# Fostering Accountability

## Sub-National (Local Government) PEFA Assessment in Tanzania

Lindi District Council –Final Report

July 2016

pwc

# Contents

# Acronyms

| Acronym | Definition | Acronym | Definition |
|---|---|---|---|
| ACGEN | Accountant General | LGFA | Local Government Finance Act |
| AFROSAI | African Organisation of Supreme Audit Institutions | LGFM | Local Government Financial Memorandum |
| AFS | Annual Financial Statements | LGRP | Local Government Reform Programme |
| ACGEN | 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 | 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 | IAF | Internal Audi Function |

| | |
| --- | --- |
| **Fiscal Year** | **1 July to 30 June** |
| **Exchange rate** | **1 USD= 2019 Tanzanian Shilling (4th of June, 2015)**<br>**Symbol "TZS" indicates Tanzania Shillings and "USD" indicates United States Dollar** |
| **Financial Period** | **2011-12 to 2012-13** |

# 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 | D+ |
| **A. PFM Out-Turns: Budget Credibility** | | |
| **PI-1** | Aggregate expenditure out-turn compared to original approved budget | C |
| **PI-2** | Composition of expenditure out-turn compared to original approved budget | D+ |
| **PI-3** | Aggregate revenue out-turn compared to original approved budget | D |
| **PI-4** | Stock and monitoring of expenditure arrears | D+ |
| **B. Key Cross-Cutting Issues: Comprehensiveness and Transparency** | | |
| **PI-5** | Classification of the budget | C |
| **PI-6** | Comprehensiveness of information included in budget documents | C |
| **PI-7** | Extent of unreported government operations | B |
| **PI-8** | Transparency of inter-governmental fiscal relations | D |
| **PI-9** | Oversight of aggregate fiscal risk from other public sector entities | C |
| **PI-10** | Public access to key fiscal information | B |
| **C. Budget Cycle** | | |
| **(i) Policy-Based Budgeting** | | |
| **PI-11** | Orderliness and participation in the budget process | C+ |
| **PI-12** | Multi-year perspective in fiscal planning, expenditure policy, and budgeting | D+ |
| **(ii) Predictability and Control in Budget Execution** | | |
| **PI-13** | Transparency of taxpayer obligations and liabilities | D+ |
| **PI-14** | Effectiveness of measures for taxpayer registration and tax assessment | D |
| **PI-15** | Effectiveness of collection of tax payments | D+ |
| **PI-16** | Predictability in the availability of funds for commitment of expenditures | D |
| **PI-17** | Recording and management of cash balances, debt and guarantees | C |
| **PI-18** | Effectiveness of payroll controls | D+ |
| **PI-19** | Competition, value for money and controls in procurement | D+ |
| **PI-20** | Effectiveness of internal controls for non-salary expenditure | C |
| **PI-21** | Effectiveness of internal audit | D+ |
| **(iii) Accounting, Recording and Reporting** | | |
| **PI-22** | Timeliness and regularity of accounts reconciliation | B+ |
| **PI-23** | Availability of information on resources received by service delivery units | B |
| **PI-24** | Quality and timeliness of in-year budget reports | C+ |
| **PI-25** | Quality and timeliness of annual financial statements | B+ |
| **(iv) External Scrutiny and Audit** | | |

| | | |
|---|---|---|
| **PI-26** | Scope, nature, and follow-up of external audit | C+ |
| **PI-27** | Legislative scrutiny of the annual budget law | D+ |
| **PI-28** | Legislative scrutiny of external audit reports | D+ |
| **D. Donor Practices** | | |
| **D-1** | Predictability of Direct Budget Support | NA |
| **D-2** | Financial information provided by donors for budgeting and reporting on project and program aid | NA |
| **D-3** | Proportion of aid that is managed by use of national procedures | NA |

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

## 1.2. Context of the assessment- Data issues

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

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

## 1.3. Integrated Assessment of PFM performance

Lindi DC has been able to take advantage of the existing institutional structures for public financial management (PFM) in Tanzania to operate in a challenging environment. These structures include a defined legal and regulatory environment for PFM; well understood planning and budgeting framework; operations through EPICOR - the Integrated Financial Management System; accounting statements drawn up in line with IPSAS and the national requirements and audited by the Controller and Auditor General (CAG), an independent oversight authority. The Council Officials, in general, are aware of policies and procedures as well as expectations. Our assessment has also shown that Lindi DC has also performed reasonably well in difficult areas such as utilisation of fund transfers by restricting the deviation of actual expenditure from budgeted estimates to below the budget in all the 3 previous financial years. It has also restricted the variance between the composition mix of budgeted and actual expenditure thereby endorsing its credibility. However, some critical challenges remain which in their entirety may not necessarily be within the control of the LGA.

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

### *Predictability of Fund Flows*

The dependency of Lindi DC on the funds transferred by the Central Government was to the extent of 90-95% of its total inflows during the last 3 completed financial years. The uncertainties in their timing and actual availability is a serious impediment to the overall planning and budget execution process at the LGA level. The problems are further aggravated due to the relative non transparency of rule based transfers which do not always work effectively in practice in a situation of cash rationing and resource crunch. 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. Even though revenue forecasting performance has been relatively satisfactory as compared with other LGAs with lesser volatility between planned and actuals, the uncertainties in the tax base for critical items such as produce cess coupled with the absence of a credible system for recording tax receivables and arrears on a comprehensive basis show weaknesses in the underlying systems for revenue which need to be handled to ease the over dependence of the LGA on central finances.

### *Controls over Budget Execution*

The commitment controls systems are in disarray in spite of availability of EPICOR, the accounting system that can accommodate ceilings to pre-empt expenditures beyond budgets. This is because of purchase orders that are raised outside the system. 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 certain areas of concern referred to by both the internal auditors as well as the CAG. These relate to the appeals mechanism for taxes and procurement at the LGA level. Overall internal controls are weak and these have been referred to by the internal auditors in their reports to show deficiencies in several areas that include lack of document controls, non-adherence to authorization procedures, absence of timely banking of collections etc. The non-availability of dates of distribution of internal audit reports and absence of a structured system of follow-up of audit observations reflects the general weaknesses in overall accountability structures related to PFM functions.

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

The budget alone cannot be considered to be a credible indicator to actual expenditure incurred by Lindi DC. However, credibility of the budget is impaired mainly due to (i) low predictability of Higher Level of Government (HLG) transfers (ii) low capacity in accurate estimation of own source revenue collections which led to higher volatility ranging from 136% to 154% in the last 3 years (PI-3), (iii) significant variations in composition of expenditure during the year from that planned in the budget during the financial year. Expenditure composition variance was 26.5%%, 22.3% and 32.0% in 2011-12, 2012-13 and 2013-14 respectively. This reflects changes in the priorities of the Government during the course of the year, (iv) lack of data on stock of payment arrears which is understood to be generally high across the country (including local governments). Partial estimates of payment arrears from disclosed trade payables in the financial statements showed that they amounted to 2.26% of total expenditure in 2013-14.

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

While Lindi DC'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 the functional classification in line with COFOG. The consolidated budget book prepared by the Council did not include four of the six applicable information benchmarks prescribed under the PEFA framework. Of the eight budget and expenditure related documents recommended for public access, the LGA provides five for public dissemination. However, these are matters at present determined by central directives and hence not within the full control of the LGA.

In addition, 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.

### *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 Lindi DC, we understand this has often become an academic activity of extrapolation of figures.

As a consequence, in spite of overlap in the years of coverage in an MTEF, forward year forecasts are not taken as the basis for budgeting but rather the approved budget of the preceding year. It is therefore, also not surprising that linkage between investment budgets and forward expenditure estimates are fragile.

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

## *Predictability and control in budget execution*

### *Revenue Administration Systems (PI 13-15)*

Based on the GFS (2001) manual, the relevant sources of revenue which can be classified as taxes for Lindi DC are (i) Produce cess and (ii) Service levy. The key challenges in revenue administration include: (i) lack of focused efforts and absence of any dedicated information desks leading to the Council not being able to counter the challenges of general low awareness levels of the nature and nuances of each tax and their methods of collection; (ii) lack of a comprehensive database of potential taxpayers for certain key taxes such as produce cess ; and (iii) clarity on completeness of the service levy tax database especially for small businesses that do not have tax identification numbers linked to the national system.

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

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

Central Government transfers constitutes significant portion of Lindi DC's revenues. No information on expected periodic transfers from the Central Government is shared with the District Council. The general uncertainty in the availability and timing of cash flows, therefore, makes any credible cash forecasting a difficult task. There are no cash flow plans of the District Council at the start of the financial year. The District Council also is not in a position to provide in-year information on ceilings to departments for expenditure commitments.

From the assessment, the team confirmed that Lindi DC has never had any debt in the past. Large number of bank accounts that were used previously were later consolidated to seven accounts only. End year balances for each account is available in the AFS.

**Payroll Controls (PI-18):** With the implementation of Human Capital Management Information System (HCMIS) payroll systems have improved. The Central Government has conducted a major Payroll cleaning Exercise through which substantial leakages have been corrected. However, there are some areas which still need to be strengthened. The internal controls over the payroll are still weak, although, as a recent intervention, the Paymaster General has issued a circular requiring all internal auditors to indicate the status of implementation of previous audit recommendations (both CAG and Internal Audit) involving payroll there are cases of pending arrears related to promotion or new hires. The absence of documented verification at LGA level on inputs made to the payroll system and the absence of focused periodic payroll audits reflect the absence of suitable oversight mechanisms in this important functional area.

**Procurement (PI-19):** Majority of the procurement at the district is done through open competitive bidding. In the cases where alternative methods of procurement are adopted, required justification is provided. With the implementation of Public Procurement Act 2011 , Public Procurement Regulation 2014, and Local Government Authorities' Tender Boards (Establishment And Proceedings) Regulations, 2014 (LGA TB), the legislative framework has significantly strengthened. Transparency in public procurement at the LGA level appears to be broadly in line with the requirements of the Regulation. Procurement notices are published on the Council's notice boards as well on the Public Procurement Regulatory Authority's (PPRA's) website. However, appeal mechanism needs to be improved.

**Other Internal Controls (PI-20):** Effective commitment control through the budgetary ceilings cannot be implemented due to cash rationing with cash limits being fed into the EPICOR system once 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 has referred to weakness resulting in excess payments, inadequacy of document and records, improper authorization of expenditure. Overall operational controls therefore appear to be requiring appreciable improvements considering the nature of deficiencies observed by the auditors.

**Internal Audit (PI-21):** Internal Audit in Lindi DC is conducted as per the annual risk based audit plan. The Internal Auditor prepares quarterly audit reports and submits report to the auditees, the CAG and Internal Auditor General. Our observations showed that the audit focus of the audit plan in terms of budgeted time was 24% in general and administration areas, 19% in health and education with the balance allocated to different other departments and projects. Audit reports showed that about half of the audit issues related to systemic weaknesses while the balance related to transactions. However, it is difficult to segregate the age of past pending issues as both the first two quarters of FY2014-2015 internal audit reports had no indications on implemented recommendations from the previous year. Additionally, management responses to the issues identified remains a challenge. The CAG Management Letter also refer to the need to improve quality of audit papers, adherence to plans, adequate review of internal controls and improve on functioning of the Audit Committee as regards its supervision and oversight functions.

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

Bank reconciliations are regularly performed in all bank accounts on a monthly basis and are available by the 15$^{th}$ of the following month for the previous month. There is no backlog as bank reconciliations were completed by the month of January 2015.

There appears to be adequate control information over imprest/staff balances, as data on staff dues/imprests suggested that the advances to villages have been outstanding between three and twelve months and salary advance and imprest to the staff have were not outstanding for more than one month.

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 Lindi DC. 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 prepared and issued on a monthly basis for discussions with the Finance Committee and with the full Council on a Quarterly basis.

Lindi DC prepared its AFS, as confirmed by the CAG, based on the International Public Sector Accounting Standards (IPSAS) and the provisions of the LGFA. Para 31(3) of the Local Authority Financial Memorandum (LGFM) prescribes the composition of the AFS.

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 Lindi are already on accrual basis. However, considering the quality issues referred to by the CAG as above, the general challenges of ensuring full compliance with accrual based IPSAS referred to by CAG in the Annual Report which includes imminent need for training of personnel, and the requirement of full compliance with each and every standard prescribed by IPSAS to be deemed as fully compliant, it may require more time and efforts for the LGAs to stabilize accrual based IPSAS.

### *External scrutiny and audit (PI-26 to PI-28)*

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

The Laws and Regulations governing external audit includes The Constitution of Tanzania, Local Government Finance Act 1982, Public Audit Act 2008 and Public Audit Regulations 2009. External audit of the LGA covers financial audit as well as the review of internal control systems. The CAG observations on the control weaknesses are provided in the Management Letter to the District Executive Director of the Council. External audit focusses on 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.

Available evidence points to consideration of budgets and audited financial statements by the Finance Committee and the Full Council of the LGA. However the time available for approval of the budget to the Finance Committee appeared to be very short and it was not clear whether informal deliberations precede 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) non-payment of payables (ii) lack of linkages between medium term development objectives, medium term expenditure planning and annual budgets, and (ii) weak estimation of own source revenue collection. In the last three years, own revenue outturn has been significantly lower 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) management response to the recommendations remains poor.

### *Service delivery and value for money*

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

## 1.5. Government Reform Processes

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

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

GoT and implementing agencies at all levels have demonstrated commendable ownership and commitment in roll-out activities, as is evidenced by the findings of the Mid Term Review of PFMRP IV as well as by the Joint Supervision Mission for PFMRP held in Sept-Oct 2015. Progress in the LGA component of reforms has been found to be good with most of the milestones 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 (the GoT) is in the process of improving Public Financial Management (PFM) systems across the public sector. Various reforms have been implemented since 1998, as part of the Public Financial Management Reform Programme (PFMRP). The Programme is currently in its fourth phase, with some of the programme targets, 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 systems. The Government is currently implementing the action plan drawn to address these issues 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 Lindi District Council (DC). This is the first assessment of Lindi DC using PEFA methodology.

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 for this assessment has been done by GoT through the Ministry of Finance (MoF) as it did for the national level assessment in 2013. The overall assessment is being managed by the PEFA Task Force Committee who acts as an oversight team of the assessment in the 12 LGAs. The Committee composed of members from the MoF, PMO-RALG and the PFM Development Partners Group (DPG). The PFM DPG is a subgroup under Cluster working group 4 of the DPG main. The Group's role is to coordinate harmonization and alignment of Development Partner's efforts for effective dialogue with the GoT in the area of Public Financial Management (PFM). PFM DPG is currently co - chaired by DFID and Denmark. The Group comprises of DFID, KfW (German Development Bank) and the World Bank and includes other donors providing technical or financial assistance to PFM reforms in Tanzania. DFID, World Bank and KfW are the three independent reviewers of the PEFA reports besides the government and the PEFA Secretariat.

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

The MoF has established two counterpart teams comprising in total of six members[2]. Out of these six members, two are from PMO-RALG, two from Regional Administrative Secretariat (RAS), and the remaining two are from LGAs (exclusive of the LGAs assessed under this project).

Field visits to the LGAs were preceded by a project kick-off meeting, stakeholder discussions at the central level and followed up by a training workshop on PEFA methodology contextualized to the local governments. The broad scope of the assignment was finalized in the kick-off meeting. PFMRP Secretariat, MoF played a critical role in facilitating meetings with the concerned stakeholders. These included key officials in 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), development partners, 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.

In compliance with the PEFA Secretariat's requirements of a balanced PEFA exercise and as required by the terms of reference, the consultants have also held discussions with the Association of Local

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

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

Authorities of Tanzania[3] (ALAT) which is a registered civil society organization, Twaweza and Sikika (non-government organizations operating in the health and education sectors respectively in the Country) and Confederation of Tanzania Industries (TCI) to corroborate and supplement findings from field visits with information from non-state actors.

Field visit to Lindi DC was carried out on the 19th and the 20th of February 2015. Subsequently, an individual draft LGA report was prepared and submitted to the following stakeholders for review and comments on 02nd June 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 Lindi DC 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 Lindi DC. This DCR was presented and discussed with the stakeholders at the Verification/Validation workshop held in Morogoro on 17 November 2015 and feedback was obtained at the workshop as well as subsequently. The final draft report for Lindi DC was submitted on 18th April, 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 Appendix 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 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

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

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

## 2.4. Dependency of Lindi DC on the Central Government

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

**Table 2 : Dependency on the Central Government 2011-2013 (Lindi DC), TZS million**

| Item | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|
| Total revenue | 17,172 | 18,373 | 20654 |
| Recurrent grant | 14,131 | 14,921 | 15921 |
| Development grant | 2,278 | 2,659 | 3535 |
| Total grants | 16,409 | 17,581 | 19456 |
| **Dependency[4]** | **95.56%** | **95.69%** | **94.2%** |

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

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.

[4] Dependency is computed as total grants divided by total revenue..

