1.8% of the total expenditure of the Municipal Council in 2013-14) from own source revenue to other charges;
- Virements totalling TZS 26.8 million (constituting 0.1% of the total expenditure of the Municipal Council in 2013-14) from central government grant to other charges.

**Table 45: Summary of rating under PI-16**

Indicator	Rating	Brief explanation
<b>PI-16 Predictability in the availability of funds for commitment of expenditures</b>	<b>D</b>	
(i) Extent to which cash flows are forecast and monitored	D	At present, LGA does not do any cash forecasting including those relating to their own sources. Annually cash flow plans are shared with the Ministry of Finance but these are only funds requirements.

Indicator	Rating	Brief explanation
(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	<p>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 (1.9%) when compared to the annual expenditure of the Council.</p> <p>As per clarifications received from the PEFA Secretariat, if the value of virements carried out during the year are insignificant (i.e. less than 5% of the total expenditure of the LGA), this dimension is not applicable</p> <p>The procedure for carrying out these adjustments is well-defined requiring approval of the Full Council, RAS and finally PMO-RALG. The virements were insignificant when compared to total revenues or expenditures</p>

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

#### **(i) Quality of debt data recording and reporting**

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 projects involving capital investments such as construction of roads) to PMO-RALG for approval. The request is accompanied by last three years' own source 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, Mtwara Mikindani MC had a debt TZS 32.5 million outstanding ending financial year 2013-14. The debt in 2013-14 was only 0.1% of total liabilities. The debt forms part of the annual financial statements.

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

Mtwara Mikindani MC has seven bank accounts following government's order to rationalize the number of bank accounts kept by the LGAs. All accounts are required to be kept with National Microfinance Bank which has nation-wide coverage. These include (a) Own Source Revenue 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, and (g) Rural Water Sector Development Programme Cash Account. Balances as on 30<sup>th</sup> June 2014 are available in the audited financial statements. As per our discussion, Mtwara Mikindani MC consolidates cash balances on a monthly basis.

### **(iii) Systems for contracting loans and issuance of guarantees**

As per the Government Loans, Guarantees and Grants Act, 1974, MoF is the only agency authorized to issue guarantees. LGAs do not have any role in approval or issuance of guarantees to agencies.

With respect to loans, LGAs are allowed to borrow under Clause 51 of the LGFM. Mtwara Mikindani MC had a loan amounting TZS 32.5 million outstanding in 2013-14. All applications for loans by the LGA are requested to the PMO-RALG who forwards the request to Ministry of Finance.

Section 11 of the LGFA, 2002 gives powers to the LGA to borrow funds and also outlines the limitations on such processes. The section although specifies the approving authority and instructions while the loan is not repaid in time, it does not specify the guidelines/criteria to be followed for loan approval or ceilings on such loans. Box 1 below presents extract of Section 11 and 12 from the LGFA 2002.

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

##### **Section 11:**

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

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

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

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

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

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

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

##### **Section 12:**

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

(2) No overdraft shall at any time in any circumstances exceed the income of the authority in the previous financial year.  
 “Minister” referees to Minister for PMO-RALG

**Table 46: Summary of rating under PI-17**

Indicator	Rating	Brief explanation
<b>PI-17 Recording and management of cash balances, debt and guarantees</b>	<b>C</b>	
(i) Quality of debt data recording and reporting	C	The LGA has a debt of nearly 0.1% of total liabilities in 2013-14. The debt is reflected in the annual financial statements. Though reconciliation is annual, there are no regular reports on debt stock.
(ii) Extent of consolidation of the government’s cash balance	C	Mtwara Mikindani MC calculates and consolidates cash balances in different bank accounts on a monthly basis.
(iii) Systems for contracting loans and issuance of guarantees	C	Issuance of guarantees is the mandate of Ministry of Finance and therefore not applicable to LGAs. LGAs are allowed to borrow but each loan is required to be approved by the PMO-RALG in consultation with MoF. However, there is no evidence on the clear guidelines, criteria and overall ceilings.

**PI-18 Effectiveness of payroll controls**

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

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

Establishment and personnel records are handled by PO-PSM and payroll processing is done by Department of Computer Services, MoF. All government employees on the payroll of the government are paid electronically. Since July 2014, MoF transfers money directly to the bank accounts of the employees but only after due approval from the employer (i.e., for purposes of our assessment this is the LGA). Payments for casual labours are paid from own source revenue of LGAs. Changes in the

personnel database of HCMIS are initiated by the Human Resource Officer (HRO) at the council level and are reflected straightaway in the payroll component of HCMIS once PO-PSM approves the request. Usually the Head of the Human Resource Department in the LGA has access to the system and can upload changes. However, it was noticed that there are lags between the recruitment of the employee and the reflection of information in HCMIS.

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

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

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

The forms and documentation have to be scanned and uploaded on HCMIS by the Human Resource Department officials in the Council for approval by the PO-PSM. Since the System's automatic cut-off date for monthly salary is 20<sup>th</sup> of the month, Mtwara Mikindani MC has to send across this information by the 5<sup>th</sup> of each month to PO-PSM to allow adequate time to validate and approve the changes in personnel records proposed. As per discussions with Mtwara Mikindani MC officials, the entire process of updating personnel information in the System does not take 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.

Based on our discussion with Mtwara Mikindani MC and reports generated, there are various cases of salary arrears. As at 30 June 2014, there were nearly 15 cases where salary was in arrears. Out of these cases, eight were related to non-payment of revised salary with promotion and seven related to lack of payment for new hires. These cases were pending as on 16 June 2015 as well. We understand that some of the cases of salary dues may not entirely relate to system issues. However, considering the general weaknesses in internal controls highlighted in PI 20 of this report, existence of long overdue arrears are a pointer to lack of timely input controls. Specific weaknesses in controls highlighted by the CAG in his management letter and also referred to in dimension (iv) later also show that in effect, delays in processing inputs take significantly longer time.

### **(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 the Mtwara Mikindani MC LGA). PO-PSM and MoF both have read-only access. Additionally, the employer can only see information connected with its own institution/department. All changes made by the employer are "confirmed" by the PO-PSM in the system prior to the change becoming "live" in the system. Any change is endorsed by the PO-PSM after due verification of the supporting documents in the system. PO-PSM also showed to the assessment team various reports that can be generated by HCMIS.



At the LGA level, there are no audit trails 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.

Though the System has an in-built audit trail of changes made by each user, the audit trail is not documented/filed, verified or even covered by the internal auditors in the Council during their assessments. Consequently, the actual authorisation of and basis for the changes is not verified during the course of the financial year.

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

In 2013, the IAG conducted a payroll study for the entire public sector in Tanzania examining the July – September 2013 salary payments across the public sector. The report concluded that there are areas where anomalies are found. The finding are not specific to Mtwara Mikindani MC but apply to entire public sector in Tanzania. 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, 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

While there is no specific annual payroll audit, Internal Audit, in its quarterly review reports on systems, is required to also audit payroll. Furthermore, the Controller and Auditor General normally covers payroll weaknesses in its annual audit. . The CAG in his Management Letter for FY 2013-14 has identified the following issues pertaining to payroll in Mtwara Mikindani MC:

- Weakness noted in salary payment amounting to TZS 66 million. As part of the review of the payroll, the CAG noted that one senior level official with a monthly salary of TZS 2.75 million was temporarily transferred to PMO-RALG from 3 July 2012 as evidenced through the transfer letter; however his salary still appeared in the Council’s payroll for two years;
- Non-compliance with promotion scheme to account staffs. Audit review of the promotion scheme of the Council revealed the Council granted promotions to five Accountants from their current positions as Accountant 1 to a Senior Accountants without having the required qualifications (CPA). This is contrary to the Public Service Scheme of Service issued by the MoF;
- Employees not confirmed on Public Services for prolonged period. A review of the Council’s payroll data revealed that 87 employees had not been confirmed on the job although they have been in employment between 1973 and 2001 contrary to Order No 45 D.

**Table 47: Summary of rating under PI-18**

Indicator	Rating	Brief explanation
<b>PI-18 Effectiveness of payroll controls</b>	<b>D+</b>	
(i) Degree of integration and reconciliation between personnel records and payroll data	A	Since personnel records and payroll database are directly linked in HCMIS, this dimension has been rated as A for all LGAs, in line with the PEFA Field Guide. In addition, changes to the establishment list are also made directly through

Indicator	Rating	Brief explanation
(ii) Timeliness of changes to personnel records and the payroll	D	the HCMIS though no independent verification is made at the LGA.  Review of reports generated from HCMIS suggests cases of long delays in salary payments. This may reflect in some cases to changes to personnel records that do not get reflected in the payroll records. The weaknesses in payroll controls pointed out by the CAG reflect significant delays in inputs
(iii) Internal controls of changes to personnel records and the payroll	C	The system maintains audit trails reflecting changes made to the system. Access to the System is restricted to only the Head of Human Resource Department in the District Council. However, the audit trail in the System is not documented/filed, verified or even covered by the internal auditors during their assessments. Consequently, the actual authorization of and basis for the changes is not independently verified during the course of the financial year.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	B	A payroll audit was conducted in 2013 which identified various weaknesses. Though there is no annual payroll audit exercise, the CAG and council reports do cover payroll under their respective audits.

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

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

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

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

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

## **Public Procurement Act, 2011 and Public Procurement Regulations 2013**

### ***Application***

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

### ***Accessibility***

The Act is freely accessible to the public on [PPRA website](#). Information through website is one means of providing information at low cost to all those who might want it. However, this mode of public access is questionable given the low internet penetration<sup>22</sup>. Excerpts from the act are provided in the box below.

### **Public Procurement Act, 2011**

#### **Institutional arrangements**

##### **Central**

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

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

##### **Local Government**

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

##### **Planning**

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

##### **Internal controls**

Section 48 (2) mandates head of internal audit of each public body to include a report (as part of its quarterly internal audit report) on whether the act and procurement regulations has been complied

<sup>22</sup> 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**

with or not. The accounting officer upon receiving such report is required to submit the report to the PPRA.

**External scrutiny**

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

**Accountability**

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

**Competitive bidding**

Section 63 (2) of PPA 2011 provides for all procurements and disposals to be conducted in a manner that maximizes competition and achieve economy, efficiency, transparency and value for money. Section 64 (1) of PPA 2011 mandates the procuring entity to apply competitive tendering in line with the methods provided in related regulations 2013 which varies by value of procurement and the type of procurement. In the seventh schedule of the Procurement regulations 2013 (Table 48), methods for selection and limits of application for each contract of goods, works and non-consultancy services are provided.

**Table 48: Method of selection as per Procurement Regulations 2013**

<b>Method of tendering</b>	<b>Goods</b>	<b>Works</b>	<b>Non-consultancy services</b>	<b>Disposal of public assets</b>
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

<b>Method of tendering</b>	<b>Goods</b>	<b>Works</b>	<b>Non-consultancy services</b>	<b>Disposal of public assets</b>
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.

S. No.	Dimension	Meets requirement	PPA 2011	PPR 2013 (regulation)
6.	Independent administrative procurement review process	Yes	√ Part IX: Disputes Settlement of PPA 2011	√ Mechanism provided in Sections 104 to 107 of the Regulations

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

## (ii) Use of competitive procurement methods

As mentioned before, PPA 2011 and corresponding regulations provides for open competition as preferred method of procurement. In the last completed financial year 2013-14, Mtwara Mikindani MC procured goods and services worth TZS million 4,343. Out of these, approximately 84% of the procurement was done through open competition; 2% through framework agreement; and 14.7% through minor value procurement. Table 50 below provides information on procurement by volume and value.