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

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

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

# 3. Country background

## 3.1. Country Economic Situation

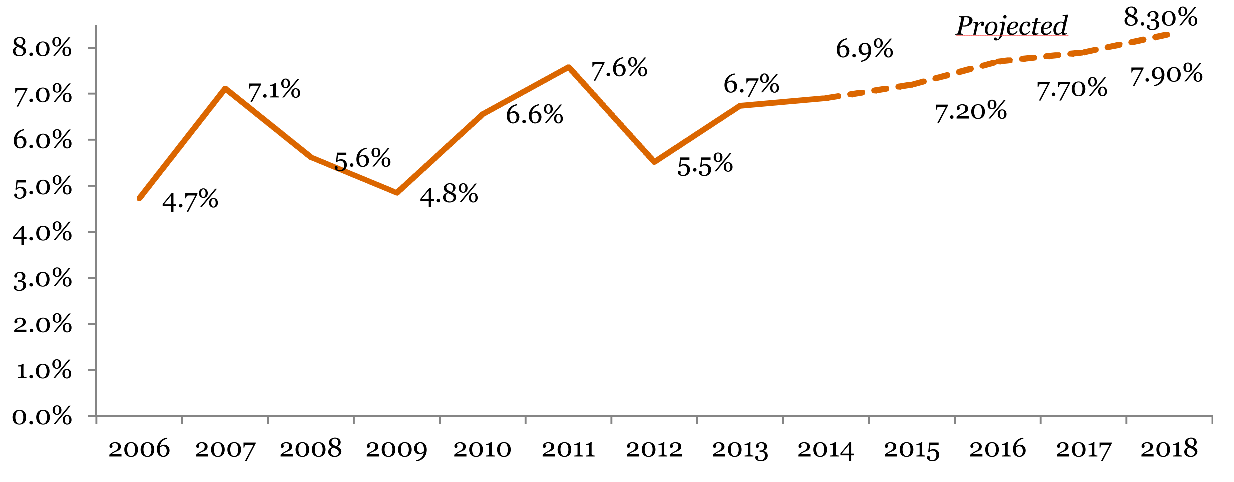
### 3.1.1. Country Context

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

#### Gross value added

Tanzania has made impressive economic growth in the last decade and is expected to transit from "low income" category[5] to "lower middle income" category in 2015. Figure 1 shows growth rate of Tanzania's Gross Value Added (GVA). The economy has been growing at an average annual growth of 6.2% since 2006 as compared with growth rate of 4.7% for developing countries in Sub-Saharan Africa as a group. As per the Government of Tanzania's projections, the economy is expected to achieve 8.3% growth by 2018. In comparison with its eight bordering countries, Tanzania's performance has been better than Kenya, Burundi, and Malawi. Though economies such as Rwanda, Uganda, Mozambique and Democratic Republic of Congo are growing at a higher rate relative to Tanzania, it should be noted that these economies are at earlier stages of economic development and are therefore, at a smaller base of GVA in comparison with Tanzania

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



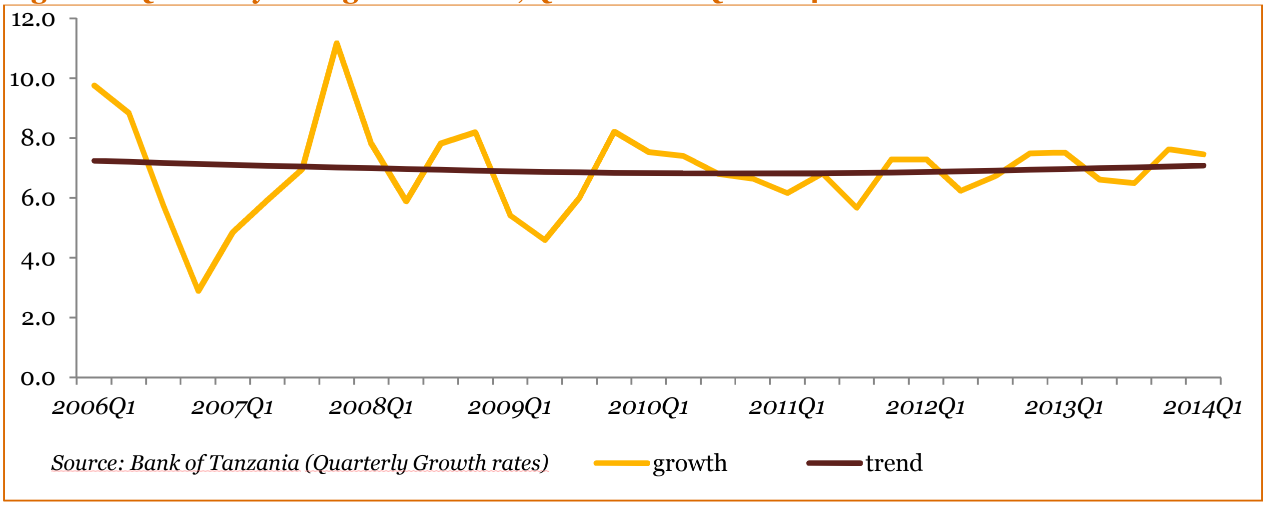

*Source: Bank of Tanzania (figures till 2014), Government of Tanzania Budget Books, 2015-16 (Projected figures post 2015)*

Apart from high growth, Tanzania has also achieved greater economic stability within the year, i.e. quarterly growth rates closely revolve around "trend growth rates (or average sustainable growth rate)[6]". Figure 2 shows quarterly growth rates for the Country since 2006. It can be inferred that post third quarter of 2009, volatility in quarterly growth declined sharply and it closely revolved around

[5] With per capita income of $1,045 or less, (World Bank )
[6] The average sustainable rate of economic growth over a period of time estimated through Hodrick-Prescott filter method.

the "trend growth rate". Lower volatility in economic growth improves predictability in government revenues and strengthens the ability of government to implement policy reforms.

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




*Source: Bank of Tanzania (Quarterly Growth rates)*

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

## *Growth inclusiveness*

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

## *Social-economic profile*

Fertility rate in rural areas (6.1) is nearly double that of the urban areas (3.7). With lack of economic opportunities in rural areas, mainly due to stagnation of the agriculture sector, the population pressure in the rural areas has thus fueled rural-urban migration. The percentage of population living in urban areas has gone up from 22% in 2002 to 29% in 2012. While quality as well as access to infrastructure is impressive in urban areas (specifically Dar es salaam), the population in rural areas is severely deprived of similar services. For example, in 2012, nearly 64% of households in Dar es

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

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

### *Price movements*

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

### *Savings and external sector*

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

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

Worsening of current account has impacted the foreign exchange reserves but ability to meet foreign obligations remains high. This is majorly due to accumulation of foreign exchange reserves in the first decade of 21st century. Import adequacy of reserves (measured by months of imports of goods and services that foreign exchange reserves can serve) was 4.2 months in 2013-14, higher than the target set by Bank of Tanzania[8]. Ability of foreign exchange reserves to meet short term external debt obligations has improved. Short term debt as percentage of foreign exchange reserves has gone down from 50% in 2005 to 35% in 2013.

### *Financial sector*

The Bank of Tanzania has been successful in meeting its principal objective as set out in Bank of Tanzania Act, 2006, i.e. the primary objective of the Bank shall be to formulate, define and implement monetary policy directed to the economic objective of maintaining domestic price stability

[8] June 2005, Monetary Policy Statement, Bank of Tanzania

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

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

## 3.2. Budgetary Outcomes

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

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

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

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

*Source: Ministry of Finance, Government of Tanzania*

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

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

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

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

*Source: Ministry of Finance, Government of Tanzania*

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

## 3.3. Legal and Institutional Framework for Public Financial Management

### 3.3.1. Legal framework

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

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

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

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

- Article 139-authorisation of expenditures from the Consolidated Fund in case the Appropriations Act has not yet come into operation;
- Article 141-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 on.

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

**Table 5: Overview of laws and regulations**

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

*Though the institutional structures of PFM are in general well understood, the legislative framework is characterized by a multiplicity of laws at central, sectoral and LGA levels as also related policies that require to be harmonized. This is a necessity keeping in mind the government policy on Decentralization by Devolution (D by D). 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 CG as well as to the people. None of these are achievable on their own and the whole process is of continuous consultation and perseverance.*

### *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) 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.

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

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

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

The Judiciary at the LGA level 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[9].

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 is to play a leading nodal role in coordination, oversight as well as delivery of specific activities.

**Functional responsibilities**

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

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

### *3.3.3. Key features of the PFM System*

All LGAs in Tanzania follow the country-wide PFM cycle although with varying strengths and weaknesses in the respective PFM elements for each LGA 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.

[9] Currently, although LGAs are autonomous legal entities, currently their accountability to the people down wards to the people 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).

### 3.3.3.1. 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 $10^{th}$ 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 (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 Word 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) from 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

Lindi DC is part of the Lindi Region and is divided into two Constituencies, 9 Divisions, 30 wards and 138 registered villages. Its economy is primarily dependent on agriculture (75%) along with other sources of income being such as raising livestock, manufacturing, mining and natural resources (especially fish). The District has huge potential for irrigation, as Lindi district has 15,718kms of potential area for agriculture.

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

**Table 6: Factsheet-Lindi District**

| Item | Unit | Value |
|---|---|---|
| Population (Census 2012) | No. | 194,143 |
| Area | Sq. Km | 6,623 |
| Suitable for agriculture | Sq. Km | 5,718 (84%) |
| Share in region's population | % | 14% |
| Share in region's area | % | 10% |
| Average household size | No. | 3.7 |
| Population density | Per 1000 km | 28.1 |
| Leading sectors | | Agriculture, Livestock, Manufacturing, Mining And Natural Resources |
| Agriculture share in GDP | % | 75% |
| Agriculture share in employment | % | 84% |
| Poverty rate | % | 51% of rural population |
| Per capita income | TZS | 574,282 (300 USD) |

*Source: National Bureau of Statistics, Tanzania*

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

| Category | Indicator | Total | Arusha | Kilimanjaro | Tanga | Morogoro | Lindi | Mtwara | Kigoma | Mwanza | Mara |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Economy | Share in GDP (Market prices)-2013 | 39.1% | 4.7% | 4.5% | 4.7% | 4.8% | 1.8% | 2.5% | 2.9% | 9.4% | 3.7% |
| Land Share | Land Area (Sq. km) | 885803 | 37576 | 13250 | 26677 | 70624 | 66040 | 16710 | 37040 | 9467 | 21760 |
| | Share in total land | 33.8 | 4.2 | 1.5 | 3.0 | 8.0 | 7.5 | 1.9 | 4.2 | 1.1 | 2.5 |
| Size of serving population | Population (2012) in "000" | 43625 | 1694 | 1640 | 2045 | 2218 | 1377 | 941 | 2458 | 1425 | 702 |
| | Share in National Population (2012) | 33.2% | 3.9% | 3.8% | 4.7% | 5.1% | 3.2% | 2.2% | 5.6% | 3.3% | 1.6% |
| | 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 |

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

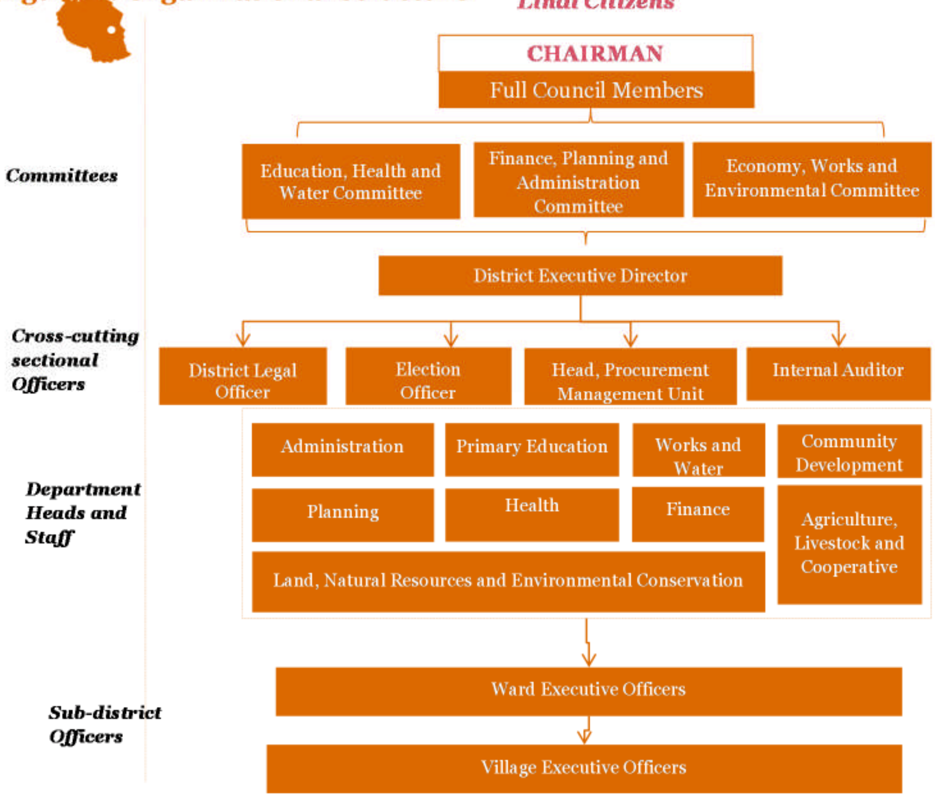
*Source: National Bureau of Statistics, Tanzania*

## 4.2. Institutional Structure of LGA

Figure 8 shows the organizational structure of Lindi DC. At the apex of Lindi DC's organization structure are the people of Lindi District (citizens) who are represented by the Councillors (Full Council). The Councillors essentially work as an intermediary between the citizens and the Council relaying the messages both from the citizens to the council and from the Council to the citizens. Administratively, Lindi DC has nine departments headed by a Departmental Head. Council staff are recruited by PO-PSM and paid by the central government.

Additionally, Lindi DC has four units namely: Internal Audit; Legal; Procurement Management; and Election. Staff within these sections have the responsibility for ensuring that the departments

**Figure 8: Organizational Structure**



perform as required by the law and provide assistance in the efficient operation of council. Externally, there are three standing committees in Lindi DC that, that also assists in the operations of the council. The committees are:

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

## 4.3. Fiscal Performance of LGA

As shown in Table 2, the Central Government grants constitutes significant portion of LGA's total revenues (on average 93.87%). Table 9 shows the trend of revenues for Lindi DC for the last three years. At an aggregate level, total revenues of Lindi DC increased year after year from FY12 to FY14.

In the financial years 2011-14, on average 95% of total revenues came from recurrent and development grants. This clearly shows that trend of recurrent and development grants guides the overall performance on the revenue front. Local taxes went down in 2012-13 and again went up in 2013-14. This led to increase in share of local taxes in total revenues from 2.5% in 2012-13 to 4.1% in 2013-14. Other major source of revenue is "other own revenues". In 2013-14, it was 27% of total revenues which constituted majorly the in-kind government grants to the LGA.

**Table 9: Revenue performance, 2011 to 2013, TZS million**

| Items | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|
| *Local Taxes* | 586 | 466 | 837 |
| *Fee, fines, penalties and licenses* | 21 | 7 | 27 |
| *Revenue from exchange transactions* | 27 | 0 | 3 |
| *Other own revenue* | 130 | 320 | 332 |
| ***Total Own Source Revenue*** | **763** | **793** | **1198** |
| *Recurrent Grants* | 14,131 | 14,921 | 15921 |
| *Development Grants* | 2,278 | 2,659 | 3535 |
| ***Total Revenues*** | **17,172** | **18,373** | **20654** |

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

Table 10 shows the total expenditure of Lindi DC for the last three years by economic categories. Largest component of total expenditure is "wages, salaries and employee benefits" constituting on an average nearly 70% of total expenditure.

**Table 10: Total expenditure 2011 to 2013, TZS million**

| Economic Category Name | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|
| Wages, salaries and employee benefits | 11,570 | 10,796 | 13,114 |
| Supplies and consumables used | 965 | 2,115 | 1,919 |
| Maintenance expenses | 1,104 | 1,215 | 802 |
| Grants and other transfer payments | 1,214 | 988 | 922 |
| Finance costs | 1 | 0 | 0 |

| Economic Category Name | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|
| Impairment of other financial assets | 7 | 8 | 8 |
| Capital Expenditure | 1,443 | 2,213 | 3,700 |
| **Total Expenditure** | **17,332** | **17,334** | **20,465** |

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

Table 11 shows total expenditure by departments in the last three completed financial years. It should be noted that sector wise expenditure (as required by the PEFA Framework) is not available. The assessment of expenditure has been done by departments which majorly reflect priorities of the government across sectors. Top three departments attracting largest public expenditure at the LGA level are education, health and community development, gender and children with average shares 45%, 10%, and 6% respectively in the last three completed financial years. Administration being a cross cutting department had an average share of 17.3% in total expenditure of the Council in the last three completed financial years.

**Table 11: Total expenditure by departments, TZS million**

| Department Name | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|
| Administration | 4,396 | 2,828 | 2,108 |
| Human resource management and development | 965 | 2,012 | 589 |
| Trade and economic affairs | 0 | 0 | 4 |
| Livestock | 0 | 0 | 0 |
| Agriculture | 595 | 1,192 | 1,214 |
| Education | 7,529 | 6,798 | 10,428 |
| Primary health services | 1,961 | 2,137 | 1,719 |
| Water | 739 | 848 | 1,548 |
| Works | 497 | 679 | 732 |
| Lands | 99 | 102 | 74 |
| Natural resources | 0 | 0 | 101 |
| Community development, gender and children | 552 | 737 | 1,948 |
| **Total expenditure** | **17,332** | **17,334** | **20,465** |

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

The Table 12 below shows deficit/surplus for Lindi DC. In the two of the last three years, Lindi DC was in surplus. There is a positive trend in LGA revenue from 2011-12 at TZS 17 billion to TZS 20 billion in 2013-14, indicating progress in the revenue collection of the council, albeit a decline between 2012-13 and 2013-14.

**Table 12: Deficit/surplus, Lindi District Council, TZS million**

| Item | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|
| **Total Revenue** | 17,172 | 18,373 | 20,654 |
| **Total Expenditure** | 17,332 | 17,334 | 20,465 |
| **Surplus (-)/Deficit (+)** | **160** | **1,036** | **-189** |

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

# 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 13 shows transfers from the high level of government to the Lindi DC for the period 2011-12 to 2013-14. During this period, actual total high level government transfers were lower than budgeted by 12%, 9% and 20% respectively.

**Table 13: Transfers from the higher level of government, 2011-12 to 2013-14, TZS million**

| Year | | Recurrent Grants | Development Grants | Total Grants |
|---|---|---|---|---|
| 2011-12 | Budget | 16,904 | 1,819 | 18,722 |
| | Actual | 14,131 | 2,278 | 16,409 |
| | **Deviation** | **-16%** | **25%** | **-12%** |
| 2012-13 | Budget | 17,104 | 2,163 | 19,266 |
| | Actual | 14,921 | 2,659 | 17,581 |
| | **Deviation** | **-13%** | **23%** | **-9%** |
| 2013-14 | Budget | 18876 | 5488 | 24363 |
| | Actual | 15921[10] | 3535 | 19456 |
| | **Deviation** | **-16%** | **-36%** | **-20%** |

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

The pattern of under transfers reflects the general uncertainty in the fund flows for the LGA which is over dependent on such receipts since they constitute on an average 95% of its total revenues.

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

In case of Tanzania, all transfers are earmarked in nature. Under this dimension, variance between estimated and actual transfers from the higher level of government across various transfer items needs to be assessed. There are only three kinds of grants i.e., recurrent block grants, subventions, and development grants. Actual transfers across various projects of recurrent and development nature is available but estimated transfers across various projects of recurrent and development nature are not available. Therefore, the dimension has not been rated.