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

<i>Procurement through tender process (competitive tender, competitive quotations, restricted tenders)</i>						
Item	Goods	Works	Consultancy Services	Non-Consultancy Services	Disposal of assets by tender	Total
Number of contracts	Nil	14	3	7	Nil	24
Amount (TZS million)	Nil	2,398	930	340	Nil	3,669
<i>Minor value procurement</i>						
Number of Local Purchase Order	1,499	Nil	Nil	Nil	Nil	1,499
Amount (TZS million)	639	Nil	Nil	Nil	Nil	639
<i>Procurement under framework contracts</i>						
Number of Local Purchase Order	2	Nil	Nil	3	Nil	5

Amount (TZS million)	10	Nil	Nil	25	Nil	35
<b>Total procurement</b>						<b>4,343</b>

Although 86% of the procurement in Mtwara Mikindani MC is through the tender process, no reliable information is available that shows the remaining 14 are in compliance with regulations. 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. 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 procurement procedures.

Moreover, CAG's Management Letters on the Financial Statements of the Mtwara Mikindani MC in recent years have highlighted the following issues pertaining to procurements:

- Improper composition of the procurement management team (2013-14)
- Awarded contracts not advertised at least twice in one or more newspapers – TZS 125.7 million (2012-13)
- Unnecessary splitting of procurement which were not approved by the tender board – TZS 14.4 million (2012-13).
- Establishment of project without sufficient fund – TZS 19 million (2012-13).
- Procurements made but no deliveries made – TZS 7 million (2012-13).
- Double payment of interim certificate – TZS181.6 million.

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

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

On the other hand, as per the PPA 2011, each procuring entity is required to publish General Procurement Notice (Summary) prepared based on the annual procurement plan. Procurement officials in Mtwara Mikindani MC informed the assessment team that at the beginning of the current financial year, the GPN was published on the Council's notice board as well as on PPRA's website. The GPN does not contain information on the budgeted value of the procurements. Specific procurement notices are advertised in the local newspaper. Summaries of contract awards are furnished to the PPRA which are published in its weekly journal.

- (iv)** According to the assertions made by the LGA, there were no procurement complaints lodged during the year. While we have noted this in our assessment we are unable to come to an evidence based conclusion in the absence of a structured and documented system for recording and monitoring procurement complaints. **Existence of an independent administrative procurement complaints system**

The LGAs' Tender Board Regulations, 2014 specify the procedure and format for submission of procurement related complaints by supplier/service provider/ contractor/asset buyer. The



Regulations specify that the procurement complaint should be submitted to the Accounting Officer of a Council with copies to PPRA and the Regional Commissioner. Tenderers wishing to lodge a complaint are required to initially fill a complaint register that has been established at the Council. Thereafter, the complainant is required to lodge the complaint in writing addressed to the DED. The Council assesses the complaint and provides a response in writing.

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 (who is the Municipal 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 the decision taken upon the complaint may adversely impact 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 deliver its written decision. The PPA 2011 specifies that the decision of the Accounting Officer is final unless the complainant applies for administrative review to the PPAA.

In case the complainant 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 complainant to submit an application to the PPRA. The procedures for review by PPRA are specified in the PPA 2011. In case the PPRA does not amicably settle the dispute, the application is then referred to PPAA. The composition of the PPAA shall be as follows:

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

The Secretary of the PPAA is part of the government. PPAA 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 that “funds of the PPAA include revenues collected from services rendered”. Part IX of PPA 2011 clearly lays down the circumstances under which the tenderer can approach PPAA or the Accounting Officer himself for review of its decisions. The provisions stipulate the time and process for submission of the complaints. It also details out the actions to be taken by the appeals authority and timelines for reply post submission of the complaint. The act gives powers (Section 97 of PPA 2011) to the PPAA to revise the unlawful decision by the procuring entity or substitute its own decision for such a decision. The decision taken by the PPAA 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 was a decree of the court.

**Table 51: Summary of rating under PI-19**

Indicator	Rating	Brief explanation
<b>PI-19 Transparency, competition and complaints mechanisms in procurement</b>	<b>D+</b>	
(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	In case of those 14.7% of the contracts which were procured through alternative methods of procurement, only local purchase order method was used. However, information was not available whether this method was in line with the legal requirements and therefore justified.
(iii) Public access to complete, reliable and timely procurement information	D	The GPN (summary of the annual procurement plan), bidding opportunities and contract awards are published. The GPN does not contain information on the budgeted value of the procurements. Data on resolution of the procurement complaints are not published. The assessment team however, does not have access to data on what percentage of actual compliance was achieved by the Council of procurement operations as required by this PEFA rating criteria and whether all such data was indeed made available to the public in a timely manner.
(iv) Existence of an independent administrative procurement complaints system	D	As per the act, the PPAA is liable to collect revenues from the service rendered. The Accounting Officer (Council Director) is the decision maker in the procurement process who is also the nodal person for the procurement complaints at the LGA level. Rating D is warranted as the dimension does not meet at criteria (ii) under this dimension. Criteria (ii) requires complaints to be reviewed by a body which is not involved in any capacity in procurement transactions or in the process leading to contract award decisions. However, Accounting Officer,

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in Mtwara Mikindani MC is involved both in reviewing the complaints as well as making the procurement decisions.

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

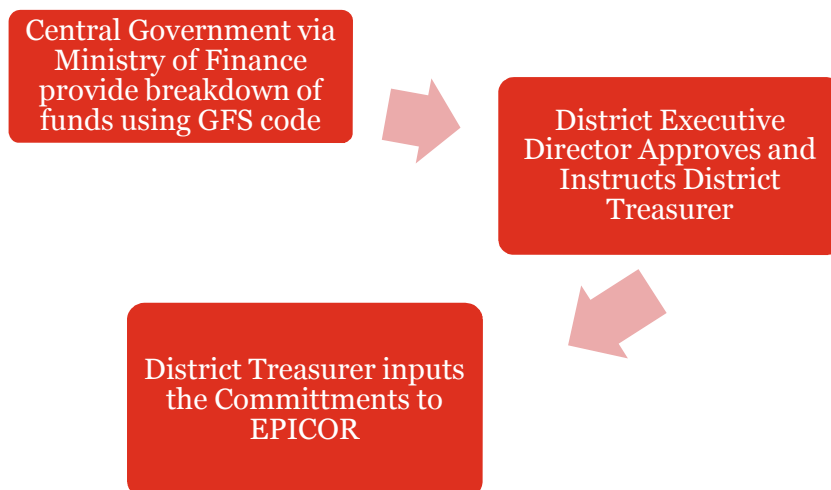
This indicator aims to assess controls relating to payments for capital expenditure, goods and services, casual labour, and discretionary staff allowances. Other controls for cash management, payroll, and procurement are covered in PI-17 to 19.

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

#### **(i) Effectiveness of expenditure commitment controls**

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

During our assessment, it was observed that Mtwara Mikindani MC was using the integrated financial management system (EPICOR) that had already been installed and was functioning, though with certain limitations specifically with respect to reporting and reconciliations. 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 the procurement management module in EPICOR was not used effectively with certain limitations specifically with respect to reporting and reconciliations. Mtwara Mikindani MC was using manual Local Purchase Order (LPOs). Therefore, commitments were still made outside the EPICOR system, thus creating arrears. The CAG in his Management Letter for FY 2013-14 also reported that:

- The Council had entered into contract with a company for waste product collection at a monthly rate of TZS 9.8 million. Apart from the contract lacking bases for performance measure which allows the Contractor to be paid on work done, the contract expired on 30 June 2014. However, as at 30 September 2014, the Contractor still continued to provide services without a valid contract. The Council was therefore incurring liabilities without a legal basis for committing any funding for it;
- The Council had entered into a contract with a Contractor for the Water Sector Development Programme amounting to TZS 852 Million without availability of sufficient funds at the council for this Programme.

Practices such as the above distort the overall system of commitment controls leading to pressures on liquidity.

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

Across all LGAs in Tanzania, a set of regulations/manuals/standing orders outlines the internal controls for important areas of non-salary expenditure. These include:

- **Local Government Financial Memorandum** covering budget monitoring, virements, budgetary controls, procurement of goods and services other than tender, broad duties of council staff for financial management
- **Local Government Accounting Manual** to provide a sound framework for financial control to LGAs

- ***Procurement Regulations, 2014 and Local Government Authorities' Tender Boards (Establishment And Proceedings) Regulations, 2014*** setting the framework for undertaking public procurement to maximize fairness and efficiency; and
- Various standing orders issued by PMO-RALG from time to time.

The present regulations guiding internal controls in financial processes have been updated taking into account public financial management reforms implemented at the LGA level in the last decade. These include implementation of EPICOR for accounting of all transactions, Lawson for payroll management, PlanRep for budgeting and reporting and implementation of IPSAS.

The understanding of the staff dealing directly with application of internal controls can be gauged by staff capabilities, trainings provided and the level of compliance. On the compliance side, the CAG as well as the Internal Auditor in some of its previous audit reports have highlighted issues related to compliance with internal control rules.

The CAG in his Management Letter for 2013-14 indicated that a review of the internal controls in Mtwara Mikindani MC revealed the following weaknesses:

- The physical assets are not adequately safeguarded. The Council does not have firefighting equipment on the council premises. It does not also have reliable fence to protect the moveable assets;
- The Council does not update its fixed asset register on a regular basis and copies of contracts between the Council and its suppliers/contractors are not submitted to the CAG;
- There are ineffective efforts by the Council's management to ensure that potential revenue due to the Council is fully realised. For example:
  - Several buildings have not been included in the Council's property tax register and therefore the Council is losing tax revenue from these properties;
  - The Council does not charge rent at commercial rates for markets stalls. A nominal rent of TZS 10,000 per stall is charged where as private owners charge anywhere between TZS 50,000 to TZS 100,000 per stall in the same market location.
- The Council does not undertake an assessment of the effectiveness of the internal control system on a regular basis. This deters the Council from identifying any control weaknesses underlying with the Council operations.

The Internal Auditor in his reports for FY 13-14, also highlighted various weaknesses relating to internal controls. For example, the Council: had no supporting documents for TZS 19 million worth of payments made to suppliers; was providing salary imprests to employees with outstanding amounts; and had instances where the Revenue Officers had not submitted receipt books which they had obtained from the Council for the collection of various revenues.

Table 52 shows select cases of non-compliances to internal control rules.

**Table 52: Select cases of weaknesses in internal controls**

Area	Issue
Data integrity	Property Tax database is unsecured as no password has been made and no backup has been created
Expenditure management	The Council has entered into a contract for collection of waste products in the Council's vicinity for TZS 9.8 million per month. However, the contract does not mention the base used in arriving at this monthly rate. It is purely on a lumpsum basis.
Cash management	Insurance cover was not arranged for cash held on council premises
Accounting	Improper adjustment of cash in transit amounting to TZS 7.5 million
Procurement	Contrary to Clause 75 of the Public Procurement Regulations, which requires procuring entities to commit funds prior to entering into contractual obligations, the Council entered into a Contract worth TZS 852 million, without committing funds as the Council did not have sufficient funds to commit.
Internal control	Unclear allocation of fund by Council on amount that were supposed to be allocated to various department/units. For example, there were no notifications made to Head of Department/Units on the General Purpose Grant for TZS 31.4 million received from the Central Government. This amount was therefore reallocated to activities other than those intended.
Recording	Improper use of Accounting chart

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

LAAM describes, in detail, rules for processing and recording transactions. The CAG's management letter points out notable instances of weaknesses in compliance for FY 2013-14. On closing of accounts on a monthly, quarterly and annual basis the Council runs the error report and prepares Journal Voucher (JV) to rectify the identified errors. However, the Council does not maintain a record of error rate for the respective period. Therefore, it was difficult for this assessment to conclude on the error and/or rejection rates and confirmation on the understanding of the rules and compliance with them.

The CAG in his Management Letter for FY 2013/14 indicated that although the Mtwara Mikindani MC originally submitted the financial statement by the due date. It had various irregularities such as errors, omissions, understatements and overstatements of figures, non-disclosure and improper disclosure. The magnitude of total errors and omissions in the financial statements was understatement of TZS 111.9 million (0.8% of total expenditure) and overstatement of TZS 95.9 million (0.69% of total expenditure). The Council therefore had to withdraw and resubmit the financial statements three months later.

**Table 53: Summary of rating under PI-20**

Indicator	Rating	Brief explanation
<b>PI-20 Effectiveness of internal controls for non-salary expenditure</b>	<b>D+</b>	
i. Effectiveness of expenditure commitment controls	D	The rating has been warranted due to non-use of embedded commitment controls by the Council as it has not fully operationalised the EPICOR system thereby not having access to its inbuilt checks. There are also several weaknesses of the manual LPO system which have been commented on by the Internal and External Auditors.
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	D	The Council uses the LAAM as a reference document in processing and recording transactions, however in practice, Mtwara Mikindani MC have had instances of 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 LGFA. Additionally, the LGFM (2009) provides the roles and responsibilities of the Internal Audit Unit.

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

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

Effectiveness of the Internal Audit for LGAs in Tanzania is further strengthened through ongoing capacity building initiatives by the Local Government Audit Section at the Internal Auditor General (IAG)'s Department at the MoF that was established in June 2010, under the pronouncement of Cap 348 of the amended Public Finance Act. The Local Government Audit Section at the IAG's office has

the duty to review and compile audit reports from LGAs and prepare a summary of major audit observations, recommendations and advice accordingly on the improvements needed.

### (i) Coverage and quality of the internal audit function

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

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

During our assessment of Mtwara Mikindani MC, we observed that the Internal Audit Function (IAF) was independent of the payment and accounting processes. We also confirmed that the Internal Auditor covered all activities of the council, public service delivery units and the LLGs. An observation of the current audit plan for FY 2014-15 showed that it was risk based and drawn up based on a careful consideration of potential risk exposures of critical LGA areas. We were informed by the Chief Internal Auditor in Mtwara Mikindani MC that out of the total available effective audit days of 207 per person, 30% of the time was planned for audit of the Finance and Trade Department and Human Resource and Administration Department. The rest of the time planned was for audit of all other departments as detailed in the Table 54.

**Table 54: Distribution of audit activity**

Days	Activity
<b>16.9% (140)</b>	Finance and Trade Department
<b>12.6% (104)</b>	Human Resource and Administration Department
<b>12.1% (100)</b>	Works Department
<b>10% (83)</b>	Health Department
<b>9.7% (80)</b>	Procurement Department
<b>7.4% (61)</b>	Primary Education Department
<b>6.3% (52)</b>	Planning, Statistics, Monitoring and Evaluation Department
<b>5.8% (48)</b>	Community Development and Social Welfare Department
<b>5.8% (48)</b>	Livestock and Fisheries Department



Days	Activity
4.8% (40)	Secondary Education Department
2.9% (24)	Urban Planning, Land and Natural Resources Department
1.9% (16)	Water Department
1.9% (16)	Agriculture, Irrigation and Cooperative Department
1.9% (16)	Environment and Sanitation Department

Though a specific split between system based and transaction based audit was not readily available in the audit plans, the audit included areas and objectives that could be performed by a mix of verification of systems compliance as well as assurance that all transactions are evidence based and in line with laid down policies. A review of six recent quarterly Internal audit reports and the nature of comments and observations mentioned in such reports showed on the whole, that about 40% of the focus was on systemic issues and the balance on transactions/compliance. Breakdown of internal audit focus per quarter is presented in **Table 55**.

**Table 55: Breakdown of internal audit issues in reports per quarter**

Quarter	Systems – areas (%)	Transaction/compliance – areas (%)
1 July – 30 September 2013	3 (37.5%)	5 (62.5%)
1 October – 31 December 2013	2 (40%)	3 (60%)
1 January – 31 March 2014	2 (22%)	7 (78%)
1 April – 30 June 2014	4 (57%)	3 (43%)
1 July – 30 September 2014	1 (25%)	3 (75%)
1 October – 31 December 2014	4 (57%)	3 (43%)
<b>Total</b>	<b>16 (40%)</b>	<b>24 (60%)</b>
<b>Average</b>	<b>2.7 (40%)</b>	<b>4 (60%)</b>

The CAG in his management letter for the FY 2013-14, indicated that the internal audit staff in Mtwara Mikindani MC do not undertake a comprehensive assessment and review of the Council's internal controls. The Council is therefore prone to various risks as a result of non-identification of weaknesses.

## (ii) Frequency and distribution of the reports

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

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

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

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

We also noted that all the 6 reviewed IAU reports were submitted to the Council Director after the Full Council meeting that are held between 10<sup>th</sup> and 15<sup>th</sup> of the following month after the end of the previous quarter, which were delayed. However, all the 6 reviewed reports were submitted timely to the other stakeholders (i.e within a month after the end of the quarter).

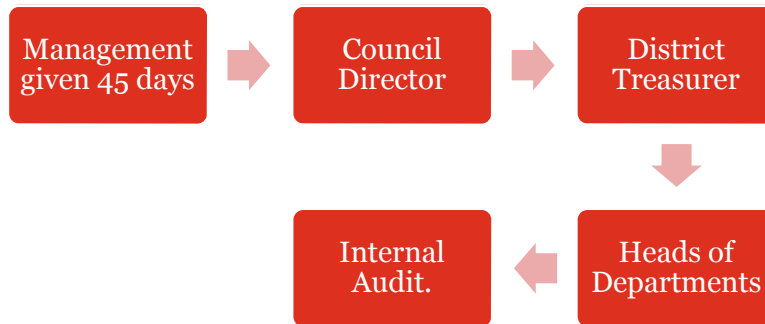
**Table 56: Dates for distribution of Internal Audit Reports**

SN	Period	Date submitted to Council Director	Date Council Director forwarded to CAG, PMORALG, RAS and IAG
1.	1 July – 30 September 2013	26 October 2013	27 October 2013
2.	1 October – 31 December 2013	31 January 2014	31 January 2014
3.	1 January – 31 March 2014	22 April 2014	23 April 2014
4.	1 April – 30 June 2014	25 July 2014	26 July 2014
5.	1 July – 30 September 2014	28 October 2014	28 October 2014
6.	1 October – 31 December 2014	28 January 2015	28 January 2015

### (iii) Extent of management response to internal audit findings

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

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



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

It is clear from the reviewed status of management’s responses to the IA recommendations that actions on recommendations are delayed. It is also not surprising therefore to notice the substantive violations of basic internal controls as reflected in the CAG audit reports of the last two financial years.

In addition, the functioning of the Audit Committee as pointed out by the CAG requires considerable improvements since at present they are not called for discussions with the external auditors, do not review the financial statements affirmed by the management and neither assess the overall risk environment at the Council. Due to such a lack of clarity it is difficult to understand as to how a credible system of follow up is in existence in Mtwara Mikindani MC.

**Table 57: Summary rating for PI-21**

Indicator	Rating	Brief Explanation
<b>PI-21 Effectiveness of internal audit</b>	<b>C+</b>	
(i) Coverage and quality of the internal audit function.	C	While there are targeted coverage of functional areas based on risk based plans that included both transaction and system based audits, the sample audit reports showed Transaction coverage having 60%. Sample audit reports showed significantly low coverage of systems audit (below 40%). There is therefore scope to improve effectiveness of the function. For instance, present practices do not record audit time usage e.g. time sheets and staffing issues are required to be addressed,
(ii) Frequency and distribution of reports	B	Reports do not adhere to a fixed quarterly and annual schedule and although they are distributed to the Council, CAG, PMO-RALG, IAG and RAS. All six reviewed reports reports were submitted to the Council later that the stipulated 15 days after the end of the respective quarter but were all issued within the same month.

Indicator	Rating	Brief Explanation
(iii) Extend of management response to internal audit findings	C	Due to the absence of a structured system of follow up of audit observations as revealed from the comments in the audit reports; the limitations of clarity in aging of observations ; lack of follow up; delays in management responses; and non-functioning audit committee has warranted the rating to C.

### 5.4.3. Accounting, Recording and Reporting

#### PI-22 Timeliness and regularity of accounts reconciliation

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

#### (i) Regularity of Bank Reconciliations

In line with requirements of Para 29(2) of the LGFM it is understood from discussion that different expenditure accountants of the Mtwara Mikindani MC carry out reconciliations between bank statements for individual accounts and cash books maintained through EPICOR on a monthly basis.

Mtwara Mikindani MC has seven (7) active bank accounts. Bank reconciliations are regularly performed on all bank accounts on a monthly basis and are available by the 15<sup>th</sup> of the following month for the previous month. The status of reconciliations at the time of our visit on 16<sup>th</sup> and 17<sup>th</sup> June 2015 is shown in Table 58.

**Table 58: Reconciliation status**

S. No.	Name of Account	Last completed Reconciliation month
1	Development Cash Account	31/05/2015
2	Own Source Revenue Cash Account	31/05/2015
3	Road Fund Cash Account	31/05/2015
4	NWSDP Cash Account	31/05/2015
5	Personal Emolument Cash Account	31/05/2015
6	Other Charges Cash Account	31/05/2015
7	Miscellaneous Deposits Cash Account	31/05/2015

As can be seen from the Table above, Mtwara Mikindani MC is generally regular in terms of preparing bank reconciliations, the latest being for May 2015 for all of its seven bank accounts. Our review of the bank reconciliation statements revealed that they were prepared in time and reviewed by the District Treasurer by the 10<sup>th</sup> June 2015. The assessment team noted that bank reconciliations

were prepared on the EPICORE system, and at a detailed level and there were no unresolved differences between the council’s cash account and the bank statements for all the seven accounts.

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

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

The financial statements for FY 2013-14 indicate at the end of year, outstanding salary imprest amounted to TZS 230 million. These have been outstanding between three and twelve months.

**Table 59: Summary rating for PI-22**

Indicator	Rating	Brief Explanation
<b>PI-22 Timeliness and regularity of accounts reconciliation</b>	<b>B+</b>	
(i) Regularity of Bank Reconciliations	A	Bank reconciliations for all the bank accounts take place on a monthly basis at aggregate and detailed levels and are prepared within two weeks of the end of the previous month.
(ii) Regularity of Reconciliation and clearance of Suspense Accounts and advances	B	While the Municipal Council does not have suspense accounts, it has recoverable salary advances and imprest amounts which are outstanding for a period of 3-12 months as on 30th June 2014. There were no outstanding advances brought forward from the previous year and reconciliation of advances take place at least annually.

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

**(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.**

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

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

There are a total of 34 primary schools in Mtwara Mikindani MC comprising of 30 public and 4 private schools. In addition there are 21 secondary schools comprising of 18 public and 3 private schools. The Council only provides counselling support to the private schools.

The Central Government disburses funds to the LGA depending on availability of cash. After funds have been received, the Mtwara Mikindani MC Education Officers (Secondary and Primary) prepare a schedule of disbursements (relating only to the amount of funds received) which is approved by the Council Treasurer and Director. Thereafter the Council transfers funds directly into the schools' bank accounts. Disbursements to schools fall under the following categories: (i) capitation grants (SEDP and PEDP); (ii) Capital Development Grant (CDG); (iii) Other Charges (OC); (iv) in-kind transfers which include books centrally procured by PMO-RALG; and (v) other allowances for meals (for secondary schools operating under boarding arrangements).

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

Several institutions and NGOs support primary and secondary schools in Mtwara Mikindani MC. For example, in FY 2013-14, OPHIR supported in building water tanks for some schools and Tanga Cement supported the construction of two classrooms for a primary school. However, all of such support is provided through in-kind contribution and no cash is provided to the Council. When the project comes to completion, the physical asset is handed over to the council and entered in the Council's records.