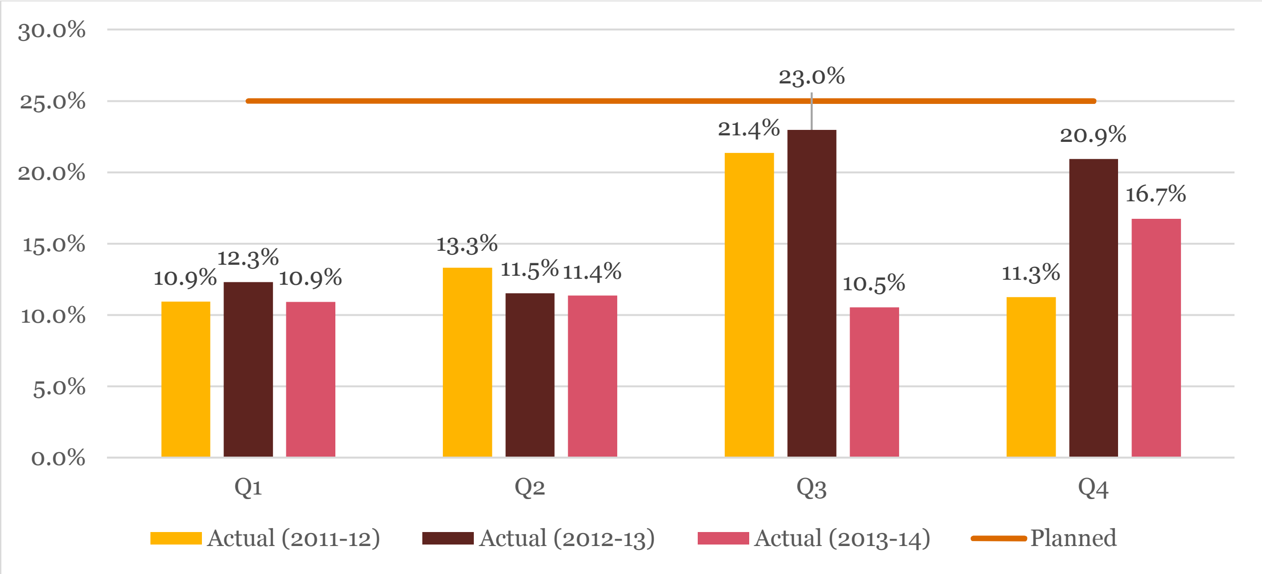
**(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within of month of the start of the SN fiscal year)**

[10] Includes Receipts in kind amounting TZS 796 million in 2013-14.

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[11], in the absence of any disbursement timetable, a default of quarterly equal distribution is to be used.

Figure 3 shows distribution of actual disbursements in 2011-12, 2012-13 and 2013-14. Horizontal line shows assumed disbursement timetable (i.e., equal distribution across quarters). Over the last three years, Quarter 3 and Quarter 4, broadly, experienced higher disbursements in comparison with other quarters. Average timing of transfers to the LGA (weighted by the amounts transferred) was 6.65 months in 2011-12, 7.11 months in 2012-13, 6.8 months in 2013-14. In line with definition of "Frontloading" in the sub-national guidelines (less than 6 months of average transfer time), it can be inferred that in none of the previous three financial years (2011-12, 2012-13, 2013-14), the actual transfers have been distributed evenly or with some frontloading.[12]

**Figure 3: Actual disbursement v/s planned, 2011-12, 2012-13, and 2013-14[13]**




*Source: Lindi District Council*

Overall it can be seen that in the last three financial years, the predictability of HLG transfers was low due to both deviation in quantum of funds distributed as well as timelines of transfers.

**Table 14: Summary rating for HLG-1**

| Indicator | Rating | Brief explanation |
|---|---|---|
| **HLG-1: Predictability of Transfers from a Higher Level of Government** | **D+** | |

[11] Page 10, footnote 4
[12] Please note that total transfers under dimension (iii) calculated through summation of transfers across various dates is different from total actual transfers under dimension (i). The variations are approximately 30% across all the years.
[13] Percentage figures shows actual disbursements vis-à-vis annual budget estimates.

| Indicator | Rating | Brief explanation |
|---|---|---|
| (i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget | C | In no more than one of the last three completed financial years, HLG transfers fallen short of the estimate by more than 15%. |
| (ii) Annual variance between actual and estimated transfers of earmarked grants | NR | Actual transfers across projects are available but estimated transfers across projects for both recurrent and development nature is not available. |
| (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) | D | In none of the three financial years, actual disbursements was evenly distributed (or with some front loading) within the year. |

## 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 Lindi District Council which is highly dependent on the Central Government transfers of funds, the budgetary performance is dependent on not just its ability to spend the resources but also on the Central Government transferring budgeted resources in a time.

Subject to our comments on data issues, the comparison of aggregate actual total primary expenditure with the original budget shows negative deviations of 9.8% in 2011-12, 12.4% in 2012-13 and 18.9% in 2013-14. The negative deviation in total primary expenditure can be mainly related to low predictability in *quantum and timelines* of the Central Government transfers as outlined in HLG-1.

One of the key cause of deviation in expenditure outturn is shortage of staff. As per the management letter for 2013-14, the council had vacancy of nearly 38%. The deficiency was scattered across all departments including key department such as primary education, administration, agriculture, health.

**Table 15: Aggregate primary expenditure outturn as compared with budget 2011-12 to 2013-14, TZS million[14]**

| *Item* | *2011-12* | | *2012-13* | | *2013-14* | | *Deviation* | | |
|---|---|---|---|---|---|---|---|---|---|
| | Budget | Actual | Budget | Actual | Budget | Actual | 2011-12 | 2012-13 | 2013-14 |
| Total Expenditure | 19,215 | 17,332 | 19,790 | 17,334 | 25,239 | 20,465 | -9.8% | -12.4% | -18.9% |

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

**Table 16: Summary rating for PI-1**

| Indicator | Rating | Brief explanation |
|---|---|---|
| **PI-1 Aggregate expenditure out-turn compared to original approved budget** | | |
| (i) The difference between actual primary expenditure and the originally budgeted primary expenditure. | **C** | In 2013-14, actual aggregate primary expenditure was 18.9% less than the budgeted aggregate primary expenditure. In none of the remaining two financial years, actual primary expenditure deviated from budget by more than 15%. |

## *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 primary 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 primary expenditure.

The PEFA framework recommends analysis of expenditure outturn by each of the main functional classifications. In Lindi DC, budgets are available by 12 functions in 2013-14. The list of functions are (1) Administration, (2) Human resource management and development, (3) Trade and economic affairs, (4) Livestock, (5) Agriculture, (6) Education, (7) Primary Health Services, (8) Water, (9) Works, (10) Land, (11) Natural Resources, (12) Community Development, gender and children.

[14] PEFA Field guide requires comparison of aggregate primary expenditure outturn as against the budget. Firstly, in case of Lindi District Council, there was no interest payment made on the borrowings in 2011-12, 2012-13 and 2013-14. Secondly, donor funded expenditure as mentioned in the Data Note has been included in the analysis. Therefore, aggregate expenditure can be termed as aggregate primary expenditure.

**Table 17: Variation in the composition of primary expenditure, 2011-12 to 2013-14**

| Year | for PI-2 (i) composition variance |
|---|---|
| 2011-12 | 26.5% |
| 2012-13 | 22.3% |
| 2013-14 | 32.0% |

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

Analysis of the composition of primary expenditure on an functional basis reveals variation of 26.5% in 2011-12, 22.3% in 2012-13, and 32% in 2013-14.

Table 18 shows function wise deviations in actual expenditure from the budget. Key functions of the LGA are Education, Primary Health Services and Administration together contribute on average 77% of the total actual expenditure in the last three financial years. Deviations in these functions across the years have been reflected in overall expenditure composition as shown in Table 17.

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

| Function | Average Share | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|
| Administration | 18% | 55.4% | -8.5% | -6.2% |
| Human resource management and development | 4% | -52.0% | -53.1% | -14.0% |
| Trade and economic affairs | 0% | - | - | -87.7% |
| Livestock | 0% | - | - | - |
| Agriculture | 4% | -50.0% | -18.1% | -36.4% |
| Education | 46% | 10.7% | 14.9% | 30.7% |
| Primary health services | 13% | -8.3% | 34.9% | -41.7% |
| Water | 5% | -12.9% | -54.1% | -30.3% |
| Works | 4% | -26.8% | 25.5% | -32.2% |
| Lands | 0% | -3.3% | -73.5% | -46.2% |
| Natural resources | 0% | - | - | 12.6% |
| Community development, gender and children | 6% | -25.0% | -6.2% | 71.3% |

*Source: Annual Financial Statements, 2011-12 (Audited), 2012-13 (Audited) and 2013-14 (Unaudited) ("-" implies no budget was made for the concerned function in that year)*

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

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

**Table 19: Summary rating for PI-2**

| Indicator | Rating | Brief explanation |
|---|---|---|
| **PI-2 Composition of expenditure outturn compared to original approved budget.** | **D+** | |
| (i) Extent of the variance in expenditure composition during the last three years, excluding contingency items | D | Variance in expenditure composition exceeded 15% in all preceding three completed 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 Lindi DC. |

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

Robust revenue forecast is essential for preparation of the credible budget. In case of over optimistic revenue forecasts for the financial year, the government commits to spending higher amount in comparison with revenues which results in high fiscal deficit. On the other hand, in case of very pessimistic revenue forecasts, proceeds from over-realization are then used for spending which has not been subject to budget scrutiny.

The revenue data in the financial statements is sufficiently disaggregated by major revenue heads. The revenue estimates are prepared by the District Treasurer taking inputs from various departments.

In case of Lindi DC, largest component of own source revenue is tariff on sesame (38% average share in 2011-12, 2012-13 and 2013-14) followed by tariff on Cashew nuts with the average share of 28.5% in last three years. Table 20 shows revenue performance of the LGA DC in the last three completed financial years.

All revenues from crop cess and service levy are collected by revenue/ trade officers of the LGA. For preparing estimates for service levy collection, information is occasionally sought from the Tanzania Revenue Authority (TRA) on the turnover of businesses in the Municipality. In case of the Council estimates tax payable based on the type and location of the respective properties.

**Table 20: Summary of Lindi DC domestic revenue, 2011-12 to 2013-14 (in TZS million)**[15]

| *Type* | 2011-12 | 2012-13 | 2013-14 | |
|---|---|---|---|---|

[15] As per the AFS, the LGA didn't earn any land rent in the period covered Hence, it has not been deducted.

| | Budget | Actual | Budget | Actual | Budget | Actual | Actual as % of budgeted | | |
|---|---|---|---|---|---|---|---|---|---|
| *Local Taxes* | 434 | 586 | 516 | 466 | 841 | 837 | 135.1% | 90.3% | 99.5% |
| *Fee, fines, penalties and licenses* | 39 | 21 | 8 | 7 | 31 | 27 | 53.2% | 86.0% | 86.9% |
| *Revenue from exchange transactions* | 21 | 27 | 0 | 0 | 5 | 3 | 127.5% | - | 62.8% |
| *Finance Income* | 0 | - | 0 | 0 | 0 | 0 | - | - | - |
| *Other own revenue* | 0 | 130 | 0 | 320 | 0 | 331.6 | | | |
| ***Total Own Source Revenue*** | **493** | **763** | **524** | **793** | **876** | **1197** | **154.7%** | **151.4%** | **136.7%** |

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

On an overall basis, actual domestic revenue collected was 154%, 151% and 136% of that budgeted in the years 2011-12, 2012-13, and 2013-14 respectively. This clearly reflects severe under-budgeting of revenue forecasts for the financial year. Analysis of revenue realization shows that the LGA has not been budgeting for other own revenues. In 2013-14, other own revenues were 57% of total revenues collected. This included government grants in kind of nearly TZS 796 million which was not budgeted.

**Table 21: Summary rating for PI-3**

| Indicator | Rating | Brief explanation |
|---|---|---|
| **PI-3 Aggregate revenue out-turn compared to original approved budget**<br>Dimension (i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget | **D** | Actual own source revenue was 154%, 151% and 136% of the budget revenue in 2011-12, 2012-13, and 2013-14 respectively. |

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

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

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

On 8th of December 2014, MoF, United Republic of Tanzania issued a circular relating to arrears for the goods/services rendered. Circular defines the payment arrears as: *"... overdue expenditure obligations on goods and services, salaries and pensions, rents and debt services". As a rule of thumb, if payments for goods and services have not been made within 30 days after the receipt of invoice, it will be treated as payment in arrears; salary and pension obligations that are outstanding after the date for the payment of the payroll will be in arrears"*. It is noted that the above guideline is in line with the internationally accepted practice as also referred to in the National PEFA Assessment of 2013 and the PEFA Field Guide 2012. Table 22 shows stock of payables during 2011-12, 2012-13 and 2013-14 sourced from Audited Annual Financial Statement. The payables as percentage of expenditure has been declining since 2011-12. It should be noted though this is in contrary to observations in PI-18 and PI-20 where payroll arrears and weaknesses in commitment controls are documented.

**Table 22: Stock of payables, 2011-12, 2012-13, and 2013-14 (TZS million)**

| Outstanding for | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|
| 1-3 months | 255.39 | 83 | 39 |
| 3 to 12 months | | 81.7 | 48.13 |
| Over 1 year | | - | - |
| **As % of Total Expenditure** | 1.5% | 1.0% | 0.4% |

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

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

The Government of Tanzania 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[16]. With respect to recording of arrears, the key findings for LGAs were[17]:

- There wereo 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

[16]Three common LGAs were covered by the PER Study and this assessment, namely Kasulu DC, Sengerema DC and Mwanza CC
[17] Source: Final Report of the Study dated November 2014

a monthly basis. The Auditor is then required to submit the signed report of arrears to the Internal Auditor General on or before the 10th of the following month. On receiving the verified arrears from LGAs, the Internal Auditor General verifies them on his behalf and submit the final arrears report to the Accountant General in the mid of the following quarter. After this process, the Accountant General compiles and consolidates for submission to IMF.

**Table 23: Summary rating for PI-4**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-4 Stock and monitoring of expenditure payment arrears** | | **D+** | |
| (i) | Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock | A | Arrears contributed to 0.4% of the total expenditure in 2013-14. The total payables in 2011-12 was 1.5%. This points towards decline in arrears in 2013-14. |
| (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 Government Finance Statistics (GFS) 2001 classification starting from 2009-10 budgets. 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 Lindi DC is presently following the 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 function). Administrative classification is presented as cost center at 4 digit level. Economic classification is at the six digit level.

We note that there are no specific stipulations for coding/classification in line with the GFS either in the Local Authorities Accounting manual (LAAM) or in the Local Government Financial Memorandum (LGFM). However, Local government annual budgets are prepared as per the annual planning and budgeting guidelines issued by the Ministry of Finance, 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 GFS codes 2001 as given in Table 24.

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

**Table 24: Chart of accounts**

| S. No. | Code | No. of digits | Type | Example |
|---|---|---|---|---|
| 1 | Vote | 2 | Vote | A code representing the region as identified by ACGEN. Eg. 72 stand for Region |
| 2 | Council | 4 | Council | Each council has its own code. e.g. 3047-Mtwara DC |
| 3 | Cost center | 4 | Cost center | A code representing a sub-vote with a sector/department. Eg 507B stand for Primary Education |
| 4 | Fund Type | 1 | Fund Type | It is an accounting classification regarding the nature of expenditure, Recurrent and Non-recurrent. E.g 1 stand for Recurrent and 2 for Development |
| 5 | Fund Source | 1 | Fund Source | Narrate the provider of funds. Eg. Block grants, LGCDG, RWSSP |
| 6 | Project | 4 | Project | National Projects (e.g Road rehabilitation, construction of irrigation schemes, |
| 7 | Activity | 6 | Activity | Activity codes are generated for each target in MTEF on which inputs are identified. It is combination of Objective, Target, Target type and Activity. E.g. B01S03 |

| S. No. | Code | No. of digits | Type | Example |
|---|---|---|---|---|
| 8 | GFS | 6 | GFS Codes | Government Finance Statistic (GFS) Codes. e.g. 210101-salaries/Civil servant |

*Source: PMO-RALG*

***Current and planned activities:***

With assistance from the IMF, the Government of Tanzania has prepared a road map for the introduction of formal programme based budgeting within the medium term framework. This will require significant simplifications of the budget classification system so that programme managers have the flexibility to manage their inputs effectively to meet the programme objectives.[18]

**Table 25: Summary rating for PI-5**

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

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

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

The assessment of Lindi DC is based on the budget presented to the Council for the financial year 2014-15. The budget preparation at the local government authorities' level for the financial year 2014-15 was guided by the guidelines issued by the Ministry of Finance in October 2013. Lindi DC had submitted consolidated budget book named "Medium Term Expenditure Framework and Budget for 2014-15 to 2018-19" to the council. The document can be divided into three sections (i) Introduction (Environmental Scan), (ii) Budget performance review for FY 2012/13 and Mid-Year Review for 2013/14, (iii) Estimates for MTEF (2014-15 to 2016-17).

[18] PEFA (National) 2013

The First section "Introduction (Environmental Scan)" provides overview of the council, policy statement by the Council chairman and Council Director. The section also provides an analysis of the needs and expectations of various stakeholders from the budget. The stakeholders include community, companies, educational institutions, development project agencies, and religious institutions. The council also conducts a SWOT (Strength, Weaknesses, Opportunities and Threats) analysis of the general environment of the district. Lastly, the section explains the key priority issues faced by the district.

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

The Third section "Estimates for MTEF" provides the projected revenues and expenditure for three years 2014-15, 2015-16, and 2016-17 for development expenditure estimates and 2018-19 for recurrent budget estimates at a detailed level. In 2014-15, MTEF document there are 17 forms outlining different information on revenue and expenditure. Table 26 provides assessment on each of the required information benchmarks.