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

The assessment team was provided with details of capitation grants transferred to schools in FY2011-12, FY2012-13 and FY2013-14. Details of in-kind transfers were requested but not availed up until the time of writing this report. It must also be noted that the Council does not have information on the monetary value of in-kind transfers (such as books) to schools. Only description and quantitative information is maintained.

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

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

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

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

Like education, several NGOs support Mtwara Mikindani MC in the health sector. In FY 2013-14, IMA provided support on the neglected tropical disease and mass drug administration. However, information on monetary value of the in-kind support to the health facilities is not provided to the Council and therefore is not captured in the Council's books of accounts but appear as information in the quarterly management information report.

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

The current accounting system, i.e. EPICOR, in Mtwara Mikindani MC is not geared to capture in-kind resources received by service delivery units (specifically primary schools and primary health centers). The Council however, prepares and shares quarterly management information report (that is not generated through the accounting system) on type of cash and in-kind transfers made to schools and health centres with PMO-RALG. In addition, the council undertakes periodic inspection of service ledgers maintained by the lower level facilities and annual stock taking for items in possession at each service unit.

In the last three years, there have not been any special surveys undertaken in Mtwara Mikindani MC to collect data on resources to services delivery units. However, the following two studies have been undertaken by the GoT across all LGAs which highlight some pertinent issues faced by LGAs in the country in general:

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.

- The study reported that although GoT was committed to equitable distribution of resources through formulae based allocation system and to ensuring smooth funds flow to LGAs through the LGCDG system, the implementation of the system was below expectations and concerns were raised on its practical limitations. The report further indicated that the challenge has always been on how to ensure that public finance flows to service delivery units, ensure efficient use of resources and attain development results in a transparent and accountable manner.
- The study revealed existence of significant shortfalls in the predictability, timeliness and completeness of intergovernmental transfers. These were reported as the greatest factors impeding improved LGA performance and service delivery. The study also highlighted LGAs' dependency on funds from Central Government (more than 20% of total government spending being at stake) and called for PMO-RALG to revisit the funding mechanism to allow sustainable funding for LLGs with improved monitoring and accountability by LGAs.

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.

**Table 60: Summary of rating under PI-23**

Indicator	Rating	Brief explanation
<b>PI-23 Availability of information on resources received by service delivery units</b>	<b>B</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	B	Our findings are <ul style="list-style-type: none"> <li>• EPICOR does not capture all information at the individual service delivery level since each unit of service delivery is not defined as a cost centre (e.g. a particular school or health centre). But collated information is available from the system e.g. Health Admin department is a cost centre under which there are</li> </ul>



Indicator	Rating	Brief explanation
responsible for the operation and funding of those units.		<p>categories of dispensary, health centres etc.</p> <ul style="list-style-type: none"> <li>• However, data is available at the department level at the LGA on transfers both cash and in kind (only quantitative description and no monetary value) for education and health.</li> <li>• Quarterly reports are available at the LGA but no consolidated annual report. No evidence was made available to us on the existence of complete data on transfers nor any annual report from the PMO-RALG.</li> <li>• PETS examined systemic issues country-wide but there is no data available on service delivery units.</li> </ul>

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

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

Mtwara Mikindani MC prepares in-year budget reports on a monthly basis through information generated from the EPICOR system. Separate reports for revenue and expenditure are initially generated providing actual information. These reports are then consolidated providing information for the month as well as cumulative to date and compares with the approved annual budget showing deficiency or surplus. Information pertaining to annual performance as a percentages and variance is also provided in the monthly reports. The in-year budget reports provide aggregated information for all the departments, lower level service delivery units as well as development projects. Since the basis for preparing the in-year budget reports is the EPICOR system, these reports conform to the GFS classification of expenditure and revenue as adopted centrally. However, the in-year budget reports are manually modified and prepared in Microsoft Excel using information extracted from the EPICOR system. The reports are prepared by the Revenue and the Expenditure Accountants. We noted that these reports do not provide information on commitments,

#### **(ii) Timeline of the issue of reports**

The in-year budget reports are prepared on a monthly basis and discussed by the Council's Management Team. Any feedback and comments provided by the Management Team are taken on board as monthly reports are revised. Thereafter the reports are presented to the Council's Finance Committee within 15 days following the end of the previous month. Feedback and comments from the

Finance Committee are also taken into consideration as they are revised. Monthly reports are consolidated into quarterly reports and presented to the Full Council to be discussed during the Full Council's quarterly meetings. Feedback and comments from the Full Council are taken into consideration as the quarterly reports are finalised and submitted to the Mtwara RAS and PMO-RALG.

### (iii) Quality of information

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

**Table 61: 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 Mtwara Mikindani MC are prepared on a monthly basis and are issued by 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 to MS Excel sheet.

## ***PI-25 Quality and timeliness of annual financial statements***

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

### (i) Completeness of the financial statement

Para 31(3) of the LGFM<sup>23</sup> prescribes the composition of the financial statements which are to include: (a) statement of financial position; (b) statement of financial performance; (c) statement of change in net assets; (d) cash flow statement; (e) statement of financial performance by function; and (f) statement of comparison of budget and actuals by nature and by function. The LGFM further prescribes that the formats of (a) and (b) above shall be those prescribed by the International Accounting Standards Board as applicable to the public sector. The financial statements are to be supported by disclosure of accounting principles and policies and provide explanatory notes for better understanding. Detailed itemised schedules are not stipulated to form part of the published accounts but the LGFM also specifies that supporting schedules must be made available to the CAG for audit.

Results of our assessment of the last available audited financial statements for Mtwara Mikindani MC for FY 2013-14 and underlying systems from the perspective of completeness are given in **Table 62**.

**Table 62: Comments on audited financial statements**

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

<sup>23</sup> References to the Local Authority Financial Memorandum 1982 includes amendments through CAP290 in 2002)

The assessment team also noted that in the last three completed financial years i.e. FY 2011/12, FY 2012/13 and FY 2013/14, Mtwara Mikindani MC received unqualified audit report from the CAG. For all the three years, the CAG indicated that the financial statements present fairly, in all material respects, the financial position of Mtwara Mikindani MC as at end of that year, its financial performance, and its cash flow statement for the year then ended in accordance with IPSAS accrual basis of accounting and Part IV of the LGFA No. 9 of 1982.

### **(ii) Timeliness of the submission of the financial statements**

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

A comparative table of the compliance to timelines for the last 2 financial years are enclosed.

**Table 63: Mtwara Mikindani MC: Submission timelines for financial statements**

<b>Activity</b>	<b>2012-13</b>	<b>2013-14</b>
Approval by Full Council	26 Sep 2013	25 Sep 2014
Submission to National Audit office	27 Sep 2013	26 Sep 2014
Revised submission to National Audit Office	-	24 Dec 2014

We note that for FY2013-14, the financial statements were approved by the Councillors in the Full Council meeting held on 25 September 2014 and submitted to the CAG on the following day i.e. 26 September 2014. The CAG's management letter indicates that the financial statements of Mtwara Mikindani MC for the year ended on 30 of June 2014 were received on the statutory due date. However, it is noteworthy that the financial statements initially submitted by Mtwara Mikindani MC to the CAG on 26 September 2014 had to be revised and resubmitted on 24 December 2014. This was due to the fact that the CAG pointed out inconsistencies, errors and omissions in the initial submission.

### **(iii) Accounting standards used**

Para 31(4) of the LGFM mentions that the LGA statement of financial position and statement of financial performance shall be in the "formats" prescribed by International Accounting Standards Board applicable to the public sector. The notes to the financial statements mention that they have been prepared based on the IPSAS and the provisions of the Local Government Finances Act. The notes also describe all the significant accounting policies applicable to the financial statements. For the last three accounting year completed i.e. FY 2011-12, FY 2012-13 and FY 2013-14, the CAG has provided unqualified opinion by indicating that the financial statements present fairly, in all material respects, the financial position of Mtwara Mikindani MC as at end of that year, its financial performance, and its cash flow statement for the year then ended in accordance with IPSAS accrual basis of accounting and Part IV of the LGFA No. 9 of 1982 (revised 2000).

It may be noted that based on the information available through our studies of national level assessments and discussions, IPSAS on cash basis is reported to be presently used for accounting by

the Government of Tanzania. There are plans to move over to IPSAS on accrual basis in the near future. While LGAs are already on accrual basis of accounting the degree of compliance with IPSAS across the entire spectrum of transactions is not fully ascertainable in a study of this nature. In this connection, attention may be drawn to the text of the introduction to IPSAS which mentions as follows:

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

The Annual Reports of the CAG for FY 2012-13 and FY2013-14 for LGAs have referred to the challenges of IPSAS based accounting across all LGAs 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 64: Summary rating for PI-25**

Indicator	Rating	Brief Explanation
<b>PI-25 Quality and timeliness of annual financial statements</b>	<b>B+</b>	
(i) Completeness of the financial statements	B	The Financial Statements for the most recent year (2012-13) do not include significant omissions, as per the CAG audit report.
(ii) Timeliness of submission of the financial statements	A	The financial statements for the last audited year FY 2013-14 were initially submitted to the external auditors on 26 September 2014 i.e. within the prescribed three months’ time period from close of the fiscal year. The revised statements were submitted on 24 December 2014 i.e. within six months of the end of the fiscal year.
(iii) Accounting standards used	A	Standards applied are a mix of IPSAS as well as practices prescribed by the LGFA. In view of the qualifications subject to which the auditor has certified compliance in the last three financial years, application of these standards across all statements is not ensured.

#### 5.4.4. External Scrutiny and Audit

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

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

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

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

**Table 65: 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, amended 2012	Section 5 prescribes the Constitutional mandate to the CAG to audit and report on the financial statements including LGAs and Section 10(1) requires the CAG to examine the financial statements on behalf of the National Assembly and other functions as designated to him.
The Public Audit Regulations 2009	Defines the procedures through which the Public Audit Act would be put into practice

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

Our review of the CAG audit report for Mtwara Mikindani MC shows that in essence it is in the nature of financial audit. It includes a detailed review of internal control systems and observations of the CAG on the control weaknesses which is furnished to the Council separately through a Management Letter. Based on our discussions with the NAOT, we understand that a risk based approach is adopted and the specific of the approach and methodology is determined keeping in mind the prescriptions of the Regularity Audit Manual (RAM) depending on the circumstances. Though the

emphasis appears to be on financial transactions backed up by a systemic review of underlying processes, based on our discussions with the Mtwara Mikindani MC it was noted that Special Audits are also conducted by the CAG's office. However no special audit has been conducted for Mtwara Mikindani MC since FY2010.

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

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

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

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

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

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

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

- a) The CAG will submit the Annual audit report to the President by 31 March each year for onward transmission to the National Assembly through the Minister;
- b) The Paymaster General shall consolidate responses and plans of remedial actions prepared by Accounting Officers, and submit the same to the Minister to be laid to the National Assembly. A copy of the consolidated report (without action plans) will be served to the CAG;
- c) The Minister shall then lay the CAG report together with the consolidated report (without action plans) before the National Assembly;
- d) The CAG report will now be a public document, after being tabled in the National Assembly, but cannot be discussed at this stage until it has been deliberated upon by Parliamentary Oversight Committee (POC);
- e) The POC will discuss the CAG report together with the consolidated report, and prepare its report which may include comments and recommendations and submit it to the National Assembly;
- f) The deliberations of the POC on 'every statutory report' (including the CAG report) will be prescribed by the Parliament (i.e. the National Assembly and the President); and
- g) The National Assembly will then discuss the POC report together with the consolidated report and the action plan submitted by the Minister.

The Annual General Report on the financial statements of all LGAs for the year 2012-13 was submitted by the CAG to the President on 28 March 2014. Mtwara Mikindani MC submitted the final statements for 12-13 to CAG in September 2013. In 2012-13, the audit report was submitted to the Municipal Council on 2 May 2014, i.e. within 8 months of submission of the financial statements by the LGA to the CAG.

### **(iii) Evidence of follow up of audit recommendations**

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

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

The CAG's audit report for FY 2013-14 indicated that of the recommendations provided to Mtwara Mikindani MC in FY 2012-13:

- 32.3% were fully implemented;



- 16.1% were under implementation;
- 51.6% of recommendations amounting to TZS 731 million were yet to be implemented.

It can be noted from the above that Mtwara Mikindani MC has addressed approximately half of the audit queries and CAG recommendations, however challenges still persist and improvements are needed. The CAG in his Management Letter for FY 2013-14 made the following comments:

- The Audit Committee does not prepare annual report as required by Order 12 (g) of LGFM, 2009;
- The Audit Committee does not advise the Accounting Officer on issue of preparation of Financial Statement as required by Order 12 (f) of LGFM, 2009.

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 66: Summary rating for PI-26**

Indicator	Rating	Brief Explanation
<b>PI-26 Scope, nature and follow-up of external audit</b>	<b>C+</b>	
(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	B	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. Mtwara Mikindani MC submitted the final statements for 12-13 to CAG in September 2013. The audit report was submitted to the council on 2 May 2014, approximately one week before it was submitted to the National Assembly on 7 May 2014. Therefore, the audited statements were submitted to the National Assembly as well as the Council within 8 months of their receipt by the CAG.
(iii) Evidence of follow up on audit recommendations	C	Responses to management letters are made but evidence of systematic follow up is absent as evidenced by comments provided and repeat comments in subsequent years. The notable weakness of the Audit Committee functioning referred to by the CAG is a specific pointer to the weakness in the general state of follow ups of audit points.

## ***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**

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

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

Part IV A and B of the Local Government (Urban Authorities) Act, 1982 lay down the framework for carrying out proceedings of all meeting of the 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 Full Council for approval.

In Mtwara Mikindani MC, apart from the Finance, Administration and Planning Committee, there are also three other Committees: Economic, Health and Education Committee; Council HIV/AIDS Control Committee; and Urban Planning and Environment Committee. The Council has however not issued standing orders that lay down the composition and responsibilities of these standing committees in line with the requirements of LGDA. Although, for review of the budget proposals for the financial year 2013-14, minutes of meetings held by these committees have been recorded and documented.

Despite the adherence to the legislative procedures in practice, it cannot be said that these procedures, on a whole, are respected in principle. As in the case of the budget cycle for 2014-15, ceilings for development budgets are communicated to the LGA towards the end of the budget preparation cycle, i.e. once all discussions and negotiations have been completed by the Standing

Committees. In line with the ceilings issued, budget estimates are revised and finalized by the District Council without consultation/ negotiations with impacted stakeholders.

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

Clause 15 (2) of the LGFM requires submission of the annual plan and budget to the Finance Committee by not later than 15<sup>th</sup> 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 finalise 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.

The assessment team reviewed the minutes of the Full Council meeting and confirmed that approval of budget in 2013-14 was done by Finance Committees in significantly less than one month while the Full Council reviewed, discussed and approved it 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, Council approval is not required where virements are between items within the same vote provided these items were part of the original budget, there are no virements from other charges to personal emoluments and the overall budget amounts do not change. If any of these conditions are not met, approval of the Full Council is required. In addition, in terms of 18(4), no virements are allowed between development and recurrent budgets except in case of change in Councils contribution to the development budget out of own sources of revenue.

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.

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

**Table 67: Summary rating for PI-27**

<b>Indicator</b>	<b>Rating</b>	<b>Brief Explanation</b>
<b>PI-27 Legislative scrutiny of the annual budget law</b>	<b>D+</b>	
i. Scope of the Council’s scrutiny	C	The Full Council deliberates on revenue and expenditure but only after detailed proposals are finalised.
ii. Extent to which the Council’s procedures are well established and respected	C	Broad guidelines for budget review are provided for in the LGFM and LGDA. These include constitution of and review by standing committees. The LGDA requires the Council to issue standing orders that lay down the composition and functions of these standing committees. While the LGA does have standing committees in addition to the Finance Committee, the absence of standing orders that lay down the composition and functions of these standing committees has not been issued by the LGA (as required by the LGDA). As such adherence to the relevant legislation cannot be considered comprehensive)
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 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 that can be undertaken by the council, and these are respected by Mtwara Mikindani MC as approval is sought from the Councillors before making any in-year budget amendment decisions. However, rules and regulations allow for administrative reallocations.

**PI-28 Legislative scrutiny of external audit reports**

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

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

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

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

The scrutiny of the LGA accounts is therefore at two levels: at the local level by the Councils; and at the national level the Annual Report of LGAs by the National Assembly. By the recent amendment to the Public Audit Act in 2012, the legislature is mandated not to consider audit observations without having responses from the executive. The amendment requires the CAG report not to be tabled before the National Assembly until consolidated reports have been prepared showing responses by the auditees. However, there is no time limit as to when the consolidated report will be prepared. It is also not clear how the Council will first receive the CAG report and prepare responses, before the National Assembly considers it.

Section 38 of the Public Audit Act requires the Local Authority Accounts Committee (LAAC) to discuss the reports of the CAG after they are tabled in the National Assembly and submit reports including comments and recommendations. Table 68 provides the dates for the LGA reports for the last 3 audited years.

**Table 68: Various dates for LGA reports**

	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Month in which audit report was submitted	09 May 2012	22 April 2013	02 May 2014
Date of approval of audit report by Council	26 July 2012	06 August 2013	27 June 2014

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

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

The frequency of Audit Committee meetings in FY 2013-14 and in the current year has improved, and so has the scrutiny of the audit observations. Some of the minutes of the Audit Committee meetings reviewed by us revealed that the Committee thoroughly scrutinises CAG's audit observations and recommendations vis-à-vis management comments. There was also evidence of Audit Committee requiring Management to provide additional explanation on issues that were deemed not to be satisfactorily responded to.

However, the Audit Committee does have certain drawbacks. This was evidenced by observations included in the CAG's Management Letter for FY 2013-14 which indicated amongst other things the Audit Committee in Mtwara Mikindani MC does neither prepare annual report as required by order 12 (g) of LGFM 2009 nor advise the Accounting Officer on issue of preparation of Financial Statements as required by Order 12 (f) of LGFM 2009. Other weaknesses addressed by the CAG for the audit committee are as discussed in PI 26 dimension (iii).

At the national level the LAAC as one of the Parliamentary Standing Committee is expected to discuss the CAG reports with the related Accounting officers and report at least once a year their findings and recommendations to the National Assembly for discussions and resolutions. The information related to nature and the frequency of the LAAC meetings to discuss the CAG audit reports has not been made available. However the CAG Annual Report for FY 2013-14 indicated that Mtwara Mikindani MC received seven directives from LAAC out of which three were implemented. Mtwara Mikindani MC has made progress in this area as in the previous year FY2012-13 LAAC has issued three directives, out of which only one was implemented by the Council.

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<sup>24</sup>.

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

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

At the national level, under the earlier provisions of the Public Audit Act (Section 40(3)), the responses to the legislative comments were to be taken into account before giving the consolidated responses by the Paymaster General. However based on the amendment of 2012, the PMG is under no obligation to do so.. 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 review of internal audit reports, responses to Management Letters and the comments in the consolidated report of the CAG shows:

- All recommendations made by the CAG in its audit report for 2012-13 were in different stages of implementation in 2013-14. Given that about 31% of these recommendations had yet to be implemented in entirety, the CAG commented on the commitment by the Council management in rolling out audit recommendations.
- Extensive recommendations are being made by the LAAC based on their review of the audited accounts. Similar to the CAG recommendations, all matters arising from previous audits were

<sup>24</sup> Parliamentary Centres' Report on the Role of Parliamentary Committees on Budget Oversight in Tanzania, 2012.

attended by the District Council. Table 69 shows the status of implementation of the directives issued by LAAC for the financial year 2012-13.

**Table 69: Directives issued by LAAC to Mtwara Mikindani MC**

Year	Total recommendations	Implemented	Under Implementation	Not Implemented
2012-13	7	3	3	1

Source: Annual General Report of the CAG on the Financial Statements of LGAs for the Financial Year ended 30<sup>th</sup> June 2014

**Table 70: Summary rating for PI-28**

Indicator	Rating	Brief Explanation
<b>PI-28 Legislative scrutiny of external audit reports</b>	<b>C+</b>	
(i) Timeliness of examination of audit reports by the Council (for reports received within the last three years)	B	Scrutiny of audit reports was completed by the Full Council in more than 3 months from receipt of reports for one of the three years of assessment (2012-13).
(ii) Extent of hearings on key findings undertaken by the legislature	C	Although the Audit Committee has started reviewing the audit reports, it still subjected to certain weaknesses. In spite of the availability of some minutes, it is not possible to assess the nature of in-depth hearings conducted.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	B	While actions are recommended by the LAAC, some of them are implemented as noted from CAGs observations.

## 5.5. Donor practices

### D-1 Predictability of Direct Budget Support

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

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

As per SN Guidelines for PEFA assessment, these indicators are applicable only when SN Government receives any direct donor funding. Based on our discussion with Mtwara Mikindani MC, it is understood that there are direct donor funding in EGPAF and THPS. However, the support is less than 1% of the total expenditure. In line with the clarifications with the PEFA Secretariat on 14<sup>th</sup> September 2015, these three indicators are not applicable to this LGA.



## 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<sup>25</sup>. 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

<sup>25</sup> The United Republic of Tanzania, President's Office - State House, Reforming Tanzania's Public Sector, An Assessment and Future Direction, November 2013.

(IFMIS). Phase II of PFMRP was implemented from 2004 to 2008 with an objective of modernising PFM systems through design and implementation of 'best practice' tools and techniques for revenue forecasting and alignment of resource allocation with strategic priorities. The key outputs of this Phase were the Medium Term Expenditure Framework, Strategic Budget Allocation System (SBAS), the Public Procurement Act (PPA), 2004, and the extension of coverage of IFMIS to LGAs. Phase III of PFMRP, implemented from 2008 to 2011, provided the necessary focus and resources for institutionalising the reforms introduced in the previous phases in an integrated manner.

As part of the first three phases of PFMRP, GoT also established a number of regulatory bodies to provide oversight functions for effective implementation of PFM policies and guidelines. These included - the Tanzania Revenue Authority; the National Audit Office headed by the Controller and Auditor General; the Internal Auditor General's Department; the National Debt Management Committee; the Public Procurement Regulatory Authority; the Public Procurement Appeals Authority; the Public Procurement Policy Unit; the Oversight Body for Parastatal and Public Enterprises; the Commission of External Finance; the Enhanced Public Accounts Committee; and the Reform Coordination Unit<sup>26</sup>.

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

<sup>26</sup> 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

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 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<sup>27</sup> noted that the programme was making good progress and 43% of the milestones were achieved, and another 31% were on track. Though performance varied across the different KRAs, as regards the local government component, there was significant progress that included commencement of roll out of the revenue management system (i-Tax) and strengthening of quality and technical support by the Regions to LGAs in PFM areas such as preparation of financial statements, monitoring, ensuring audit compliance etc.

A Mid-Term Review of the PFMRP IV undertaken in September 2015 indicated that programme has a success story of achievement and on the whole was under good management and control. However, leadership and coordination mechanisms may not be working in an optimal manner<sup>28</sup>. 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

<sup>27</sup> Joint Supervision Mission 2015, Aide Memoire (Report)

<sup>28</sup> 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.

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 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 it in total, PI-2 assesses it broken into the various components of expenditure.

The HLG-1 indicator analyses the planned and actual transfer of funds to LGAs and therefore supplements the analysis of the other 2 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 had shown that there were 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. These have already featured in a different note given to stakeholders earlier.

**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 main 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 there are separate indicators for assessment at the central level.