**Table 26: Information provided in budget documentation**

| S. No. | Dimension | Availability | Notes |
|---|---|---|---|
| 1. | **Macroeconomic assumptions:** including at least estimates of aggregate growth, inflation and exchange rate; | NA | 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. | **Fiscal deficit:** defined according to GFS or other internationally recognized standard; | NA | Macroeconomic assumptions, economic growth, exchange rate and inflation are included in the Central Government budget documentation and are hence, not applicable at the LGA level. |
| 3. | **Deficit financing:** 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 |

| S. No. | Dimension | Availability | Notes |
|---|---|---|---|
| | | | 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. | **Debt stock:** including details at least for beginning of the current year | NA | There is no debt stock outstanding for Lindi LGA for the assessment year 2012-13. |
| 5. | **Financial assets:** including details at least for the beginning of the current year; | No | Information on the stock of LGA's financial assets (such as bank balances) is not provided in the budget for 2014-15. |
| 6. | **Prior year's budget out-turn:** presented in the same format as the budget proposal; | Yes | Prior year's budget outturn is provided at an aggregate level and for specific items of expenditure. These include items such as recurrent expenditure on Local government block grant, HSBF, and recurrent revenue collections. |
| 7. | **Current year's budget out-turn:** presented in the same format as the budget proposal; | Partially complied | The budget guideline requires LGAs to present actual performance for first half of current year's budget and likely outturn for remaining part. But in case of Lindi District Council, performance only until March of the current financial year is provided with no forecasts of the remaining part of the current financial year. |
| 8. | **Summarised budget data:** for both revenue and expenditure according to the main headings, including data for the current and previous year; | Partially complied | Summarized budget data for both revenue and expenditure according to the main headings is provided for previous year. But in case of current year, information is provided only till December (which is only half of the financial year). |
| 9. | **Explanation of budget implication of new initiatives:** with estimates of the budgetary impact of all major revenue policy changes and/or some | 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 |

| S. No. | Dimension | Availability | Notes |
|---|---|---|---|
| | major changes to expenditure programs. | | medium term and specific goals for the ensuing budget. The statement by the Council Director also mentions focus areas for the ensuing budget. However, the expected budgetary implications of these are not articulated. |

**Table 27: Summary of rating under PI-6**

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

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

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

The assessment team ascertained that certain equipment such as specific drugs which are supplied directly to hospitals/health centers from the central medical store are not included in the LGA's budget, though these expenses are budgeted in the Central Government's budget.  These are however, accounted for in the LGA's annual financial statements under 'recurrent grants'.

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 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. Cumulatively, they amount to approximately 0.77% of the total expenditure of the LGA in 2013-14 as computed in Table 28 below.

**Table 28: Extra budgetary expenditure for Lindi DC**

| *Category* | *Reported in* | | | *Meets eligibility for extra-* | *As % of LGA's total expenditure, 2013-14* |
|---|---|---|---|---|---|
| | MTEF 2013-14 | AFS 2013-14 | Quarterly Financial | | |

| | | | Report, 2013-14 | budgetary expenditure | |
|---|---|---|---|---|---|
| Drugs/ Equipment from MSD | No | Yes | No | Yes | 0.84% |
| Community Contributions | Yes | No | No | Yes | 0.70% |
| **Total** | | | | | **1.54%** |

(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 single exception for funding by the Elizabeth Glaser Pediatric AIDS Foundation (EGPAF). However, since funds from EGPAF contribute nearly 1% (TZS207 million) 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 29: Summary of rating under PI-7**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-7 Extent of unreported government operations** | | **B** | |
| (i) | Level of extra-budgetary expenditure (other than donor-funded project), which is unreported, i.e. not included in fiscal reports | B | Supplies from the central medical store contributing to 1.54% of the total expenditure of the LGA in 2013-14 were the only identifiable extra – budgetary operations of the District Council. |
| (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 to the LGA is minimal comprising nearly 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 the government (wards, villages/hamlets) during the last completed financial year 2013-14. As per MTEF 2014-15, Lindi district comprises of two constituencies, nine divisions, 30 wards, and 386 villages

**Table 30: Administrative structure of Lindi district**

| S. No. | Constituency | Division | Wards | Villages |
|---|---|---|---|---|
| 1 | Mtama | 5 | 20 | 93 |

| S. No. | Constituency | Division | Wards | Villages |
|---|---|---|---|---|
| 2 | Mchinga | 4 | 10 | 45 |
| Total | | 9 | 30 | 138 |

*Source: MTEF 2014-19*

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 expenditure is financed by transfers from the local government authority (i.e., Lindi DC) 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 31 shows details on transfers to lower level of government in 2013-14 and corresponding criteria.

**Table 31: Funds transfer to lower levels of governments and criteria, TZS million**

| S. No. | Transfer item | Purpose | Rationale for transfer |
|---|---|---|---|
| 1. | Health Sector Basket Fund | Renovation of health facilities, procurement of medicines and administrative cost for health facilities | Transfers to health centers are made as per the budget submitted. But large part is used at LGA level as well. |
| 2. | Road fund | Construction and maintenance of roads | Construction and maintenance of feeder roads. |
| 3. | PEDP and SEDP | Funds for overall development of primary and secondary education | Capitation grant: 100% transferred-distributed to units by equal amount for each student in primary schools<br>Construction of classes, toilets, and staff offices: Money is transferred to primary schools and secondary schools for capitation grants. All other procurement is done at the LGA level. |
| 4. | Tanzania Strategic City Project | For infrastructure (road) development and capacity building of council staffs | 100% utilized at the LGA level and no transfers are made to lower levels of governments |
| 5. | Local Government Capital | | - 15% are kept at the LGA level for monitoring and evaluation purpose |

| S. No. | Transfer item | Purpose | Rationale for transfer |
|---|---|---|---|
| | Development Grants | | - 50% of the Central government transfers under the programme are to be spent at the council level and 50% is to be transferred to lower levels of government. Distribution across LLG is as per population (equal amount per person). Council is also required to contribute its share in the Central Government interventions. This money is required to be distributed equally across wards regardless of the population. |
| 6. | RWSSP | Construction of water systems | It is 100% utilized at the council level. |
| 7. | ASDP | For Agriculture development | Funds are transferred only to communities. And these transfers are based on the budget/plan submitted by these communities.<br>At the council, expenses include supervision cost, and in some cases procurement of goods. |
| 8. | MMAM | Construction of dispensaries | It is 100% utilized at the council level. |
| 9. | Livestock development fund | Activities for development of livestock | It is 100% funded by the Central Government and all funds are utilized at the council level only. |
| 10. | Tanzania Social Action Fund | Implementing Productive Social Safety Net Program | It is 100% funded by the Central Government and some funds are spent at the council level and some funds are given to communities directly. Transfers to communities are based on the budget/plan submitted. |
| 11. | TACAIDS | Fight against AIDS and HIV | Direct transfer to villages as per priorities listed in the MTEF. |
| 12. | EGPAF | Support birth control activities | Direct transfer to villages as per priorities listed in the MTEF. |

Based on our discussions, we understand that out of the transfer item mentioned above, all are rule based except funds for health sector basket fund, TCAIDS, EGPAF and agriculture sector development programmes. The distribution of funds (both vertical and horizontal) is subjective since negotiations between the LGA and LLG at the budget preparations stage decide the size of funds to be transferred. In general, all the resource flows to the LLGs depend on local assessments at the LGA level and are matters of prioritization and negotiation. Therefore even though formula/rule based systems exist in theory, they are not implemented in practice.

Moreover, as Table 13 shows, there is a variation of more than 35% in the budgeted and actual development grants received by the LGA during 2013-14. Discussions with PMO-RALG reveal that there is no guidance for revising allocations across LLGs in case of shortfall in grants received from the Central Government. Consequently, re-allocation of programme grants across LLGs when actual funds received from the Central Government are less than budgeted estimates is not transparent.

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

Analysis of CAG and Internal Auditor's reports on Lindi DC in the last two years does not mention any adverse comments on the application of rules for transfers to the lower level governments.

**(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 Lindi DC, lower levels of government (LLGs) start preparing the budget in September for the next financial year. The proposal goes through various levels of approval and reaches the Local Government Authorities in December- January. The budget of the LGA is approved by Council in February and is submitted to the Central Government. In case of last completed financial year (2013-14), 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 ceiling for the preceding financial year. Actual approved transfers 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, impact 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 sectorial categories**

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

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

**Table 32: Summary of rating under PI-8**

| Indicator | Rating | Brief explanation |
|---|---|---|
| **PI-8 Transparency of inter-governmental fiscal relations** | **D** | |

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| (i) | Transparency and rules based systems in the horizontal allocation among lower level governments of unconditional and conditional transfers from LGA | 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 lower level governments on their allocations from LGA 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 collected and reported for general government according to sectorial categories. | D | Fiscal information that is consistent with LGA fiscal reporting is not collected from LLGs. |

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

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

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

Though as per the clause 23 (d) of the Water Supply and Sanitation Act 2009, the Water Supply and Sanitation Authorities (WSSAs) are eligible for financial support from the LGAs, there is no evidence of financial responsibility on the 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 District Executive Director who is a member on the Board of the concerned WSSA as a representative of the District.

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

As per the Local Government Finance Act 1982, the LLGs are allowed to borrow from lending institutions or any other source. The Act also permits accounts of the LLGs to be audited by such public officer or organizations as the District Council may in writing direct.

However, all LLGs are substantially dependent on fund transfers from the LGA/ Central Government. As per discussions with DC officials, it is understood that there is no independent borrowing done by any of the LLGs in the District.

Monthly financial reports of the LGA contain income and expenditure of the entities. These reports are also consolidated in annual expenditure/revenue of the Council reflected in the annual financial statements. However, AFS does not contain separate statement on revenue and expenditure at the lower level of government.

**Table 33: Summary of rating under PI-9**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-9 Oversight of aggregate fiscal risk from other public sector entities** | | **C** | |
| (i) | Extent of local government monitoring of autonomous government agencies and public enterprises | 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 Lindi DC. |
| (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.

Lindi DC does not have its own website. Table 34 we assess performance of Lindi DC as regards information dissemination.

**Table 34: 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 | No | Summary of the audited financial statements are put up on the notice board and published in the newspaper. Last audited financial statement (2012-13) was published in Mwananchi newspaper on 16 February, 2015. The Report was issued by CAG in March 2014. |
| 4. | External audit reports within six months of completed audit | Yes | Summary CAG reports are published in the newspaper. Last audited report (2012-13) was published in Mwananchi newspaper on 16 February, 2015. The Report was issued by CAG in March 2014. |
| 5. | Contract awards with value above approx. TZS 50 million at least quarterly | Yes | Summary of all contract awards are published in weekly journal on Public Procurement Regulatory Authority Website. |
| 6. | Resources available to primary service units | Yes | The team confirmed that the summary of resources transferred to and available at |

| S. No. | Item | Available | Notes |
|---|---|---|---|
| | | | facilities is displayed outside the facility and the district council office. |
| 7. | Fees, charges and taxes | Yes | Council bye-laws are available with the district treasurer and at the offices of all the ward executive officers and these can be accessed by general public and are also explicitly published on the notice board. |
| 8. | Service provided to communities | No | Information on services provided to communities could not be found on the District Council's notice board. |

**Table 35: Summary of rating under PI-10**

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

# *5.4. Budget Cycle*

## *5.4.1. Policy-Based Budgeting*

### *PI-11 Orderliness and participation in the annual budget process*

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

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

The timetable for budget submissions by the LGAs is specified in the budget calendar issued by the Central Government. Each LGA, Lindi DC in this case, does not prepare/ issue a separate budget calendar to the spending units under it. Table 36 shows the relevant sections of the budget calendar as per the Central Government's guidelines for 2014-15.

**Table 36: Relevant Sections of Budget Calendar as per budget guidelines 2014-15**

| Date | Main Activity | Key Actors | Actual Date for Lindi DC |
|---|---|---|---|
| August-October, 2013 | Preparation of plan and budget guidelines | Ministry of Finance (MOF), PO-PC | - |
| November-December, 2013 | Circulation of guideline to ministries, regional and local government authorities (LGAs) | Ministry of Finance (MoF), President's Office – Planning Commission (PO-PC) | Received by Lindi DC on 11 November 2013 |
| 07 January, 2014 | MDAs, RS and LGAs to get budget ceilings for the fiscal year 2014-15 | MoF | Ceilings for other charges (OC) issued by MoF on 27th January, 2014 and received by LGA on 10 February 2014 |
| 08-28 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 | 10 March 2014 |
| 29 January-11 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 | |

Though the budget calendar for 2014-15 was received by the District Council only on 11 November 2013, instructions to LLGs, line departments and programme coordinators for initiation of preparation of budget proposals were issued on 29 September 2013 by the Lindi DC so as to ensure timely completion of budget review and negotiation processes at the LGA level. However, these instructions did not contain a separate budget calendar containing dates for submission, negotiation and finalization of budget estimates by the LLGs and Departments.

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

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

Given that Lindi DC relied on transfers from the Central Government for more than 96.7% of its total revenue during 2011-14, its ability to issue budgetary ceilings to spending units without prior notification from MoF is highly constrained. Having that said, even for projects/ expenses to be funded by own sources of revenue, there were no ceilings prepared or shared with spending units during budget preparation.

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 district level by the district planning and logistics officer (DPLO). Once reviewed by the line departments, the budget estimates are presented to respective Standing Committees who have the authority to revise estimates in line with district priorities and the expected budget ceilings from MoF. Post finalization by the Standing Committees, the estimates are finally presented to the Full Council and subsequent to approval are sent to the Regional Consultative Committee (RCC) for checking for adherence to regional priorities for spending. Only after the review by RCC the budget estimates are submitted to MoF and PMO-RALG. At each stage of approval/ review, revisions made to allocations may not always be communicated/ discussed with concerned LLG/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 37 shows relevant dates for approval of the budget.

**Table 37: Final budget approval dates**

| Year | Date of original council approval | Date of approval of budget by the national assembly |
|---|---|---|
| 2012-13 | April 2012 | 14th June 2012 |
| 2013-14 | 19th February 2013 | 12th June 2013 |
| 2014-15 | 21st January 2014 | 13th June 2014 |

**Table 38: Summary of rating under PI-11**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-11 Orderliness and participation in the annual budget process** | | **C+** | |
| (i) | Existence of and adherence to a fixed budget calendar | C | LGAs do not prepare/issue separate budget calendars. For preparation of budget for 2014-15, there were delays across milestones specified (such as submission of estimates to PMO-RALG and MoF) and crucial data such as information of budget ceilings was issued by MoF in an adhoc manner (usually during the scrutinization meetings). |
| (ii) | Guidance on the preparation of budget submissions | D | While Lindi DC does issue guidelines to spending units, these do not contain fresh budget ceilings for administrative units or functional areas for the ensuing financial year. 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 fiscal year. |

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

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

Budget guidelines for the last two completed financial years (2012-13 and 2013-14) provide for all accounting officers (including LGAs) to prepare their 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, forecast of agriculture produce) are not provided in the budget documents. It is not clear if such forecasts are prepared and used for projecting the expenditure on a medium term basis. Annex A of the budget guideline includes a "Budget Frame" which provides projected resources availability and spending limits for next three years.

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

In the last three years of assessment, Lindi DC has not had any debt. Hence, there is no requirement of debt sustainability analysis and this dimension does not apply to the District Council.

### (iii) Existence of costed sector strategies

The Lindi DC had a strategic plan (2011-12 -2015-16) reflecting the development priorities of the LGA. The strategic plan contains seven key result areas including health, education, agriculture and livestock, water resources management, natural resources and lands, community development, administration and personnel. The strategy of the Council across these seven key result areas, quantifiable targets and responsible departments are specified. However, there is no overall costing of interventions in the strategy. Only some individual activities were costed leading to lack of an overall picture on the budget implication for the Council from the planned strategies.

### (iv) Linkages between investment budgets and forward expenditure estimates

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

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

**Table 39: Summary of rating under PI-12**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting** | | **D+** | |
| (i) | Preparation of multi - year fiscal forecasts and functional allocations | C | Forecasts of all line items are prepared as per GFS classification on a rolling basis for three years. However, there are no links between multi-year estimates and subsequent setting of annual budget ceilings. |
| (ii) | Scope and frequency of debt sustainability analysis | NA | Lindi DC had no outstanding debt. Hence, the dimension is not applicable. |
| (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, tax revenue is composed of compulsory transfers to the general government sector. Certain compulsory transfers, such as fines, penalties, and most social security contributions, are excluded from tax revenue. Table 40 below shows broad structure of own revenue sources of Lindi district. 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 40: Rationale for identification of Tax revenues**

| S. No. | Revenue item | Included/excluded as “Tax Revenue” | Rationale |
|---|---|---|---|
| 1. | Forest produce levy | Not included | This levy is collected by the Central Government and later shared with the LGAs. As per the sub-national guidelines for PEFA, revenues collected by the Central Government and shared with sub-national government, is not to be included in analysis.<br><br>As per the article 77 of the Forest Act 2002, the minister responsible for forest is authorized to determine and thereafter prescribe the services and permits for which fees shall be charged by forest managers and their corresponding charge rates.<br><br>As per the article 7 (1) r of the Local Government Finance Act, revenue of the district council includes , inter alia, all moneys derived from fees for forest produce and licenses accruing to the district council under section 10 of the Forest Act.<br><br>Therefore, the forest produce levy is part of council’s revenue but is collected by the Central Government. The rate, structure is decided by the Central Government. Although GFS manual does not outline this situation, but using the spirit it can be inferred that the forest produce levy is not a tax levied by the LGA but by a central law and therefore not to be considered as tax revenue. |
| 2. | 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 *production,* leasing, delivery, sale, purchase, or other change of ownership of a wide range of goods and the rendering of a wide range of services. Produce cess is a levy on agriculture produce. There are various kinds of produce cesses. These include cess for (i) Cashew nuts (ii) |

| S. No. | Revenue item | Included/excluded as "Tax Revenue" | Rationale |
|---|---|---|---|
| | | | 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. | Community Based Organization's registration fees, Traditional title deeds, change of title deeds | Not included | It is part of administration fees which are not considered as tax revenue as defined in GFS 2001 para 5.99. |
| 6. | Mineral extraction fees | Should be Included, however not included since there are no operational mines | As per para 5.95, of GFS payments for license or permit to conduct extraction operations should be classified as taxes on use of goods and on permission to use goods or perform activities. |
| 7. | 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. |
| 8. | 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. |
| 9. | 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. |

| S. No. | Revenue item | Included/excluded as "Tax Revenue" | Rationale |
|---|---|---|---|
| 10. | 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 40, we have considered following sources of revenues as taxes for the current assessment (i) Produce cess and (ii) Service levy. While mineral extraction fees were included as sources of own source revenue in the Lindi DC byelaws, by the time of this assessment the Council had not yet established and opened to the public any of the identified mining fields for extraction of mineral resources, hence no revenue was either earned or booked during the assessed years.

## *PI-13 Transparency of taxpayer obligations and liabilities*

### (i) Clarity and comprehensiveness of tax liabilities

As per the feedback during our discussion, tax/fee/levies can be governed by bye-law and/or main law (the Central Government legislation). The latest Lindi DC byelaws are contained in the amended version of 2011. At the time of the assessment, the council had an updated byelaw version dated 2014 which was still waiting approval from PMO-RALG.