Our conclusions based on further investigations are:

- 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.
- The annual financial statements contain budgeted and actual development transfers from the central government. The statements also contain 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.
- 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.
- 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 71 maps the key weaknesses identified for Mtwara Mikindani MC across the performance indicators against the main stakeholders responsible.

**Table 71: 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 to LLGs	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.			
		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			
			e. Poor publicity of information on tax liabilities and administrative procedures			
			f. Lack of clear monitoring system for tax arrears causing loss of revenue			
		g. Raising of manual LPOs outside the IFMS				
Limited institutional capacity	Budget execution capabilities of LGA affected by:					
a. Vacancies in key positions						

SI	Topic	Key Weaknesses	Details	Key Stakeholder Responsible		
				LGA	PMO-RAIG	MoF/GoT
			b. Lack of the day to day operations guide to the LGA staff			
			c. Delayed completion of installation and operationalization of the i-tax system.			
			d. Lack of adequate supervision resources and capacity for project execution			
4	Internal controls and Accountability	Key weaknesses in internal control and oversight functions	Weaknesses in internal controls evidenced by:			
			a. Preparation of final accounting statements off line (outside EPICOR /IFMS)			
			b. Lack of reporting of expenditure by the LLGs			
			c. Weaknesses in Internal Audit such as absence of a structured system of follow up on recommendations for internal and external audits			
			d. Delays in salary payments due to changes to personnel records not being reflected in the payroll records timely.			
			e. Weak controls in procurement processes.			
			f. Lack of timely follow up of LAAC and audit recommendations			
			g. Lack of evidence on documentation of roles and responsibilities of the Standing Committees due to absence of the Council's Standing Orders.			



## 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 Mtwara Mikindani Municipal Council dated 20-June-16.

### 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 Kasulu DC was submitted for review at different dates to the following reviewers:

- i) Viviana Klein – KfW on 20-June-16.
- ii) Vivek Misra – DFID on 20-June-16.
- iii) Denis Biseko – WB on 20-June-16.
- iv) PEFA Secretariat, Washington on 20-June-16.
- v) Government of United Republic of Tanzania on 20-June-16.

### 3. Review of final draft report

The final draft assessment report was submitted to following reviewers in June-16 on the dates noted. This final draft report includes tables showing response to all comments raised by all reviewers.

- i) Viviana Klein – KfW on 20-June-16
- ii) Vivek Misra – DFID on 20-June-16
- iii) Denis Biseko – World Bank on 20-June-16
- iv) PEFA Secretariat, Washington on 20-June-16
- v) Government of United Republic of Tanzania on 20-June-16

### 4. Additional information

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

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

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](http://www.pefa.org/sites/pefa.org/files/attachments/SNG-Supplementary-Guidelines-eng001%20(Jan%2017).docx .pdf)

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

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

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

2 dimensional indicators			3 dimensional indicators				4 dimensional indicators				
D	D	D	D	D	D	D	D	D	D	D	
D	C	D+	D	D	C	D	D	D	C	D	
D	B	C	D	D	B	D	D	D	B	D+	
D	A	C+	D	D	A	D	D	D	A	D+	
C	C	C	D	C	C	D	D	C	C	D+	
C	B	C+	D	C	B	D	D	C	B	D+	
C	A	B	D	C	A	D	D	C	A	C	
B	B	B	D	B	B	D	D	B	B	C	
B	A	B+	D	B	A	D	D	B	A	C+	
A	A	A	D	A	A	D	D	A	A	C+	
			C	C	C	D	C	C	C	D+	
			C	C	B	D	C	C	B	C	
			C	C	A	D	C	C	A	C+	
			C	B	B	D	C	B	B	C+	
			C	B	A	D	C	B	A	C+	
			C	A	A	D	C	A	A	B	
			B	B	B	D	B	B	B	C+	
			B	B	A	D	B	B	A	B	
			B	A	A	D	B	A	A	B	
			A	A	A	D	A	A	A	B+	
						C	C	C	C	C	
						C	C	C	B	C+	
						C	C	C	A	C+	
						C	C	B	B	C+	
						C	C	B	A	B	
						C	C	A	A	B	
						C	B	B	B	B	
						C	B	B	A	B	
						C	B	A	A	B+	
						C	A	A	A	B+	
						B	B	B	B	B	
						B	B	B	A	B+	
						B	B	A	A	B+	
						B	A	A	A	A	
						A	A	A	A	A	

The scoring methodology prescribed in the framework across all the performance indicators is given in Table 72.

**Table 72: 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 73. Since this is the highest rating, it will help the LGA to assess what it needs to do to realize this rating as compared to its current rating as assessed in this report.

**Table 73: Criteria for A rating across dimensions**

PI	Description	Criteria for “A” Rating
<b>HLG-1</b>	<b>Predictability of transfers from a higher level of Government</b>	
(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 loading <sup>4</sup> ) in all of the last three years.
<b>A. PFM Out-Turns: Budget Credibility</b>		
<b>PI-1</b>	<b>Aggregate expenditure compared to original budget</b>	<b>out-turn approved</b> 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.
<b>PI-2</b>	<b>Composition of expenditure out-turn compared to original approved budget</b>	
(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.
<b>PI-3</b>	<b>Aggregate revenue compared to original budget</b>	<b>out-turn approved</b> Actual domestic revenue was between 97% and 106% of budgeted domestic revenue in at least two of the last three years.
<b>PI-4</b>	<b>Stock and monitoring of expenditure arrears</b>	
(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>B. Key Cross-Cutting Issues: Comprehensiveness and Transparency</b>		
<b>PI-5</b>	<b>Classification of the budget</b>	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 applied with a level of detail at least corresponding to sub-functional.)
<b>PI-6</b>	<b>Comprehensiveness of information included in budget documents</b>	Recent budget documentation fulfils 7-9 of the 9 information benchmarks
<b>PI-7</b>	<b>Extent of unreported government operations</b>	

PI	Description	Criteria for “A” Rating
(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).
<b>PI-8</b>	<b>Transparency of inter-governmental fiscal relations</b>	
(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.
<b>PI-9</b>	<b>Oversight of aggregate fiscal risk from other public sector entities</b>	
(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.
<b>PI-10</b>	<b>Public access to key fiscal information</b>	
		The government makes available to the public 5-6 of the 6 listed types of information
<b>C. Budget Cycle</b>		
<b>(i) Policy-Based Budgeting</b>		
<b>PI-11</b>	<b>Orderliness and participation in the budget process</b>	
(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.

PI	Description	Criteria for “A” Rating
(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.
<b>PI-12</b>	<b>Multi-year perspective in fiscal planning, expenditure policy, and budgeting</b>	
(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.
<b>(ii) Predictability and Control in Budget Execution</b>		
<b>PI-13</b>	<b>Transparency of taxpayer obligations and liabilities</b>	
(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.
(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.
<b>PI-14</b>	<b>Effectiveness of measures for taxpayer registration and tax assessment</b>	
(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	Description	Criteria for “A” Rating
<b>PI-15</b>	<b>Effectiveness of collection of tax payments</b>	
(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.
<b>PI-16</b>	<b>Predictability in the availability of funds for commitment of expenditures</b>	
(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.
<b>PI-17</b>	<b>Recording and management of cash balances, debt and guarantees</b>	
(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.
<b>PI-18</b>	<b>Effectiveness of payroll controls</b>	
(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.
<b>PI-19</b>	<b>Competition, value for money and controls in procurement</b>	

PI	Description	Criteria for “A” Rating
(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.
<b>PI-20</b>	<b>Effectiveness of internal controls for non-salary expenditure</b>	
(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.
<b>PI-21</b>	<b>Effectiveness of internal audit</b>	
(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.
<b>(iii) Accounting, Recording and Reporting</b>		
<b>PI-22</b>	<b>Timeliness and regularity of accounts reconciliation</b>	
(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	Description	Criteria for “A” Rating
<b>PI-23</b>	<b>Availability of information on resources received by service delivery units</b>	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.
<b>PI-24</b>	<b>Quality and timeliness of in-year budget reports</b>	
(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.
(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.
<b>PI-25</b>	<b>Quality and timeliness of annual financial statements</b>	
(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.
<b>(iv) External Scrutiny and Audit</b>		
<b>PI-26</b>	<b>Scope, nature, and follow-up of external audit</b>	
(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.
<b>PI-27</b>	<b>Legislative scrutiny of the annual budget law</b>	
(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.

PI	Description	Criteria for “A” Rating
(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.
<b>PI-28</b>	<b>Legislative scrutiny of external audit reports</b>	
(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.
<b>D. Donor Practices</b>		
<b>D-1</b>	<b>Predictability of Direct Budget Support</b>	
(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.
<b>D-2</b>	<b>Financial information provided by donors for budgeting and reporting on project and program aid</b>	
(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.
<b>D-3</b>	<b>Proportion of aid that is managed by use of national procedures</b>	
		90% or more of aid funds to central government are managed through national procedures.

In addition to this, for certain indicators information is yet to be made available which is relevant for rating. Therefore, such indicators/dimensions have not been rated for the purpose of this assessment.