Part IV of the Local Government District Authorities Act 1982 gives power to district councils to make their byelaws. The Byelaws provide the type of local taxes, applicable rates, evidence of collection, responsibilities of taxpayers, offensive matters in relation to tax paying responsibilities, and the penalties if convicted guilt of tax offences. In case main-law lapses, the relevant bye-law at the LGA level automatically becomes invalid.

**Table 41: Legislative framework of taxes/fees**

| S. No. | Source of revenue | Bye-law | Main law | Details |
|---|---|---|---|---|
| 1 | Produce Cess | √ | √ | Byelaw: This includes farm (i) Coconut produce cess (TZS 20 per coconut); (ii) other farm produce cess (5%) and (iii) ocean produce (20%).<br>Main-law: Section 7(1) (g) of the Local Government Finance Act, 1982 |
| 2 | Service levy | X | √ | Main-law: Section 7 (1) z) of the Local Government Finance Act, 1982 |

The legislation does not provide for administrative discretionary powers to the tax collectors. Lindi DC collects all its revenue directly using its revenue accountants.

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.

### (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 Byelaws. Byelaws are formulated through community participation through the LLG meetings. 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 Council authority by whom it was made and shall at all reasonable times be open to inspection by the public free of charge. Similar provisions are applicable to ward committees in section 161 (3).

There are no special information desks in the district council dealing with briefing on taxes and other select sources of revenues. Any queries related to taxes/fees/levies are to be made to the District Treasury. The assessment team was informed that the Council strives to inform taxpayers on tax liabilities and administrative procedures through following means:

a) Full council meetings: Through regular full council meetings, the district councils discusses with the general public on the taxes/fees/levies applicable, rate and procedures for payments.

b) Ward executive officers educate the target population on various taxes/levies/fees applicable

As per recent studies made on key issues in revenue mobilization[19] , 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 Lindi specifically. However, keeping in mind

- The absence of a computerized tax information system, the lack of adequate resources to disseminate knowledge of the various taxes and their procedural and administrative requirements;
- The general weaknesses in revenue related internal controls referred to by the CAG in areas such as (i) ineffectiveness in identification of revenue sources, (ii) inefficiency in revenue

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

estimation, (iii) timely collection of revenues, (iv) low collections from own source revenues vis-à-vis budgets, (v) none maintenance of Revenue Collectors' Cash Book, and (vi) functioning of internal control over the collected revenue;

- 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 Council level, there is 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.

As per the feedback from our discussions, tax related complaints are handled by the District Executive Director (DED). In case the applicant is not convinced with the response, one of the bodies the applicant can appeal to is the Prevention and Combating of Corruption Bureau (PCCB). DED is the administrative head of the council and is involved in tax assessment indirectly. The procedures for tax appeal are not documented and no timelines are provided for council's response to the appeal.

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

**Table 42: Summary of rating under PI-13**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-13 Transparency of taxpayer obligations and liabilities** | | **D+** | |
| (i) | Clarity and comprehensiveness of tax liabilities | D | In case of service levy collection, there appear to be elements of administrative discretion in assessing tax liabilities. Service levy collection officers often enter into mutual agreement with the taxpayers where differences in tax liabilities are noticed. |
| (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 as revealed by the end results of tax collections from own sources. |
| (iii) | Existence and functioning of a tax appeals mechanism | D | We were informed that currently, first point of contact for tax related complaints was the DED who is indirectly involved in tax |

| Indicator | Rating | Brief explanation |
|---|---|---|
| | | assessments. We did not come across any evidence of a functioning tax appeals mechanism at the LGA level in Lindi. |

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

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

Lindi DC collects all the revenues directly using its own revenue officers. At the time of this assessment, the DC had plans underway for outsourcing collection of ocean and coconut produce cesses. The new arrangement had not yet been put in action.

The DC does not have a specialized tax registration and assessment system in place. The assessment team was informed that revenue is estimated each year using subject matter experts. However, there was no evidence to justify this. Only in respect to Service Levy, the tax information held by the DC is supplemented by the information provided by Tanzania Revenue Authority database for the council. TRA provides turnover of each business in the Council. The information is entered into an I-tax system. This system also assigns a unique identification number to each tax payer.

However the PEFA 2013 highlighted gaps in TRA database. A study conducted by TRA confirmed that significant part of the large informal sector is not captured in the database. Each taxpayer in the country is required to have a Tax Identification Number. It is being reported that some businesses in the District have Tax Identification Number (TIN) but small businesses do not have any TIN.

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

There is no regulation mandating the taxpayer to register with the District Council. Therefore, no penalties are provided in case the taxpayers do not register themselves with the council. However, the byelaws provide penalties that are applicable for non-payment of the required taxes. The Byelaw specifies three types of penalties that are relevant on defaulting payment, amongst other offences:

Section 11: non-compliance by collection agents:

- Fine not exceeding TZS 300,000; or
- imprisonment not exceeding 12 months; or both

Section 15: non-compliance to Byelaws in general, not mentioned under any specific section

- Fine not exceeding TZS 50,000; or
- imprisonment not exceeding 6 months; or
- both of the above;
- including repayment of the estimated loss, that will include any enforcement costs

Section 16: DED's discretion: DED can approve fine to the offender for offences not specified under the Byelaws:

- Fine not exceeding TZS 300,000, plus;
- Payment of the related due amount; and
- Completing an acknowledgement form that is included under Annex 2 of the Byelaw.

  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**

At the local government level, there is no separate audit conducted to identify the defaulters. For service levy, the paying companies compute their tax liabilities based on their reported turnover. For the produce cess payers, their tax liability is based on the rates stipulated in the existing Byelaws and estimates conducted at the start of each financial year, by the subject matter specialists. However, no evidence of assessment was shared with the assessment team by the District Council.

**Table 43: Summary of rating under PI-14**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-14 Effectiveness of measures for taxpayer registration and tax assessment** | | **D** | |
| (i) | Controls in the taxpayer registration system | D | There is no database for either of the tax revenue. In addition, there is no link between the council tax payers' record and the other databases. For service levy, the districts supplements own information with reference to TRA database which we understand is subject to various weaknesses. |
| (ii) | Effectiveness of penalties for non-compliance with registration and declaration obligations | D | Currently, the legislative framework does not provide for any penalty for non-registration with the district Council. However, the Council byelaws provide for penalties on non-compliance with tax payment regulations. |
| (iii) | Planning and monitoring of tax audit and fraud investigation programs | D | No special tax audits are conducted. |

## PI-15 Effectiveness in collection of tax payments

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

For cashew nut crop cess, the Council maintains a list of receivables. The LGA shared only a list of cashew nut crop cess receivables for 2011-12, 2012-13 and outstanding balances after clearance in 2015-16. The list did not show separate collections for the respective years. In addition, there was no data for 2013-14. There is no monitoring of service levy receivables. These arrears were reported as part of the schedules for the respective years' AFS. However, there was no arrears analysis to indicate out of end of the year balances, how much was from previous years and how much was for the fiscal year. In spite of an accrual accounting environment, there was no evidence of a credible system for recording completely and comprehensively all receivables for all taxes. Hence collection ratio of the tax arrears cannot be computed. Therefore, collection ratio of the tax arrears cannot be computed. 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

As provided in Table 44 below, service levy is collected by the revenue accountant and trade officer, other produce cesses are collected by 134 LLG Officers.

Revenue collected across these two sources are directly deposited in the own source revenue account with varying frequency. Service levy collected are reflected in the own source revenue account on a daily basis (if cash) and generally within 3 days for cheques. Produce cess are deposited to own source revenue account at intervals of two weeks.

**Table 44: Structure of taxes**

| Cesses | Who collects | Who evaluates | Frequency |
|---|---|---|---|
| Service levy | Service levy charged on services provided to the council:<br>1. Council deducts from payment to Business entity; and<br>Service levy charged on other activities:<br>2. Revenue accountant and Trade officer | Revenue accountant and trade officer<br>(Information on business unit in the district is provided by TRA.) In addition to this, they also use their own information sources. | Not fixed, as and when the transaction is processed and chasing is ad-hoc using 2 field officers who are responsible for following up collections. |
| Produce cess | All cesses : 134 LLG Officers | LLG Officers | Bi-monthly |

Section 39 (2) of the Local Government Finances Act, 1982 requires the District council not to spend through the 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).

**(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). Hence no reconciliations are conducted between assessed, collected and received amounts.

**Table 45: Summary of rating under PI-15**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-15 Effectiveness in collection of tax payments** | | **D+** | |
| (i) | Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years) | NR | Data available on tax arrears is not sufficient to compute collection ratio. Although the council collects all its revenues directly, there ought to be records on unpaid service levy and crop cess that could be booked as arrears and the respective collections in subsequent years. |
| (ii) | Effectiveness of transfer of tax collections to the Treasury by the revenue administration | C | Produce cess is deposited to own source revenue account on a bi-monthly basis. Service levy is deposited as and when it is collected. |
| (iii) | Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury | D | No invoices are raised for any receivable tax revenue. Therefore, complete reconciliation (between tax assessments, collections, arrears records, and receipts) cannot be carried out. 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 forecasted and monitored

LGAs submit annual cash flow plans at the beginning of the financial year detailing fund requirements for the entire year broken into quarters, by dividing the annual budget in four equal amounts expected to be disbursed quarterly. However, these are only break-up of funds requirements for the financial year. Once submitted to the Ministry of Finance and Economic Affairs MoF, no approvals are received as commitment from the Central Government to release funds as forecasted. Lindi DC does not conduct any cash forecasting on a quarterly or monthly basis. This is significantly dependent on the flow of funds from the Central Government and the general uncertainty as regards the timing of such flows makes any credible cash flow forecasting a difficult task.

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

Once the Parliament approves the annual budget for the LGA, an action plan is prepared by the City 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 DC, however, is largely dependent on the funds from the Central Government (92.4% of the total revenue of the District Council was in the form of grants from the Central Government in 2013-14) and hence, on the communication from MoF on the expected transfers during the financial year. As per discussions with MoF, it is understood that while a ministry level Ceilings Committee reviews the cash flow position of the Central Government on a monthly basis, there is no advance notification made to LGAs on expected fund releases. This, in turn, limits the ability of the District Council to provide reliable information to the spending units on actual resources available for commitment under the Central Government funded projects during the course of the financial year.

Even for projects/ activities funded through own sources revenue of the District Council, there is no advance information provided to departments, and LLGs 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. As per our discussion with Lindi DC, annually during December, in-year budget adjustments are undertaken. Available feedback from Lindi DC and our discussions confirmed that there were no supplementary budgets in the past two (2) years. Only reallocations were made during the mid-year review. The assessment team confirmed that in the last completed year of 2014 the Council made three (3)[20] reallocations amounting to less that TZS 50 million in aggregate as in-year adjustments. Together, all the in-year adjustments amounted to TZS 228 million, equivalent to 1.1% of the total expenditure for the year. Since virements were less than 5% of the annual expenditure of the LGA for 2013-14, this dimension is not applicable for this LGA.

[20] March 2014 (TZS 3 million); May 2014 (TZS 35,000); and June 2014 (TZS 5 million)

**Table 46: Summary of rating under PI-16**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-16 Predictability in the availability of funds for commitment of expenditures** | | **D** | |
| (i) | Extent to which cash flows are forecast and monitored | D | At present, LGA only prepares a breakdown of the annual budget split into four quarters. No quarterly forecasting is conducted. Annually cash flow plans are shared with the Ministry of Finance but these are only annual funds requirements. |
| (ii) | Reliability and horizon of periodic in-year information to departments on ceilings for expenditure commitment | D | No advance notification is provided to departments to make commitments both related to the 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 | All the in-year adjustments amounted to TZS 228 million, equivalent to 1.1% of the total expenditure for the year. 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 |

## *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 the 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 revenues, schedule of loan payment and interest payments in the future. Post scrutinization and approval (if given), the request is sent to the Prime Minister Office. However, PMO-RALG does not receive any information on whether loan has been approved/ disbursed or not.

As mentioned before, Lindi DC does not have any debt outstanding as on 2013-14. At the time of this assessment, plan was underway for the council to borrow in order to finance construction of a shopping mall using its own plot located centrally in Lindi town. This loan had not been processed yet. Therefore this indicator is not applicable to this LGA.

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

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

As per our discussion, Lindi DC does not consolidate cash balances from its seven bank accounts on daily or monthly basis. Each bank balance is presented separately in the monthly statements. However, consolidation and analysis of bank balances is presented in Council Financial Reports (CFRs) on quarterly 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. Therefore this indicator is not applicable for assessment in this study.

**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 tie 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 47: Summary of rating under PI-17**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-17 Recording and management of cash balances, debt and guarantees** | | **C** | |
| (i) | Quality of debt data recording and reporting | NA | Lindi DC did not have outstanding debt till the last completed financial year. Hence the dimension is not applicable.. |
| (ii) | Extent of consolidation of the government's cash balance | C | Lindi DC calculates cash balances in different bank accounts on a monthly basis. However, consolidation is done only on quarterly basis. This delay in presenting consolidated cash at the LGA impairs controls in the LGA's cash movements. |
| (iii) | Systems for contracting loans and issuance of guarantees | NA | Issuance of guarantees is the mandate of Ministry of Finance. Also, Lindi DC did not have any outstanding loan for the last completed financial year. Hence, this dimension is not applicable for Lindi DC. |

## *PI-18 Effectiveness of payroll controls*

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

The Public Service Act provides for management of the payroll of all public sector employers, including local government authorities under the overall oversight of the Public Sector Management Division of the Office of the President. The payroll data is computerized and centralized. The payroll is controlled through a computerized database known as 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 the council's own source revenue. Changes in the personnel database of HCMIS are initiated by the Human Resource Officer (HRO) at the council and are reflected straightaway in the payroll component of HCMIS once PO-PSM approves the request. At the council, there are no independent verification procedures prior to submitting by the person who initiated the changes. All HROs have access to the system and can upload changes. The system has an in-built audit trail of changes made by each user through use of user name. It is 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 Lindi DC officials that there is significant improvement in adherence to timelines since the roll-out of HCMIS. For new hires, transfers and promotions, District Council is responsible for getting required forms populated by the employee and collecting all necessary documentation and certification from the employee. It is also the responsibility of the LGA to vet the payroll schedule shared on a monthly basis and take the administrative action for immediate inputs for all changes on a continuous basis

The forms and documentation then have to be scanned and uploaded on HCMIS by the HR Department officials in the Council for approval by PO-PSM. Since the System's automatic cut-off date for monthly salary is 20th of the month, DC has to send across this information by the 5th of each month to PO-PSM to allow adequate time to validate and approve the changes in personnel records proposed. As per discussions with DC officials, the entire process of updating personnel information in the System should take not more than 4-5 working days. In case of new recruits, depending on the time of joining, salaries may be processed only by the next month.

Based on our discussion with Lindi DC and HCMIS reports generated, there exist various cases of salary arrears. As on 30th of June 2014, there were nearly 61 cases where salary was in arrears. Out of these cases, 47 were related to non-payment of revised salary with promotion and 14 related to lack of payment for new hires. These cases were pending as on 20th of March, 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 other dimensions of this report, existence of long overdue arrears are a pointer to lack of timely input controls.

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

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

At the local government level, there are no independent checks performed 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, Internal Auditor General of the Tanzania conducted a payroll study for entire public sector examining July – September 2013 salary payments across the public sector. The report concluded that there are areas where anomalies are found. The current procedure requires each employee to provide one bank account to be entered into the HCMIS for payment of salary. However, the Report finds that across Tanzania, 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. In the last four quarterly internal audit reports that the assessment team reviewed, there were no mention of payroll weaknesses reported. The Management letter of the CAG has pointed out to certain weaknesses resulting in employees receiving zero monthly net salaries and delays in return of unclaimed salaries. In addition, the CAG of Tanzania in its annual general report for 2012-13 on local governments provides key issues with regard to internal controls. It included section on various internal control weaknesses relating to LGAs as a whole such as those without updated employee register, those with inadequate staff appraisal, and others with payment of salaries to employees different from personnel emoluments grants received.

**Table 48: Summary of rating under PI-18**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-18 Effectiveness of payroll controls** | | **D+** | |
| (i) | Degree of integration and reconciliation between personnel records and payroll data | A | Since personnel records and payroll database are directly linked in HCMIS, this dimension has been rated as a “A” for all LGAs, in line with the PEFA Field Guide.. |
| (ii) | Timeliness of changes to personnel records and the payroll | D | Review of reports generated from HCMIS suggests cases of long delays in salary payments. This may, in some cases, indicate changes to personnel records that do not get reflected in the payroll records in a timely manner. |
| (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 |

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| | | | auditors during their assessments. Consequently, the actual authorisation of and basis for the changes is not independently verified during the course of the financial year. |
| (iv) | Existence of payroll audits to identify control weaknesses and/or ghost workers | B | Internal auditor general completed a payroll audit for the entire public sector including Lindi DC in December 2013. Though there is no annual payroll audit exercise, the CAG and Internal Auditor do cover payroll under their respective audits. |

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

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

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

- Existence of a robust legal and regulatory framework that is accessible to the public and applicable to most public procurements;
- Prescription of open competitive bidding as the preferred method of procurement;
- Transparency in availability of information of procurement opportunities, bidding and contract results;

Provision for an independent appeals mechanism which can handle procurement related complaints. Procurement in Tanzania is mainly governed by Public Procurement Act, 2011 and corresponding regulations Public Procurement Regulations, 2013.

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

***Application***

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

***Accessibility***

The Act is freely accessible to the public on PPRA website. Information through website is one means of providing information at low cost to all those who might want it. However, this mode of public access is questionable given the low internet penetration [21]. Excerpts from the act are provided in the box below.

**Public Procurement Act, 2011**

***<u>Institutional arrangements</u>***

**Central**

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

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

**Local Government**

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

***<u>Planning</u>***

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

***<u>Internal controls</u>***

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

***<u>External scrutiny</u>***

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.

***<u>Accountability</u>***

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*

[21] 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.

Section 63 (2) of PPA 2011 provides for all the procurement and disposal to be conducted in a manner that maximizes competition and achieve economy, efficiency, transparency and value for money. Section 64 (1) of PPA 2011 mandates procuring entity to apply competitive tendering in line with the methods provided in related regulations 2013 which varies by value of procurement and the type of procurement. In the seventh schedule of the Procurement regulations 2013 (Table 49), methods for selection and limit of application for each contract of goods, works and non-consultancy services are provided.

**Table 49: Method of selection as per Procurement Regulations 2013**

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

*Source: Public Procurement Regulations, 2013*

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

The regulations applies to all local government authorities with respect to procurement of goods, works, non-consultancy services and disposal of public assets by tender and selection, employment of consultancy. The regulations specify 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 50 provides a broad overview of existing legal and regulatory framework against the standards set under this benchmark.

**Table 50: Legal and regulatory framework**

| S. No. | Dimension | Meets requirement | PPA 2011 | PPR 2013 (regulation) |
|---|---|---|---|---|
| 1. | organized hierarchically and precedence clearly established | Yes | √<br>Box on PPA 2011 | √ |

| S. No. | Dimension | Meets requirement | PPA 2011 | PPR 2013 (regulation) |
|---|---|---|---|---|
| 2. | Freely and easily accessible to public | Yes | √<br>Accessible through PPRA website | √<br>Accessible through PPRA website |
| 3. | Applies to all procurement entities using govt. funds | Yes | √<br>applicable to all procurement and disposal by tender undertaken by "procuring entity" | √<br>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 | √<br>Section 64 (1) makes reference to PPR 2013 | √<br>Section 149 makes it a default method and justification for deviation |
| 5. | Public Access to all procurement information | No | X | X<br>All except procurement plans and data on resolution of procurement complaints are required to be published in Journal and tender portal. |
| 6. | Independent administrative procurement review process | Yes | √<br>Part IX: Disputes Settlement of Public Procurement Act 2011 | √<br>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, Lindi DC procured goods and services worth TZS million 7,343. Out of these, approximately 86% of the procurement was done through open competition. The remainder 14% of procurement was undertaken either through 'minor value procurement' or as part of 'framework agreement'.

**Table 51: Break-up of procurement in 2013-14 by method of procurement**

| Item | Goods | Works | Consultancy Services | Non-Consultancy Services | Disposal of assets by tender | Total |
|---|---|---|---|---|---|---|
| ***Procurement through tender process (competitive tender, competitive quotations, restricted tenders*** | | | | | | |
| Number of contracts | 1 | 19 | Nil | Nil | Nil | 20 |
| Amount (TZS million) | 80.0 | 6,249.4 | Nil | Nil | Nil | 6,329.4 |
| ***Minor value procurement*** | | | | | | |
| Number of Local Purchase Order | 23 | Nil | Nil | Nil | Nil | 23 |
| Amount (TZS million) | 25.7 | Nil | Nil | Nil | Nil | 25.7 |
| ***Procurement under framework contracts*** | | | | | | |
| Number of Local Purchase Order | 843 | Nil | Nil | Nil | Nil | 843 |
| Amount (TZS million) | 988.0 | Nil | Nil | Nil | Nil | 988.0 |
| **Total procurement** | | | | | | **7,343.1** |

Although 86% of the procurement in Lindi DC is through the tender process, no reliable information is available that shows the remaining 14% meets the following three conditions for minor value procurements[22] (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 procurements procedures.

[22] As laid down by Section 165 of the procurement regulations

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

- Procurement made without competitive quotation – TZS 14.6 million (2011-12)
- Payments of certificates made without inspection report – TZS 8.5 million (2012-13)

The internal audit reports for the District Council for 2013-14 also include observations on (i) procured items not entered into stores (23.8 million); (ii) purchases made for items that were not in the procurement plan – TZS 11.5 million; (iii) items that were indicated as purchased but there were no evidence of receipt – TZS 1.9 million; (iv) contracts awarded without compliance to competitive bidding – TZS 746 million; and (v) contracts entered without approval of the District Attorney – TZS 3.4 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 restrictions are imposed for procurement plans and data on resolutions of procurement complaints.

On the other hand, as per PPA 2011, each procuring entity is required to publish the General Procurement Notice (GPN) which essentially constitutes a summary of the annual procurement plan. This summary however, does not include information on the budget amounts for each planned procurement. Procurement officials in Lindi DC informed the assessment team that at the end of the previous financial year, the GPN for the current year was published on the Council's notice board, PPRA's website and local newspapers. 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.

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.

**(iv) Existence of an independent administrative procurement complaints system**

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

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

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

Secretary of the appeal authority is part of the government. The authority is not involved in any capacity in procurement transactions or in the process leading to contract award decisions.

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

**Table 52: Summary of rating under PI-19**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-19 Transparency, competition and complaints mechanisms in procurement** | | **D+** | |
| (i) | Transparency, comprehensiveness and competition in the legal and regulatory framework | B | The legal framework meets five of six requirements. |

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| (ii) | Use of competitive procurement methods | D | In case of those 32% of the contracts which were procured through alternative methods of procurement, only local purchase order method was used. However, given CAG's observations on control lapses, it cannot be ascertained if these procurements were 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 (DED) at the LGA 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)[23] under this dimension which requires the body involved in procurement complain not to be involved in any capacity in procurement transactions or in the process leading to contract award decisions.. |

## *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

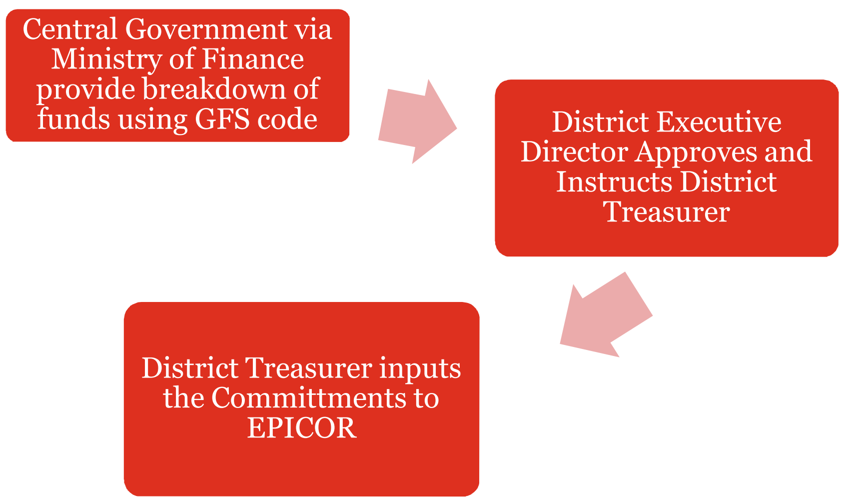
[23] Criteria (ii) requires an assessment against the question 'Are complaints reviewed by a body which is not involved in any capacity in procurement transactions or in the process leading to contract award decisions?'

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

The assessment team also noted that Lindi DC did not have any user friendly manuals explaining the detailed process and document flows and internal controls involved in financial transactions. The LGA used the Local Authority Accounting Manual that guided the framework of accounting, the principles and conventions of recording and processing of financial transactions and the Internal Audit Manual for LGAs (Revised Version) issued by the IAG's Division for undertaking and reporting on internal audit.

### (i) Effectiveness of expenditure commitment controls

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




During our assessment, it was observed that Lindi DC 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, though with certain limitations specifically with respect to reporting and reconciliations. Commitments were still made outside the EPICOR system, thus creating arrears. The LGA officials had sometimes issued Local Purchase Orders (LPO's) without any inputs in the computerized system. This causes indiscriminate issue of LPOs; LPOs being issued in no sequential order; and irregular booking of liabilities amongst other things. In collecting evidence of effectiveness of the commitment controls available at Lindi DC, we reviewed IA reports for six (6) quarters from 1 July 2013 to 31 December 2014 and CAG's report summary for financial years 2011-12 to 2012-13. Examples of weaknesses in commitment control were reported that included:

- Payments from development accounts made to Villages with no information sent to the District Council
- Record keeping on ongoing projects was not well documented for the council's control.
- Lack of Creditors Control Register in departments, thus increasing arrears
- Expenditure attributed to misguided GFS codes without proper reallocations

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

**(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 Local Government Authorities
- ***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 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 expenditure recording, Lawson for payroll management, PlanRep for budgeting and reporting, 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. Table 53 indicates our assessment of the comprehensiveness of available internal controls and staff understanding of them as noted in course of our discussions at Lindi DC and as evidenced by weaknesses pointed out by the internal and external audit reports.

## Table 53: Assessment of internal control areas

| Internal control areas | Present provisions prescribed for LGAs | Observation |
|---|---|---|
| 1. Segregation of duties | • Para 11 of the LGFM prescribes that the Finance Committee shall approve written procedures for control of finances and the Director/Treasurer shall assign specific responsibilities for each post, divide responsibilities among staff ensure periodic rotation and institute a system of internal checks. | • Though staff in general appeared to be aware of their responsibilities there is absence of documented procedure manuals that would help to explain to staff the step by step tasks to be accomplished while executing the control functions and the flow of documents and information integral to the processing of financial transactions. The latest available Management letter for 12-13 of the CAG has also referred to lack of job rotation. |
| 2. Authorization of transactions and activities. | • The Authorizing officers for expenses must ensure that all expenses are lawful and duly authorized, are backed by funds, achieve value for money and are properly supported by documents (Para 10 of LGFM) | • While familiarization with authorization processes does not appear to be an issue in Lindi, the existence of some payments without appropriate documentation was recorded by the auditors. |
| 3. Adequacy of verification processes | • The verification requirements for transactions and their frameworks are defined by the LAAM and LGFM | • Internal audit reports have pointed out certain instances of inadequate documentation which are pointers to the fact that laid down operating controls can be compromised. |
| 4. Physical control of assets and records | • Para 88 of LGFM prescribes maintenance of a Motor Vehicles register and Para 103 of a Register of Fixed Assets<br>• Para 11 (3b) of LGFM prescribes restriction of access to records, documents relating to Councils financial and other transactions. | • Weak controls on access to the cashier office where people making payments have full access to the office.<br>• |
| 5. Internal Oversight function | • Audit Committee is a mandatory requirement under Para 12 of the LGFM performing functions of oversight, review of all audit reports, coordination and advice to the Accounting officer. | • CAG's Management Letter has cited numerous weaknesses on performance of the Audit Committee as part of the internal control. For instance, No regular communication with the external Auditors, therefore committee is lacking some opinions/suggestions that would be otherwise be |

| Internal control areas | Present provisions prescribed for LGAs | Observation |
|---|---|---|
| | | obtained once the external auditor invited to attend the meeting conducted by the committee. More examples are in PI 28(ii). |
| 6. EPICOR system | • The entire accounting and financial reporting system is expected to be done through EPICOR | • Discussions with internal audit revealed that they do not possess the required skills for an EDP audit and presently mostly audits around the IT system.<br>• CAG's Management Letter for FY 2012/2013 cited numerous weaknesses related to ICT in general, and specifically highlighted that although the EPICOR systems has been installed in Lindi DC, it is not being fully operational. For example, during our visit we noted that CFR reports were not generated through EPICOR but prepared manually on Excel. However, The Council did not provide any specific reasons as to why it was not fully operating the IFMS system. |

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

LAAM describes in details the rules for processing and recording transactions. From our assessment and review of various reports, there are no indications of significant lapses in compliance with rules for processing and recording transactions. However, in the CAG's reports there were notable errors, omissions, and understatements and overstatement of figures in the submitted financial statements for both FY2012/2013 and FY2013/2014.

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

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

**Table 54: Summary of rating under PI-20**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-20 Effectiveness of internal controls for non-salary expenditure** | | **C** | |
| i. | Effectiveness of expenditure commitment controls | C | Commitment control in EPICOR system is not completely effective due to cash rationing such that funds are not disbursed wholly as budgeted. As a result, commitments are entered into system on receipt of each disbursement, but expenditure for some council activities continue to be incurred by raising LPOs outside the system even during the time of no funds. This practice, result in payment arrears. |
| ii. | Comprehensiveness, relevance and understanding of other internal control rules/procedures. | C | No evidence of a proper guidance for the council staff neither on the day to day operations nor on the complexities of operations in a computerized environment. In addition, findings from various reviews indicate some compliance issues to the internal control requirements. |
| iii. | Degree of compliance with rules for processing and recording transactions | C | The Council uses the LAAM as a reference document in processing and recording transactions, however in practice, Lindi DC 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 (IAU).

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

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

Effectiveness of the Internal Audit for LGAs in Tanzania is further strengthened through ongoing capacity building initiatives by the Local Government Audit Section at the Internal Auditor General (IAG)'s Department at the Ministry of Finance that was established in June 2010, under the pronouncement of Cap 348 of the amended Public Finance Act. The Local Government Audit Section at the IAG's office has the duty to review and compile audit reports from LGAs and prepare a summary of major audit observations, recommendations and advice accordingly on the improvements needed.

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

Internal Audit is a separate departments in the Lindi DC set up. While the financial regulations are not explicit in the size of the Internal Audit Unit, it is headed by the Chief Internal Auditor who reports to the District Executive Director. Supporting the Chief Internal Auditor are 2 other audit staff, making the total number of employees in that department become 3 as the country wide council requirement. Selection of these positions is done at the Central level through PO-PSM, where they determined their required entry qualifications and progression criteria as they acquire further qualifications and on the job experience.

While assessing Lindi DC, we observed that the Internal Audit function at Lindi DC was independent of the payment and accounting processes.  We also confirmed that the Internal Auditor cover all activities of the council, public service delivery units and the LLGs.

We were informed by the Chief Internal Auditor in Lindi DC that out of the total available effective audit days of 252, 16% of the time was planned for general audit activities, 8% for administration activities and the balance 74% for audit of various project activities as detailed in Table 55.

**Table 55: Number of days and activity**

| Quantity | Activity |
|---|---|
| 16% (40 days) | General audit activities; |
| 11% (28 days) | Audit of Health Sector Basket Fund project activities; |
| 11% (27 days) | Audit of the for Rural Water Supplies project activities; |
| 9% (22 days) | Audit of CDCF Fund activities; |
| 8% (20 days) | Audit of primary and secondary school education activities; |
| 8% (20 days) | Audit of road fund activities; |
| 8% (20 days) | Audit of agriculture and livestock activities; |
| 8% (20 days) | Administration activities; |
| 8% (20 days) | Audit of community development activities; |

| | |
|---|---|
| 6% (15 days) | Audit of land and natural resource activities |
| 4% (10 days) | Audit of TASAF project activities. |

Though a specific split between system based and transaction based audit was not readily available in the audit plans, the performance audit included areas and objectives that could be performed by a mix of verification of systems compliance as well as assurance that all transactions are evidence based and in line with laid down policies. A review of six recent quarterly Internal audit reports and the nature of comments and observations mentioned in such reports showed on the whole, that about 70% of the focus was on systemic issues and the balance on transactions. Notable low systems coverage is on the quarter 1 October – 31 December 2014, where the coverage was 40% (i.e. below 50%). Breakdown of internal audit focus per quarter is presented in Table 56.

**Table 56: Breakdown of internal audit issues in reports per quarter**

| Quarter | Systems – areas (%) | Transaction/compliance – areas (%) |
|---|---|---|
| 1 July – 30 September 2013 | 3 (50%) | 3 (50%) |
| 1 October – 31 December 2013 | 2(50%) | 2 (50%) |
| 1 January – 31 March 2014 | 3 (43%) | 4 (57%) |
| 1 April – 30 June 2014 | 5 (60%) | 4 (40%) |
| 1 July – 30 September 2014 | 4 (57%) | 3 (43%) |
| 1 October – 31 December 2014 | 2 (40%) | 4 (60%) |

The CAG in its latest available Management letter for the year 2013-14 had discussed on the issue of inadequate resourcing of the Internal Audit function at Lindi DC and advised the management to provide resources to ensure that the unit is efficiently carrying out its functions.. In addition, CAG had highlighted a number of events that the internal control had, for instance payment made through wrong expenditure code as well as non pre audited expenditures.

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

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

In our assessment carried out for Lindi, we got to understand that the council prepares quarterly reports, and we reviewed a total of 6 quarterly internal audit reports starting from 30 September 2013 to 31 December 2014. The Head of the IAF informed us that they do not prepare a specific annual report. However, the last quarterly report for the financial year summarizes the IAF's observations for the year by incorporating accumulated issues that remained outstanding at the end of the year and summarizes the challenges the IAF faced for the year.

Other than the IAF not preparing the annual report, we noted that only 2 out of the 6 reviewed IA reports was submitted to the Council Director during Full Council meeting by the 10-15th of the month after the end of the quarter while all other 4 IA reports were submitted after the due date. It was also brought to our attention that the report is distributed by the Council Director to other stakeholders such as IAG (following the very recent decision that sharing the report with PMO-RALG is through RAS where all regional reports are consolidated), CAG and RAS. Out of the 6 reviewed reports, 5 were submitted to the stakeholders within the prescribed time while 1 was delayed for one month.

**Table 57: Dates for distribution of Internal Audit Reports**

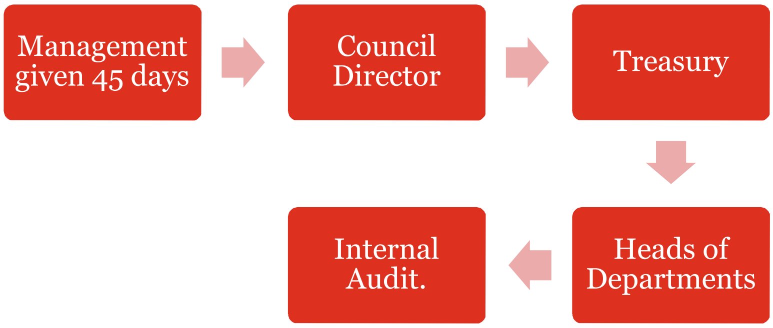
| SN | Period | Date submitted to Council Director | Date Council Director forwarded to CAG, PMORALG, RAS and IAG |
|---|---|---|---|
| 1. | 1 July – 30 September 2013 | 13 October 2013 | 15 October 2013 |
| 2. | 1 October – 31 December 2013 | 27 January 2014 | 27 January 2014 |
| 3. | 1 January – 31 March 2014 | 7 April 2014 | 28 April 2014 |
| 4. | 1 April – 30 June 2014 | 25 July 2014 | 25 July 2014 |
| 5. | 1 July – 30 September 2014 | 30 October 2014 | 21 November 2014 |
| 6. | 1 October – 31 December 2014 | 28 January 2015 | 28 January 2015 |

The audit reports reach the audited entity through the Council Director who consults the Heads of Departments before responding to audit observations.