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

Figure 4: Organizational Structure for MoF

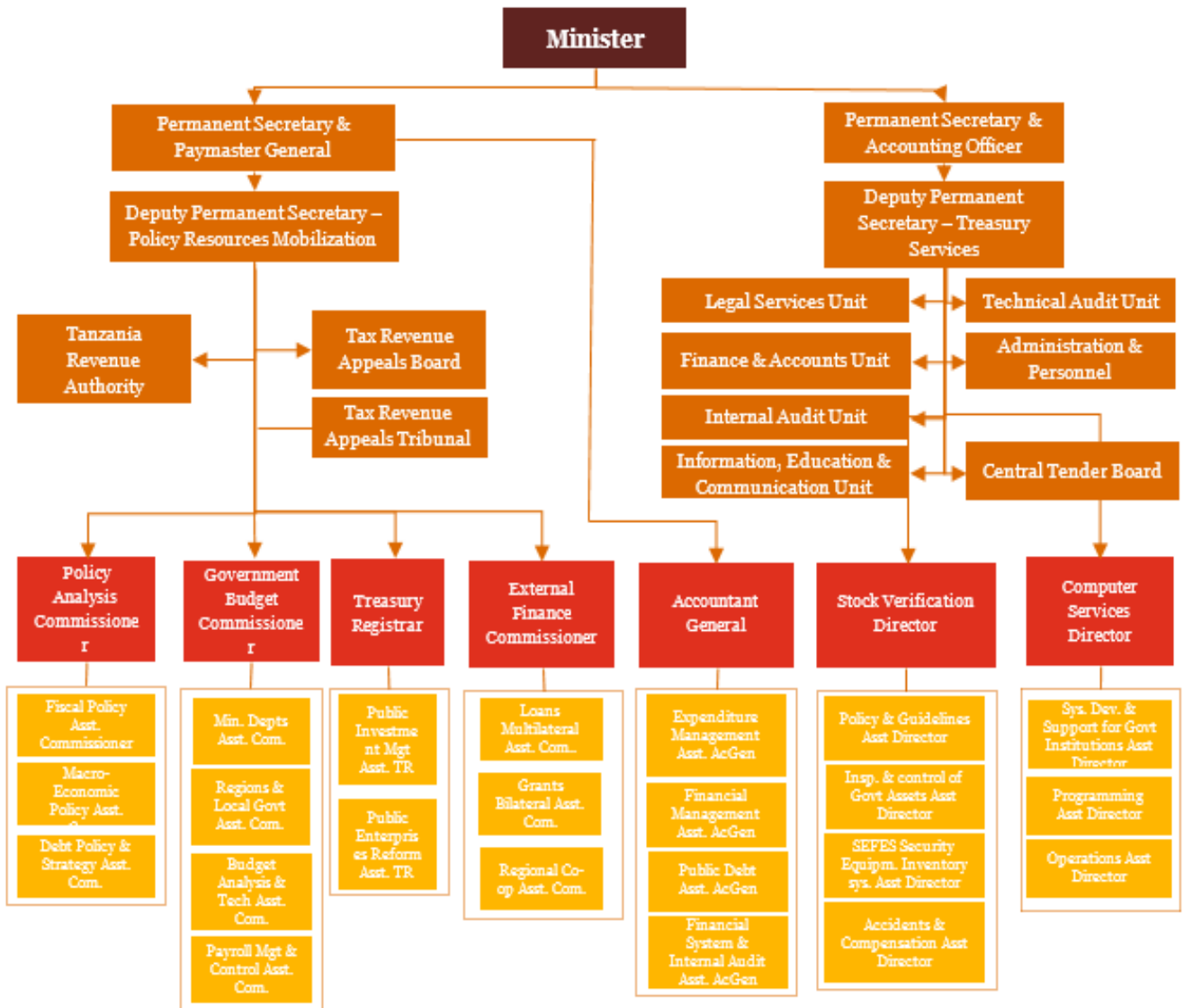
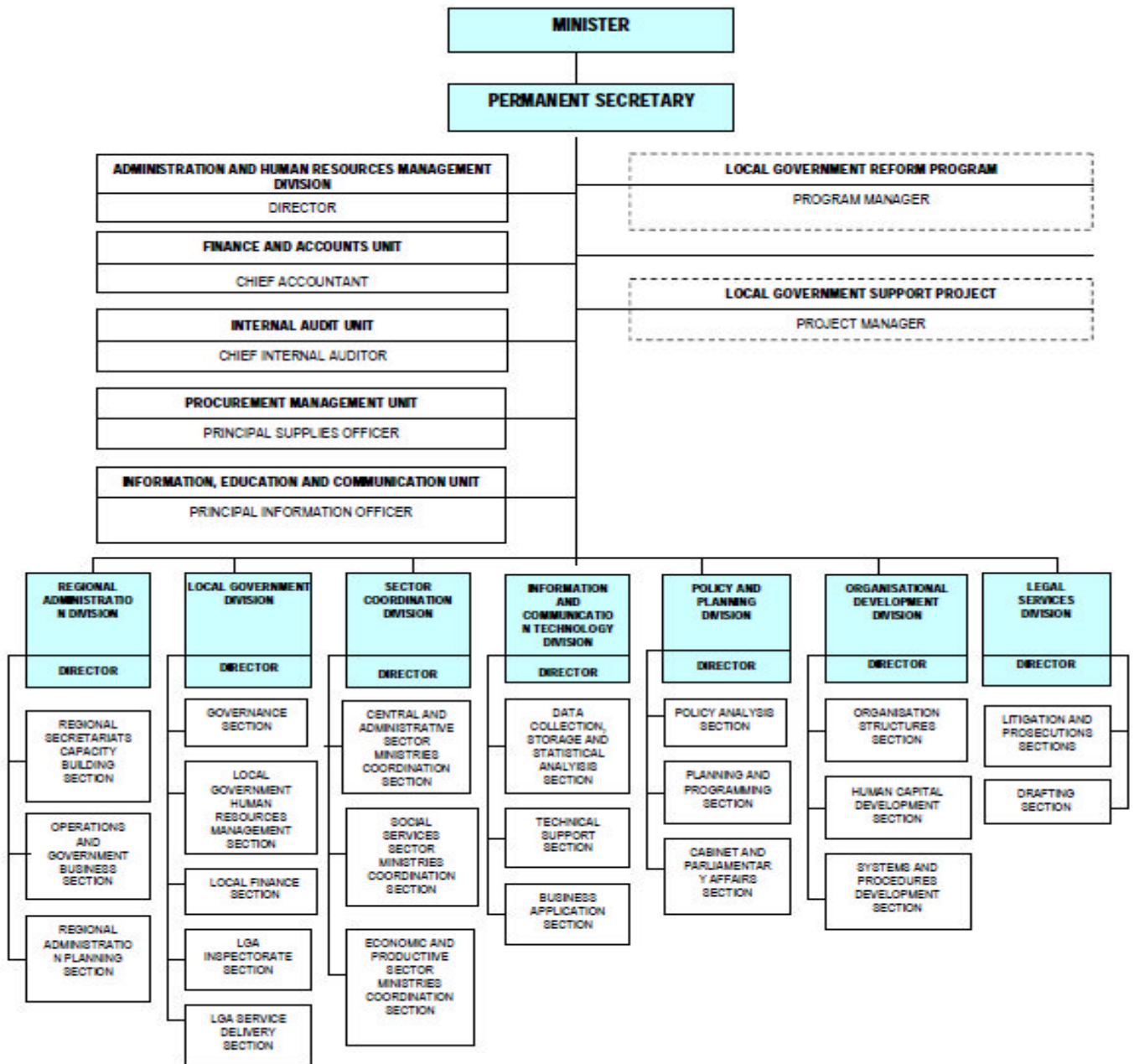


Figure 5: Organizational Structure for PMO-RALG



## Annexure.6 Revenue and expenditure calculations

In this annexure, the process of calculation of total expenditure and revenue of the Council is provided. The “Statement of Comparison of Budget and Actual Amount - By Nature” of the Annual Financial Statement of Mtwara Mikindani MC 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 (i.e., administrative in this case) shows the same details except that expenditure is classified by functions.

The budget is prepared on a cash basis. However, the actual revenue and expenditure as reflected in the Statement includes items such as amortization of capital grant/depreciation. Therefore, adequate adjustments have been made to calculate total revenue and expenditure of the Council. Table 74 and Table 75 shows example of adjustment made for the financial year 2011-12, 2012-13 and 2013-14 for total expenditure and total revenue respectively.

**Table 74: Adjustment for Total Expenditure<sup>29</sup>**

	2011-12		2012-13		2013-14		Source	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total Expenditure as per AFS	24275	15359	38029	16458	13156	14731	Sheet "BudVsActN"	
<i>Deduct (-): Depreciation</i>	335	335	492	492	0	816	Sheet "BudVsActN"	
<i>Add (+): Capital Expenditure</i>	13557	5216	29322	7512	4188	9781	Sheet "Capex"	
<b>Adjusted Total Expenditure</b>	<b>37498</b>	<b>20240</b>	<b>66859</b>	<b>23478</b>	<b>17345</b>	<b>23696</b>		

**Table 75: Adjustment for Total Revenue**

	2011-12		2012-13		2013-14		Source	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total Revenue	24275	17677	38029	16828	13156	15094	Sheet "BudVsActN"	
<i>Deduct(-): Recurrent Grants</i>	22384	14954	35933	13995	10209	12025	Sheet "BudVsActN"	
<i>Deduct(-): Amortization of capital grants</i>	335	335	492	492	816	816	Sheet "BudVsActN"	
<i>Add(+): Actual Receipts of Recurrent Grants</i>	22384	15057	35933	14448	10209	11612	Sheet "BudVsActN"	Note 11 to the Financial Statement
<i>Add(+): Development Grants</i>	13432	7515	29170	10237	4149	6987	Sheet "Capex"	
<b>Adjusted Revenues</b>	<b>37707</b>	<b>24960</b>	<b>66707</b>	<b>27025</b>	<b>16489</b>	<b>20852</b>		

<sup>29</sup> The assessor has noticed differences in total expenditure in the audited annual financial statements. Adequate adjustments have been done.

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

## 7.1. Screenshots for PI-1 and PI-2

Table 1 - Fiscal years for assessment

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

In TZS 000

Table 2

Data for year =		2011				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Administration, Human resource management and development	9,317,097.9	6,030,814	5,029,048.2	1,001,765.9	1,001,765.9	20%
Agriculture & Livestock	383,589.0	226,476	207,048.1	19,427.9	19,427.9	9%
Education	7,017,992.0	4,579,622	3,788,070.1	791,551.4	791,551.4	21%
Primary health services	1,813,127.0	1,947,059	978,663.4	968,395.6	968,395.6	99%
Water	301,287.0	31,140	162,624.3	-131,484.3	131,484.3	81%
Works	922,281.0	406,180	497,815.5	-91,635.5	91,635.5	18%
Natural Resources	0.0	-	0.0	0.0	0.0	#DIV/0!
Community development, gender and children	11,183,100.0	2,871,848	6,036,251.8	-3,164,404.1	3,164,404.1	52%
Others	6,559,163.0	4,146,793	3,540,410.0	606,383.2	606,383.2	17%
allocated expenditure	37,497,636.9	20,239,931.5	20,239,932	0	6,775,048	
contingency						
total expenditure	37497636.85	20239931.54				
overall (PI-1) variance						46%
composition (PI-2) variance						33%
contingency share of budget						0%

Table 3 (in '000")

Data for year =		2012				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Administration, Human resource management and development	3,733,340.0	4,183,635	1,310,963.4	2,872,671.2	2,872,671.2	219%
Agriculture & Livestock	356,796.0	247,488	125,289.0	122,198.6	122,198.6	98%
Education	7,379,979.0	7,636,824	2,591,481.6	5,045,342.6	5,045,342.6	195%
Primary health services	1,708,849.4	1,334,960	600,062.9	734,897.1	734,897.1	122%
Water	463,960.8	184,103	162,919.9	21,183.2	21,183.2	13%
Works	566,166.0	571,910	198,809.3	373,100.7	373,100.7	188%
Natural Resources	0.0	-	0.0	0.0	0.0	#DIV/0!
Community development, gender and children	28,095,133.6	6,182,840	9,865,613.8	-3,682,774.0	3,682,774.0	37%
Others	24,554,853.0	3,135,824	8,622,443.3	-5,486,619.3	5,486,619.3	64%
allocated expenditure	66,859,077.7	23,477,583.4	23,477,583.4	0.0	18,338,786.7	
contingency						
total expenditure	66859077.71	23477583.39				
overall (PI-1) variance						65%
composition (PI-2) variance						78%
contingency share of budget						0%



Table 4 ("000")						
Data for year =		2013				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Administration, Human resource management and development	3,079,774	3,445,957	4207484.388	-761,527.0	761,527.0	18%
Agriculture & Livestock	519,579	518,652	709831.3859	-191,179.5	191,179.5	27%
Education	5,762,002	7,778,122	7871853.684	-93,731.8	93,731.8	1%
Primary health services	1,389,829	1,670,618	1898737.992	-228,120.0	228,120.0	12%
Water	299,155	1,100,336	408695.5174	691,640.5	691,640.5	169%
Works	3,603,275	949,536	4922673.332	-3,973,137.3	3,973,137.3	81%
Natural Resources	24,000	1,525	32787.99424	-31,263.0	31,263.0	95%
Community development, gender and children	63,387	7,065,830	86597.1913	6,979,232.7	6,979,232.7	8059%
Others	2,603,520	1,164,927	3556841.616	-2,391,914.6	2,391,914.6	67%
allocated expenditure	17,344,522	23,695,503	23,695,503	-	15,341,746	
contingency						
total expenditure	17344521.6	23695503.1				
overall (PI-1) variance						37%
composition (PI-2) variance						65%
contingency share of budget						0%

Table 5 - Results Matrix

year	for PI-1 total exp. deviation	for PI-2 (i) composition variance	for PI-2 (ii) contingency share
2011	46.0%	33.5%	
2012	64.9%	78.1%	0.0%
2013	36.6%	64.7%	

Score for indicator PI-1:  
 Score for indicator PI-2 (i)  
 Score for indicator PI-2 (ii)  
 Overall Score for indicator PI-2