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

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

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 IA through Heads of Departments. Evidence contained in the IA's reports indicated that the responses to the IA findings are either delayed or sometimes not forthcoming at all. The IA has commented that, delays in responding to IA findings lead to recommendations being repeated from one quarter and year to another. Internal Audit recommendations are made on ongoing basis; mostly findings are on the monthly bases. Issues that are resolved within the quarter are not included in the quarterly Internal Audit report. The Internal Auditor maintains a file of management responses. The file is sequentially numbered based on the responses.

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

**Table 58: Summary rating for PI-21**

| Indicator | Rating | Brief Explanation |
|---|---|---|
| **PI-21 Effectiveness of internal audit** | **D+** | |
| (i) Coverage and quality of the internal audit function. | B | While there was targeted coverage based on risk based plans that included both transaction and system based audits and sample audit reports showed considerable systems coverage of at least 50%, the inadequacies in the budget and resources limit the actual coverage. Present practices do not record audit time usage e.g. time sheets and staffing issues require to be addressed. Basic issues mentioned by the CAG need also to be addressed so as to be certain as to the extent of time the auditors are spending on system issues.) |
| (ii) Frequency and distribution of reports | B | Reports did not adhere to a fixed quarterly and annual schedule, but are issued regularly and are distributed to the Council, CAG, PMORALG, IAG and RAS.<br>Four reports for the first 6 quarters – 4 of 2013-14 and the first 1 of 2014-15 were submitted to the Council Director post 15th of the month after the end of the quarter and thus were delayed. |

| | | |
|---|---|---|
| | | The audit reports reach the audited entity through the Council Director who consults the Heads of Departments before responding to audit observations. |
| (iii) Extent of management response to internal audit findings | D | With a few exceptions, internal audit recommendations are usually been not addressed by the Council's Management. This has also been pointed out as one of the key observations in the CAG's Management Letter. |

### *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 Lindi DC carry out reconciliations between bank statements for individual accounts and cash books maintained through EPICOR on a monthly basis.

Lindi DC has 7 active bank accounts. Bank reconciliations are regularly performed on all bank accounts on a monthly basis and are available by the 15th of the following month for the previous month. The status of reconciliations at the time of our visit on 19th and 20th February is shown in **Table 59**.

**Table 59: Reconciliation status**

| S. No. | Name of the Account | Last completed Reconciliation month |
|---|---|---|
| 1 | Development Cash Account | 31/01/2015 |
| 2 | Own Source Revenue Cash Account | 31/01/2015 |
| 3 | Road Fund Cash Account | 31/01/2015 |
| 4 | NWSDP Cash Account | 31/01/2015 |
| 5 | Personal Emolument Cash Account | 31/01/2015 |
| 6 | Other Charges Cash Account | 31/01/2015 |
| 7 | Misc. Deposits Cash Account | 31/01/2015 |

As can be seen from the Table above, Lindi DC is up-to-date in terms of preparing bank reconciliations, the latest being for January 2015 for all the 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 10th of February. We also noted that bank reconciliations were prepared at 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 Local Government Finances Act (LGFA), LGAs are authorized to make advances and operate deposit and suspense accounts. However, we were informed that based on instructions issued by MoF, there is no usage of suspense accounts in LGA transactions at present including Lindi. Our discussions confirmed that staff advances for salaries were being given and these were also accounted for in the latest audited financial statements. The norms for making personal advances to employees as prescribed by para 41 of the Financial Memorandum only covers (i) salary advances up to a maximum of 3 months salary recoverable over a maximum 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 FM 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 failing which surcharge has to be levied.

The financial statements for FY 2013-2014 indicate at the end of year, outstanding advances to villages amounted to TZS 95.7 million. These have been outstanding between three and twelve months. Salary advances and imprest to staff at the end FY 2013-2014 amounted to TZS 305.0 million. However the period that this amount was outstanding was one month only. The CAG's Management letter for FY 2013-2014 did not report any issues relating to imprest.

**Table 60: Summary rating for PI-22**

| Indicator | Rating | Brief Explanation |
|---|---|---|
| **PI-22 Timeliness and regularity of accounts reconciliation** | **B+** | |
| (i) Regularity of Bank Reconciliations | A | Bank reconciliations for all the seven 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 | District Council does not have a suspense account, it had recoverable salary advances and imprest amounts. As per CAG's Management Letter on the financial statements of the LGA for 2013-14, the District Council had salary advances amounting to 305 million that was outstanding for one month only as on 30 June 2014. |

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

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

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

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.

At the beginning of the financial year, the Council prepares a schedule of disbursements which is approved by the District Education Officers, District Treasurer and District Executive Director. Thereafter the council transfers fund directly into the schools' bank accounts on a monthly/quarterly basis depending on when funds are received from the Treasury. Disbursements to schools fall under three broad categories: (i) capitation grants; (ii) in-kind transfers, which include books centrally procured by PMO-RALG; and (iii) other allowances for food etc.

There are a total of 115 primary schools in Lindi district which includes one pre-primary but attached to a primary school and four private schools. The council only provides counselling support to the private schools. There are 27 secondary schools in Lindi district out of which 23 are public and four private. The Council does not provide any financial support to the private schools.

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. Ward Education Officers are also kept in the loop when funds are disbursed to schools so that they can keep the council abreast in terms of when cash is actually received by schools and expenditure is planned.

The assessment team was provided with details of transfers made to schools in 2011-12, 2012-13 and 2013-14 covering cash and in-kind transfers from the council as well as direct transfers from PMO-RALG.

As regards transfers related to health expenditure, most of funds transferred by the Treasury to the council for primary health centres are not disbursed to the primary health centers, rather the Lindi DC incurs expenditure on behalf of the primary health centers and transfers the procured items to the health centres. Funds disbursements to health centres are either as part of Health Basket Fund or Health Sector Development Grant using the guidelines provided in the respective programme documents. The Council also maintains a supplementary budget which is provided to hospitals, health centres and dispensaries during emergency situations. In addition, 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 report to Lindi DC on a quarterly basis. Expenditure incurred by the health facilities are after 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.

Although the Council has complete information on funds and in-kind transfers made to schools and health centres, it does not receive financial reports from these institutions on how the funds are used. However, schools provide acknowledgement to the council on funds received by providing a cash receipts. The Council is also involved in approving all expenditure prior to schools incurring them.

The current accounting system, i.e. EPICOR, in Lindi DC 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 to collect data on resources to services delivery units.

In 2013, a mapping exercise on transfer of funds to LGAs was undertaken centrally. 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 61: Summary of rating under PI-23**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-23 Availability of information on resources received by service delivery units** | | **B** | |
| (i) | Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units. | B | Our findings are<br>• 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 categories of dispensary, health centres, etc.<br>• However, data is available at the department level on transfers both cash and kind for education and health<br>• Quarterly and annual reports are available for health and secondary education (only quarterly report for primary education)<br>• A PETS has examined systemic issues country-wide but there is no data available on service delivery units. |

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

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

In-year budget reports are prepared by Lindi DC on a quarterly basis on Microsoft Excel using information drawn from the EPICOR system. The report provides information on actual income and expenditure for the quarter as well as cumulatively and compares with the annual approved budget. The reports however do not provide information on commitments. Since the information used in preparing the report is generated from the EPICOR system, the in-year budget reports conform to the GFS classification of expenditure and revenue classification as adopted centrally. The in-year budget reports provide aggregated information for all the departments, lower level service units as well as development projects. The reports are prepared by the Revenue and Expenditure Accountants.

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

The in-year budget reports are prepared on a quarterly basis within fifteen days (i.e. two weeks) after the end of the quarter. As per our discussion with the District Treasurer and the District Planning Officer, these reports are distributed to the finance committee soon after preparation and discussed with the full council during the council's quarterly meetings. The reports for a particular quarter, are distributed to the finance committee in the subsequent month.

**(iii) Quality of information**

EPICOR is not customized in a manner that allows an 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 which include the accounting systems (EPICOR), hence enhances their credibility.

**Table 62: Summary of rating under PI-24**

| Indicator | | Rating | Brief explanation |
|---|---|---|---|
| **PI-24 Quality and timeliness of in-year budget reports** | | **C+** | |
| (i) | Scope of reports in terms of coverage and compatibility with budget estimates | C | In-year budget reports are generated in line with the GFS 2001 classification of annual budgets. This allows for direct comparison to the original budget. However, the expenditure information does not include details on commitments. |
| (ii) | Timeline of the issue of reports | A | Reports by the LGA are prepared on a quarterly basis and are issued 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 recognized Accounting standards.

### (i) Completeness of the financial statement

Para 31(3) of the LGFM[24] 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 (IASB) as applicable to the public sector. The financial statements are to be supported by disclosure of accounting principles and policies and provide explanatory notes for better understanding. Detailed itemized schedules are not stipulated to form part of the published accounts but the 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 Lindi DC for the year 2012-13 and underlying systems from the perspective of completeness is given in Table 63.

**Table 63: Comments on audited financial statements**

| Topic | Comments |
|---|---|
| Components of financial statements | Based on the last financial year audited till the date of our visit it was noted the financial statements for 2012-13 include statements on: (i) financial position; (ii) financial performance; (iii) changes in net assets; (iv) cash flow. In addition, the following matters are included:<br>• 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;<br>• Notes to the financial statements;<br>• Summary of significant accounting policies;<br>• Statement of financial performance by function (key departments/service centres);<br>• Comparison of budget and actual by nature (type of expense or income);<br>• Comparison of budget and actual by function. |
| Consolidation of information | 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 (eg a single primary health care unit under the health department) are not considered as separate cost centres and financial statements cannot be generated centrally for such individual units. However their operations are integrated with the departmental expenditure and reporting within the overall accounting system |

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

### (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 from the end of the financial year.

**Table 64: Lindi District Council: Submission timelines for financial statements**

| Activity | 2012-13 | 2013-14 |
|---|---|---|
| Approval by Full Council | 30.9.2013 | 19.9.2014 |
| Submission to National Audit office | 30.9.2013 | 15.10.2014 |

We note that for the latest audited financial year 2013-14, the financial statements were approved by the Full Councillors meeting on 15 October 2014 and submitted for CAG audit on the same date. The CAG's management letter also indicated that financial statements of Lindi DC for the year ended on 30th of June 2014 were received by the country-wide revised statutory due date. It is noteworthy that financial statements submitted by Lindi DC on 15th of September, 2014 were accepted by the CAG and therefore the Council did not have to resubmit the financial statements. This implies that there were no material errors or omissions in the preparation of the financial statements.

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

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

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

The Annual Report of the CAG for FY 2012-2013 has 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 65: Summary rating for PI-25**

| Indicator | | Rating | Brief Explanation |
|---|---|---|---|
| **PI-25 Quality and timeliness of annual financial statements** | | **B+** | |
| (i) | Completeness of the financial statements | B | The 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 2013-14 were submitted to the external auditors within 4 months from close of the fiscal year and there were no corrections that were needed, hence they were not resubmitted. |
| (iii) | Accounting standards used | B | 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 audit of accounts of LGAs is provided by the Constitution, certain statutes and other regulations of the CAG. The table below summarizes the key components of the framework.

**Table 66: Regulatory framework for external audit**

| Document | Remarks |
|---|---|
| Constitution of the United Republic of Tanzania 1997 (revised 2005) | Article 143 establishes the office of the CAG and defines its responsibilities and powers which includes |

| Document | Remarks |
|---|---|
| | 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 it is headed by the CAG.

Our review of the CAG audit report for Lindi DC shows that in essence it is in the nature of financial audit. Includes a detailed review of internal control systems and observations of the CAG on the control weaknesses which is furnished to the Council separately through a Management letter. Based on our discussions with the NAOT, we understand that a risk based approach is adopted and the specifics of the approach and methodology is determined keeping in mind the prescriptions of the Regularity Audit Manual (RAM) depending on the circumstances. Though the emphasis appears to be on financial transactions backed up by a systemic review of underlying processes, based on our discussions with the Lindi DC it was noted that Special Audits are also conducted by the CAG's office and the last one done was on projects in the year 2010. Feedback from the NAOT also mentioned that there is a current GIZ funded project that is examining comprehensive audit for LGAs (as one of its components) which would include performance audit and certain pilots have been planned. Considerations of value for money which already form an integral part of audit of underlying transactions is one of the aspects of performance that is covered by the present audit approaches for LGAs.

The ambit of coverage for audit purposes is total – 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 Regulatory Auditing Manual (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) 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 the expenditure was covered during the audit assessments. We also note from the CAGs comments on the scope of audit in his audit report for Lindi DC for 2012-13 that the audit was on a sample basis and therefore findings are confined to the evidence made available in course of his audit.

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

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

As per 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 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

The National Assembly will then discuss the POC report together with the consolidated report and the action plan submitted by the Minister.

Although the Annual General Report on the financial statements of all LGAs for the year 2012-13 was submitted by the CAG to the President on 28th of March 2014, the CAG's audit report for Lindi DC was only received by the Council on 25th of May 2014. The dates for submission of the LGA Reports to the National Assembly for the last few years were as follows:

**Table 67: Receipt of LGA reports by National Assembly**

| Financial years | Dates of receipt by National Assembly |
|---|---|
| 2009-10 | 30th of March, 2011 |
| 2010-11 | 31st of March, 2012 |
| 2011-12 | 10th of April, 2013 |
| 2012-13 | 7th of May, 2014 |

The dimension requires the time taken between the date on which last financial statements are received by the CAG and the date on which the reports are submitted to the Legislature at the local level. In case of Lindi DC, the financial statement was submitted in September 2013 and the audited financial statement was submitted to the local legislature on 25-May-2014, i.e. within eight months.

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

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

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

The CAG in his audit report for FY 2013-2014 indicated that in Lindi DC there was satisfactory mechanism to implement auditor's recommendations regularly. The report, however, indicated that although Lindi DC has established an Audit Committee, significant findings of internal and external audits were not resolved on time and therefore were repeated/remained outstanding; it had no regular communication with the external auditors; and needs more capacity building in training the members of the Audit Committee. Table 68 shows the status of implementation of implementation of CAG's recommendations for 2012-13 and 2013-14.

**Table 68: Status of implementation of previous year CAG recommendations**

| Status | Number of recommendation (as% of total recommendations) | |
|---|---|---|
| | 2012-13 | 2013-14 |
| Implemented | 0 | 34 (69%) |
| Under Implementation | 6 (24%) | 3 (6%) |
| Not Implemented | 19 (76%) | 12 (25%) |
| Total | 25 (100%) | 48 (100%) |

Our enquiries show that for 2013-14, there were 4 meetings of the Audit Committee but at irregular intervals and 2 meetings have been held so far for the current financial year. The institutional structures for audit follow up though established by the statute and regulations have not fully ensured compliance by the LGAs. It was noted from the CAGs Annual report for 12-13 that in respect of the FY 2011-2012, for all the LGAs only 6% of the recommendations were implemented, 42% not implemented at all while another 52% was under implementation by the LGAs.

In Lindi DC, out of the 25 recommendations reported by the CAG as brought forward for FY 2012-2013, twelve related to FY2011/2012, 8 related to 2010-2011, 4 related to 2009-2010 and 1 related to FY 2007-2008. Furthermore, the CAG reported that none of the recommendations were fully implemented and only six were partially implemented. This confirms the persistence of old comments which were being carried over to subsequent financial years. This fact that is also visible in the CAG's draft management letter for FY 2013-2014, which states Lindi DC had 49 recommendations in the FY 2012-2013, they were able to implement 69% and had 25% of non-implemented recommendations which might seem small amount. However they are issues that are only addressed in the following financial year.

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 LAAC and national legislature are discussed in PI-28.

**Table 69: Summary rating for PI-26**

| Indicator | Rating | Brief Explanation |
|---|---|---|
| **PI-26 Scope, nature and follow-up of external audit** | **C+** | |
| (i) Scope/nature of audit performed (including adherence to auditing standards) | B | The essence is the financial audit of the year end accounting statements but it also focusses on a risk based approach and significant as well as systemic issues. Audit also adheres to INTOSAI auditing standards. Performance audit 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 LGA after receipt of the final financial statements by CAG for audit. Lindi DC submitted the final statements to CAG in September 2013. However, the audit report was submitted to the council on 25 May 2014, approximately two weeks after it was submitted to the National Assembly on 7 May 2014. This is contrary to the new law which states that the National Assembly will not consider any audit reports which have not been reviewed by the auditees and the Paymaster General. |
| (iii) | Evidence of follow up on audit recommendations | C | Responses to management letters are made and evidence of systematic follow up is improving as evidenced by opinions provided by the CAG Management Letter for FY 2013-14. |

## *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

Lindi District is governed by a District Council established under the Local Government (District Authorities) Act 1982. The Full Council is responsible to take all decisions relating to the LGA. The Full Council, which operates under the leadership of the Council Director, 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 District and Regional Consultative Committees are also considered. The final proposals are then forwarded to the Full Council for approval. Feedback received in course of our discussions and from the minutes of the approval meeting shows that the nature of the discussions relates to estimates of expenditure and revenue. The Full Council reviews the budget as well as the quarterly financial reports and annual financial statements. The assessment team reviewed the minutes of the Full Council's meetings and confirmed their coverage of details for the same.

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

Part IV A and B of the Local Government (District Authorities) Act, 1982 lay down the framework for carrying out proceedings of all meeting 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 Lindi DC, apart from the Finance, Administration and Planning Committee, there are also two other Committees: Education, Health and Water Committee; and Economy, Works and Environmental Committee. The Council has issued standing orders (dated October 2002) that lay down the composition and responsibilities of these standing committees in line with the requirements of LGDA. 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 15th May each year. Clause 19 (1) states '*the Finance Committee after considering and if necessary revising the budget from other committees, shall consolidate the budget, prepare such reports and memoranda as it may deem necessary for the information of the Council and submit the same to the full Council not later than thirty first day of May in each year*', effectively providing the Finance Committee two weeks to review and 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 Lindi DC, virements are done after approval by the Finance Committee and Full Council approval and inputs of such virements are provided to PMORALG. Our review of a sample of minutes of the Full Council's meetings revealed that Lindi DC does not breach of any rules pertaining to virement. Minutes provide details such as line items where funds are reallocated as well as the amounts being reallocated. This is backed by reasons for the allocations and revised budgets for the affected line items. As per feedback from Lindi DC, no supplementary budgets were raised for additional expenditure during the assessed years.