D  
 D  
 A  
 D+

# Annexure.8 Performance indicators summary

**Table 76: PEFA performance indicators summary**

<b>Performance Indicators</b>	<b>Description</b>	<b>PEFA 2015 rating</b>
<b>HLG-1</b>	<b>Predictability of transfers from a higher level of Government</b>	<b>NR</b>
(i)	Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget	D
(ii)	Annual variance between actual and estimated transfers of earmarked grants	NR
(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
<b>A. PFM Out-Turns: Budget Credibility</b>		
<b>PI-1</b>	<b>Aggregate expenditure out-turn compared to original approved budget</b>	<b>D</b>
<b>PI-2</b>	<b>Composition of expenditure out-turn compared to original approved budget</b>	<b>D+</b>
(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
<b>PI-3</b>	<b>Aggregate revenue out-turn compared to original approved budget</b>	<b>D</b>
<b>PI-4</b>	<b>Stock and monitoring of expenditure arrears</b>	<b>D+</b>
(i)	Stock of expenditure arrears	C
(ii)	Availability of data for monitoring the stock of expenditure arrears	D
<b>PI-5</b>	<b>Classification of the budget</b>	<b>C</b>
<b>PI-6</b>	<b>Comprehensiveness of information included in budget documents</b>	<b>C</b>
<b>PI-7</b>	<b>Extent of unreported government operations</b>	<b>A</b>

<b>Performance Indicators</b>	<b>Description</b>	<b>PEFA 2015 rating</b>
(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
<b>PI-8</b>	<b>Transparency of inter-governmental fiscal relations</b>	<b>D</b>
(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
<b>PI-9</b>	<b>Oversight of aggregate fiscal risk from other public sector entities</b>	<b>C</b>
(i)	Extent of monitoring public enterprises	NA
(ii)	Extent of Central Government monitoring of sub-national governments' fiscal position	C
<b>PI-10</b>	<b>Public access to key fiscal information</b>	<b>B</b>
<b>C. Budget Cycle</b>		
<b>(i) Policy-Based Budgeting</b>		
<b>PI-11</b>	<b>Orderliness and participation in the budget process</b>	<b>C+</b>
(i)	Existence and adherence to a fixed budget calendar	C
(ii)	Guidance on preparation of budget submissions	D
(iii)	Timely budget approval by the legislature	A
<b>PI-12</b>	<b>Multi-year perspective in fiscal planning, expenditure policy, and budgeting</b>	<b>D</b>
(i)	Preparation of multi-year fiscal forecasts and functional allocations	C
(ii)	Scope and frequency of debt sustainability analysis	D

<b>Performance Indicators</b>	<b>Description</b>	<b>PEFA 2015 rating</b>
(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
<b>(ii) Predictability and Control in Budget Execution</b>		
<b>PI-13</b>	<b>Transparency of taxpayer obligations and liabilities</b>	<b>D+</b>
(i)	Clarity and comprehensiveness of tax liabilities	D
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	C
(iii)	Existence and functioning of a tax appeals mechanism	D
<b>PI-14</b>	<b>Effectiveness of measures for taxpayer registration and tax assessment</b>	<b>D+</b>
(i)	Controls in the taxpayer registration system	D
(ii)	Effectiveness of penalties for non-compliance with registration and declaration	C
(iii)	Planning and monitoring of tax audit and fraud investigation programs	D
<b>PI-15</b>	<b>Effectiveness of collection of tax payments</b>	<b>NR</b>
(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	D
(iii)	Frequency of complete accounts reconciliation between tax assessments collections, arrears records and receipts by Treasury	D
<b>PI-16</b>	<b>Predictability in the availability of funds for commitment of expenditures</b>	<b>D</b>
(i)	Extent to which cash flows are forecasted and monitored	D
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	D
(iii)	Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	N/A

<b>Performance Indicators</b>	<b>Description</b>	<b>PEFA 2015 rating</b>
<b>PI-17</b>	<b>Recording and management of cash balances, debt and guarantees</b>	<b>C</b>
(i)	Quality of debt recording and reporting	C
(ii)	Consolidation of government's cash balances	C
(iii)	System for contracting loans and issuance of guarantees	C
<b>PI-18</b>	<b>Effectiveness of payroll controls</b>	<b>D+</b>
(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
<b>PI-19</b>	<b>Competition, value for money and controls in procurement</b>	<b>D+</b>
(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
<b>PI-20</b>	<b>Effectiveness of internal controls for non-salary expenditure</b>	<b>D+</b>
(i)	Effectiveness of expenditure commitment controls	D
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/procedures	C
(iii)	Degree of compliance with rules for processing and recording transactions	D
<b>PI-21</b>	<b>Effectiveness of internal audit</b>	<b>C+</b>

<b>Performance Indicators</b>	<b>Description</b>	<b>PEFA 2015 rating</b>
(i)	Coverage and quality of the internal audit function	C
(ii)	Frequency and distribution of reports	B
(iii)	Extent of management response to internal findings	C
<b>(iii) Accounting, Recording and Reporting</b>		
<b>PI-22</b>	<b>Timeliness and regularity of accounts reconciliation</b>	<b>B+</b>
(i)	Regularity of bank reconciliation	A
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	B
<b>PI-23</b>	<b>Availability of information on resources received by service delivery units</b>	<b>B</b>
<b>PI-24</b>	<b>Quality and timeliness of in-year budget reports</b>	<b>C+</b>
(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
<b>PI-25</b>	<b>Quality and timeliness of annual financial statements</b>	<b>B+</b>
(i)	Completeness of financial statements	B
(ii)	Timeliness of submission of financial statements	A
(iii)	Accounting standards used	A
<b>(iv) External Scrutiny and Audit</b>		
<b>PI-26</b>	<b>Scope, nature, and follow-up of external audit</b>	<b>C+</b>
(i)	Scope/nature of audit performed (including adherence to auditing standards)	B
(ii)	Timeliness of submission of audit reports to legislature	B
(iii)	Evidence of follow up on recommendations	C
<b>PI-27</b>	<b>Legislative scrutiny of the annual budget law</b>	<b>D+</b>
(i)	Scope of legislature's scrutiny	C

<b>Performance Indicators</b>	<b>Description</b>	<b>PEFA 2015 rating</b>
(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
<b>PI-28</b>	<b>Legislative scrutiny of external audit reports</b>	<b>C+</b>
(i)	Timeliness of examination of audit reports by the legislature	B
(ii)	Extent of hearings on key findings undertaken by the legislature	C
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	B
<b>D. Donor Practices</b>		
<b>D-1</b>	<b>Predictability of Direct Budget Support</b>	<b>N/A</b>
(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)	N/A
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	N/A
<b>D-2</b>	<b>Financial information provided by donors for budgeting and reporting on project and program aid</b>	<b>N/A</b>
(i)	Completeness and timeliness of budget estimates by donors for project support	N/A
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project management	N/A
<b>D-3</b>	<b>Proportion of aid that is managed by use of national procedures</b>	<b>N/A</b>

## Annexure.9 List of people met

**Table 77: List of people met**

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



S. No.	Name	Designation	Organisation
16.	Chausiku Nyanda	Financial Management Officer, PEFA Coordinator.	PMO – RALG
17.	Prwatus Lipili	Human Resource Officer	PMO – RALG
18.	Juma Mabrouk	Human Resource Officer	PMO – RALG
19.	Daria Justine Bujiku	Loans and Investment Financial Management Officer, PEFA counterpart	PMO – RALG
20.	Mustapha S Yusuf	Procurement Financial Management Officer	PMO – RALG
21.	Isaac Jeremah	Assistant Director	PMO-RALG
22.	Dennis 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.	Raheli Ntiga	Local Government Finance Division	Ministry of Finance
27.	Johnson Nyingi	Local Government Reform Programme II	PMO-RALG
28.	Steven Benedict	Chief Internal Auditor, and PEFA counterpart	RS Lindi
29.	Munguatosha Macha	Financial Management Officer, and PEFA counterpart	RS Geita
30.	Fulgence Luyagaza	Accountant and PEFA Counterpart	Kinondoni Municipal
31.	Waziri Ally	Accountant and PEFA Counterpart	PMO-RALG
<b><i>At the district level</i></b>			
<b>32.</b>	Shimwera	Municipal Director	Mtwara Mikindani MC
<b>33.</b>	Amon Mkocho	Municipal Planning Officer	Mtwara Mikindani MC
<b>34.</b>	Mariam Mwakasitu	Municipal Treasurer	Mtwara Mikindani MC
<b>35.</b>	Ramadhan Manesu	Economist	Mtwara Mikindani MC
<b>36.</b>	Joseph Wilbert	Municipal Internal Auditor	Mtwara Mikindani MC
<b>37.</b>	Baraka Kilango	Head of Human Resource	Mtwara Mikindani MC

<b>38.</b>	Castory Epiphania	Education Officer - Primary	Mtwara Mikindani MC
<b>39.</b>	Juma Chikojo	Education Officer - Secondary	Mtwara Mikindani MC
<b>40.</b>	Sosthenes Kulwa	Municipal Health Officer	Mtwara Mikindani MC
<b>41.</b>	Andrew Pembe	Head of Procurement Management Unit	Mtwara Mikindani MC
<b><i>PEFA Counterpart Team</i></b>			
<b>42.</b>	Steven Benedict	PEFA Counter Part	Lindi Regional Office
<b>43.</b>	Daria Bujilu	PEFA Counter Part	PMO RALG
<b>44.</b>	Fulgence Luyagaza	PEFA Counter Part	Kinondoni Municipal Council
<b>45.</b>	Ally Waziri	PEFA Counter Part	Bagamoyo District Council
<b>46.</b>	Munguatosha Macha	PEFA Counter Part	Geita Region
<b>47.</b>	Chausiku Nyanda	PEFA Counter Part	PMO RALG

## ***Annexure.10 List of Documents Referred to***

1. Public Financial Management Reform Programme IV Strategy Document
2. Memorandum of Understanding between DFID (acting on behalf of Government of the United Kingdom of Great Britain and Northern Ireland) and The United Republic of Tanzania for Public Financial Management Reform Programme Grants
3. Terms of Reference for Public Expenditure and Financial Accountability Assessment of 12 LGAs in Tanzania
4. Local Government Financial Memorandum
5. Local Government Accounting Manual
6. Local Government Finance Act
7. Local Government (District Authorities) Act 2002
8. Local Government (Urban Authorities Act) 2002
9. Tanzania at a glance, 2012, National Bureau of Statistics, Tanzania
10. The Constitution of United Republic of Tanzania
11. Public Procurement Act, 2011
12. Local Government Authorities Tender Board (Establishment & Proceedings) Regulations (2014)
13. Public Procurement Regulations (2013)
14. Government Loans, Grants and Guarantees Act (1974)
15. Public Finance Act (2001)
16. Guidelines For The Preparation Of Annual Plan And Budget For 2014/15 In The Implementation Of The Five Year Development Plan 2011/12-2015/16 (Including Annexure A)
17. Internal Audit Manual, 2013
18. Annual General Report on Local Government Authorities for 2012-13 by CAG
19. Public Audit Act
20. Public Audit Regulations 2009
21. Audit Financial Statements for 2011-12 (incomplete), 2012-13 and 2013-14 (incomplete)
22. CAG's Management Letter on Financial Statements of Mtwara Mikindani MC for 2012-13
23. MTEF of Mtwara Mikindani MC for 2014-17
24. Quarterly Internal Audit Reports for Mtwara Mikindani MC, 2013-14 and 2014-15
25. Budget guidelines issued by Ministry of Finance for 2014-15
26. Budget instructions issued by Mtwara Mikindani MC to LLGs, 2014-15
27. Reforming Tanzania's Public Sector, An Assessment and Future Direction, President's Office - State House, the United Republic of Tanzania, November 2013
28. Aide Memoire (Report), Joint Supervision Mission 2015, Public Financial Management Reform Programme (PFMRP)
29. Final Report, Mid-Term Review for the Public Finance Management Reform Program Phase Four Tanzania, September 2015, Ministry of Finance, the United Republic of Tanzania

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# ***Annexure.11 Confirmation for baseline assessment of Mtwara MC***



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

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