**Table 70: Summary rating for PI-27**

| Indicator | Rating | Brief Explanation |
|---|---|---|
| **PI-27 Legislative scrutiny of the annual budget law** | **D+** | |
| i. Scope of the Council's scrutiny | C | The Full Council deliberates on revenue and expenditure but only after detailed proposals are finalized. |
| ii. Extent to which the Council's procedures are well established and respected | C | Broad guidelines for budget review are provided for in the LGFM and LGDA. These include constitution of and review by specialised review committees or standing committees. As per the requirements of the LGDA, the Council has also issued standing orders that lay down the composition and functions of these standing committees. However, given the reliance on transfers from the Central Government and the delay in communication on ceilings by MoF, the Council revises and finalises the budget estimates without consultation/ negotiation with the affected stakeholders. This undermines the effectiveness of the legislative procedures laid down for budget review. |
| iii. Adequacy of time for the Council to provide a response to budget proposals | D | As per feedback available, the budget is approved by the Finance Committee in significantly less than one month while the Full Council approves the budget within a day. This is clearly insufficient for a meaningful debate. |
| iv. Rules for in year amendments to the budget without ex ante approval by Council | B | Clear rules exist in the LGFM on the in-year budget amendments procedures. However, they do not set strict limits on the extent of these amendments.<br><br>The District Council adhered to the rules for carrying out virements and sought approval from the |

| | | |
|---|---|---|
| | | Councillors before making any in-year budget amendment decisions. |

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

This indicator analyses the timeliness of examination of audit reports by the Council, the nature of hearings, recommended actions and how far they are being implemented by the Councils. However since in Tanzania, the audit reports of the LGAs are also scrutinised by Parliament, the nature and consequences of such review have also been discussed here.

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

Section 51(1) of the LGFA requires that a copy of the annual accounts and the audit report to be tabled before the Council. In addition Section 51(4) requires that the Minister 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 be provided to the CAG. Section 40(4) requires the CAG to comment on the actions taken in his next report.

The scrutiny of the LGA accounts is therefore at two levels: at the local level by the Councils; and at the country level the Annual Report of LGAs by the National Assembly. By the recent amendment to the Public Audit Act in 2012, the Council 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. 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 71 provides the dates for the LGA reports for the last 3 audited years.

**Table 71: Various dates for LGA reports**

| | 2010-11 | 2011-12 | 2012-13 |
|---|---|---|---|
| Month in which audit report was submitted to the Council | Not available | May 2013 | May 2014 |

| | 2010-11 | 2011-12 | 2012-13 |
|---|---|---|---|
| Date of approval of audit report by Full Council | 12 August 2012 | 20 August 2013 | 28 August 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.

Although frequency of Audit Committee meetings in FY 2012-2013 and in the current year has improved, there is no clear evidence of robust scrutiny of the audit observations or in-depth hearings on key audit findings. This was evidenced by observations included in the CAG's audit report and management letter for FY 2012/2013 which indicated amongst other things the Audit Committee in Lindi DC does not deliberate on issues provided in the External Auditor's reports. The department's ineffectiveness is also seen by the CAG in the FY 2013/2014, which might imply as a tendency over years at the LGA. For the FY 2013/2014 CAG states that the following are the weakness of the department:

- Significant findings of internal and external auditors are not resolved on time and there for repeated/remained outstanding for a long time.
- No regular communication with the external Auditors, therefore committee is lacking some opinions/suggestions that would be otherwise be obtained once the external auditor invited to attend the meeting conducted by the committee.
- Lack of training is needed so as the members understand well their functions and responsibilities and also Council should provide enough budget for them to conduct site visit during the financial year.

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. The most recent LAAC meeting for the Council was held on 20 January 2015 to discuss the follow-up by the LGA on the recommendations of CAG's Audit Report for 2012-13.

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[25].

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

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

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

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.

In case of Lindi DC, there were no LAAC recommendations in the reference period (i.e., last 12 months). Additionally, the CAG in its management letter notes deficiencies in the audit committee operations. For example, the CAG notes that the audit committee should ensure that audit results are communicated and any recommended improvements or corrective action are implemented. Significant findings of external auditors were not resolved and there are various cases of repeated/remained outstanding for a long time.

**Table 72: Summary rating for PI-28**

| Indicator | Rating | Brief Explanation |
|---|---|---|
| **PI-28 Legislative scrutiny of external audit reports** | **D+** | |
| (i) Timeliness of examination of audit reports by the Council (for reports received within the last three years) | B | Council approves the audit report within 6 months from receipt of the reports. |
| (ii) Extent of hearings on key findings undertaken by the legislature | D | There is no clear evidence of robust scrutiny of the audit observations or in-depth hearings on key audit findings by the Audit Committee. This was evidenced by observations included in the CAG's audit report and management letter for FY 2013/2014 which indicated amongst other things the Audit Committee in Lindi DC does not deliberate on issues provided in the External Auditor's reports |
| (iii) Issuance of recommended actions by the legislature and implementation by the executive. | D | There are no LAAC recommendations for the reference period. The CAG in its management letter for 2013-14 highlights serious weaknesses in operations of the audit committee. |

## 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. The guideline further clarifies that the donor funding should be at least more than 1% of the LGA's expenditure, in order to be included in analysis for the purpose of donor support. Based on our discussion with Lindi DC, it is understood that the only direct donor funding is from EGPAF. However, the funding amounts to less than 1% of the Lindi DC's expenditure. Hence, these three indicators are not applicable to Lindi DC.

# 6. Government Reform Process

## 6.1. Recent and On-going Reforms

Over the last two decades, GoT's reform strategies have aimed at (i) strengthening systems and processes with a view to enhancing efficiency, effectiveness, accountability and transparency in Government; (ii) developing and strengthening infrastructure to improve access to service delivery in specific sectors; and (iii) promoting democracy and good governance[26]. Key relevant cross-cutting reforms that have been implemented by GoT in the recent past include:

(i) Public Service Reform Programme (PSRP) whose broad objective was to improve efficiency, effectiveness and service delivery;

(ii) Public Finance Management Reform Programme (PFMRP) which aimed at intensifying measures for mobilising public revenue and controlling expenditure;

(iii) Local Government Reform Programme (LGRP) which focused on building capacity of the local government through Decentralization by Devolution (D by D); and

(iv) National Anti-Corruption and Action Plan (NACAP) whose main objective is to strengthen mechanisms and processes for prevention and combating of corruption in Tanzania.

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

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

LGRP was supported by another large scale reform programme – the PFMRP which was also rolled out in 1998. Phase I of PFMRP was implemented from 1998 to 2004 and targeted (i) minimisation of resource leakage; (ii) strengthening fiscal controls; (iii) enhancing accountability by reforming the budget process; and (iv) introduction of an integrated financial management information system (IFMIS). Phase II of PFMRP was implemented from 2004 to 2008 with an objective of modernising

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

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 Parasternal and Public Enterprises; the Commission of External Finance; the Enhanced Public Accounts Committee; and the Reform Coordination Unit[27].

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

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

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

While KRA 1-5 include select interventions for LGAs in addition to those targeted at ministries, departments and agencies (MDAs) of the Central Government, the sixth KRA focuses exclusively on the local governments and attempts to address the issues specific to these authorities. It targets achievement of three outputs at the LGA level – (1) improved resource allocation, planning and budgeting, (2) improved budget execution and financial reporting, and (3) improved oversight and financial accountability. Key activities included under PFMRP IV for LGAs, inter alia, include: (i)

[27] 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

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[28] 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[29]. For example, JSC, PMC and TWGs did not meet as frequently as intended by the programme's operations; there wasn't a separate TWG for each KRA; and the quality review and assurance of programme's output was uncertain.

## *Key Challenges*

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

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

[28] Joint Supervision Mission 2015, Aide Memoire (Report)
[29] 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.

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.

# Appendix 1. Data Issues

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

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

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

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

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

Our final approach towards such data challenges are as follows:

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

# Appendix 2. Mapping of Key Weaknesses

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

**Table 73: Mapping of Key Weaknesses**

| Sl | Topic | Key Weaknesses | Details | Key Stakeholder Responsible | | |
|---|---|---|---|---|---|---|
| | | | | LGA | PMO-RALG | MoF/GoT |
| 1 | Central Fund transfers | Predictability of fund transfers from the GoT is low | Uncertainties in the availability of quantum of funds, their composition and timing | | | |
| | | Distortions in the formula based transfers | Though rule based transfers exist in concept, their application gets distorted in practice due to uncertainty in fund flows | | | |
| 2 | Quality of Budgeting | Delay in issue of ceilings for budgeting | Delayed issue of ceilings negates the orderliness of the budgeting calendar | | | |
| | | Weak linkages between budgets and forward estimates | Figures of the next 2 years are extrapolated and there are no visible linkages between such forward estimates with budgeting which is based on previous year's ceilings. | | | |
| | | 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 | | | |

| Sl | Topic | Key Weaknesses | Details | Key Stakeholder Responsible | | |
|---|---|---|---|---|---|---|
| | | | | LGA | PMO-RALG | MoF/GoT |
| | | | 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 | | | |
| | | | b. 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 lack of proper documentation on submission dates and absence of a structured system of follow up on recommendations for internal and external audits | | | |
| | | | d. Lack of timely follow up of LAAC and audit recommendations | | | |

# Appendix 3. Disclosure of the Quality Assurance Mechanism

The following quality assurance arrangements have been established in the planning and preparation of the PEFA assessment final report for the Lindi District Council, Tanzania, dated 25th July, 2016.

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

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

i) PEFA Task Force Co-Chairs and Members on behalf of the government of the United Republic of Tanzania – in Feb. 2014

ii) PEFA Secretariat, Washington in April, 2014

iii) PFM Development Partners Group in April, 2014. This group included KfW (German Development Bank), DFID and World Bank

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

### 2. *Review of draft report*

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

i) Viviana Klein – KfW on 02nd June 2015
ii) Vivek Misra – DFID on 02nd June 2015
iii) Denis Biseko – WB on 02nd June 2015
iv) PEFA Secretariat, Washington on 02nd June 2015

v) Government of United Republic of Tanzania on 02nd June 2015

### 3. *Review of final draft report*

The final draft assessment report was submitted to following reviewers in 09th April 2016on the dates noted. This final draft report includes tables showing response to all comments raised by all reviewers.

i) Viviana Klein – KfW on 18th April 2016
ii) Vivek Misra – DFID on 18th April 2016
iii) Denis Biseko – World Bank on 18th April 2016
iv) PEFA Secretariat, Washington on 18th April 2016
v) Government of United Republic of Tanzania on 18th April 2016

### 4. *Additional information*

| | |
|---|---|
| Date of establishment of the assessment Oversight Team (PEFA taskforce) | December 2013 |
| Chairperson and Members of the Oversight Team | **Co-chairs**<br>o Mr. Kagyabukama E. Kiliba – Deputy Permanent Secretary, PMO-RALG<br>***Members***<br>o Mr. R.L. Mkumbo – DPD, MoF<br>o Mr. Shomari Mukhandi – ADLG (F), PMO-RALG<br>o Mr. Deogratius Ruhanmvya (ADRA), PMO-RALG |

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

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

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

PEFA Secretariat

July 25, 2016

# Appendix 4. Scoring Methodology under the PEFA Assessment Framework

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

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

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

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

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

| 2 dimensional indicators | | |
|---|---|---|
| D | D | **D** |
| D | C | **D+** |
| D | B | **C** |
| D | A | **C+** |
| C | C | **C** |
| C | B | **C+** |
| C | A | **B** |
| B | B | **B** |
| B | A | **B+** |
| A | A | **A** |

| 3 dimensional indicators | | | |
|---|---|---|---|
| D | D | D | **D** |
| D | D | C | **D+** |
| D | D | B | **D+** |
| D | D | A | **C** |
| D | C | C | **D+** |
| D | C | B | **C** |
| D | C | A | **C+** |
| D | B | B | **C+** |
| D | B | A | **B** |
| D | A | A | **B** |
| C | C | C | **C** |
| C | C | B | **C+** |
| C | C | A | **B** |
| C | B | B | **B** |
| C | B | A | **B** |
| C | A | A | **B+** |
| B | B | B | **B** |
| B | B | A | **B+** |
| B | A | A | **A** |
| A | A | A | **A** |

| 4 dimensional indicators | | | | |
|---|---|---|---|---|
| D | D | D | D | **D** |
| D | D | D | C | **D** |
| D | D | D | B | **D+** |
| D | D | D | A | **D+** |
| D | D | C | C | **D+** |
| D | D | C | B | **D+** |
| D | D | C | A | **C** |
| D | D | B | B | **C** |
| D | D | B | A | **C+** |
| D | D | A | A | **C+** |
| D | C | C | C | **D+** |
| D | C | C | B | **C** |
| D | C | C | A | **C+** |
| D | C | B | B | **C+** |
| D | C | B | A | **C+** |
| D | C | A | A | **B** |
| D | B | B | B | **C+** |
| D | B | B | A | **B** |
| D | B | A | A | **B** |
| D | A | A | A | **B+** |
| C | C | C | C | **C** |
| C | C | C | B | **C+** |
| C | C | C | A | **C+** |
| C | C | B | B | **C+** |
| C | C | B | A | **B** |
| C | C | A | A | **B** |
| C | B | B | B | **B** |
| C | B | B | A | **B** |
| C | B | A | A | **B+** |
| C | A | A | A | **B+** |
| B | B | B | B | **B** |
| B | B | B | A | **B+** |
| B | B | A | A | **B+** |
| B | A | A | A | **A** |
| A | A | A | A | **A** |

The scoring methodology across performance indicators is given in Table 74.

**Table 74: Scoring Methodology across Performance Indicators**

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

The criteria for an 'A' rating across dimensions under performance indicators have been given in Table 75.

**Table 75: Criteria for A rating across dimensions**

| PI | Description | Criteria for "A" Rating |
|---|---|---|
| **HLG-1** | **Predictability of transfers from a higher level of Government** | |
| **(i)** | Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget | In no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 5%. |

| PI | Description | Criteria for "A" Rating |
|---|---|---|
| **(ii)** | Annual variance between actual and estimated transfers of earmarked grants | Variance in provision of earmarked grants did not exceed 5 percentage points in any of the last three years |
| **(iii)** | In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within of month of start of the SN fiscal year) | A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading4) in all of the last three years. |
| **A. PFM Out-Turns: Budget Credibility** | | |
| **PI-1** | **Aggregate expenditure out-turn compared to original approved budget** | In no more than 1 of last 3 years has actual expenditure deviated from budgeted expenditure by amount equivalent to more than 5% of budgeted expenditure. |
| **PI-2** | **Composition of expenditure out-turn compared to original approved budget** | |
| **(i)** | Extent of the variance in expenditure composition during the last three years, excluding contingency items | Variance in expenditure composition exceeded 5% in no more than one of the last three years. |
| **(ii)** | The average amount of expenditure actually charged to the contingency vote over the last three years | Actual expenditure charged to the contingency vote was on average less than 3% of the original budget. |
| **PI-3** | **Aggregate revenue out-turn compared to original approved budget** | Actual domestic revenue was between 97% and 106% of budgeted domestic revenue in at least two of the last three years. |
| **PI-4** | **Stock and monitoring of expenditure arrears** | |
| **(i)** | Stock of expenditure arrears | The stock of arrears is low (i.e. is below 2% of total expenditure) |
| **(ii)** | Availability of data for monitoring the stock of expenditure arrears | Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile). |
| **B. Key Cross-Cutting Issues: Comprehensiveness and Transparency** | | |
| **PI-5** | **Classification of the budget** | The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.) |
| **PI-6** | **Comprehensiveness of information included in budget documents** | Recent budget documentation fulfils 7-9 of the 9 information benchmarks |
| **PI-7** | **Extent of unreported government operations** | |
| **(i)** | The level of extra budgetary expenditure (other than donor funded projects) which is reported | The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure). |

| PI | Description | Criteria for "A" Rating |
|---|---|---|
| **(ii)** | Income/expenditure information on donor-funded projects which is included in fiscal reports | Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure). |
| **PI-8** | **Transparency of inter-governmental fiscal relations** | |
| **(i)** | Transparent and rules -based systems in horizontal allocation among lower level governments of unconditional and conditional transfers (both budgeted and actual allocations) | The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent & rules based systems |
| **(ii)** | Timeliness of reliable information to lower level governments on their allocations for the coming year | SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes. |
| **(iii)** | Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sector categories | Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year. |
| **PI-9** | **Oversight of aggregate fiscal risk from other public sector entities** | |
| **(i)** | Extent of monitoring public enterprises | All major AGAs/PEs submit fiscal reports to central government at least six-monthly, as well as annual audited accounts, and central government consolidates fiscal risk issues into a report at least annually. |
| **(ii)** | Extent of Central Government monitoring of sub-national governments' fiscal position | SN government cannot generate fiscal liabilities for central government OR the net fiscal position is monitored at least annually for all levels of SN government and central government consolidates overall fiscal risk into annual (or more frequent) reports. |
| **PI-10** | **Public access to key fiscal information** | The government makes available to the public 5-6 of the 6 listed types of information |
| **C. Budget Cycle** | | |
| **(i) Policy-Based Budgeting** | | |
| **PI-11** | **Orderliness and participation in the budget process** | |
| **(i)** | Existence and adherence to a fixed budget calendar | A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time. |
| **(ii)** | Guidance on preparation of budget submissions | A comprehensive & clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs. |
| **(iii)** | Timely budget approval by the legislature | The legislature has, during the last three years, approved the budget before the start of the fiscal year. |
| **PI-12** | **Multi-year perspective in fiscal planning, expenditure policy, and budgeting** | |

| PI | Description | Criteria for "A" Rating |
|---|---|---|
| **(i)** | Preparation of multi-year fiscal forecasts and functional allocations | Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained. |
| **(ii)** | Scope and frequency of debt sustainability analysis | DSA for external and domestic debt is undertaken annually. |
| **(iii)** | Existence of sector strategies with multi-year costing of recurrent and development/investment expenditure | Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts. |
| **(iv)** | Linkages between investment budgets and forward expenditure estimates | Investments are consistently selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector. |
| **(ii) Predictability and Control in Budget Execution** | | |
| **PI-13** | **Transparency of taxpayer obligations and liabilities** | |
| **(i)** | Clarity and comprehensiveness of tax liabilities | Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved. |
| **(ii)** | Taxpayer access to information on tax liabilities and administrative procedures | Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns. |
| **(iii)** | Existence and functioning of a tax appeals mechanism | A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon. |
| **PI-14** | **Effectiveness of measures for taxpayer registration and tax assessment** | |
| **(i)** | Controls in the taxpayer registration system | Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations. |
| **(ii)** | Effectiveness of penalties for non-compliance with registration and declaration | Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered. |
| **(iii)** | Planning and monitoring of tax audit and fraud investigation programs | Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment. |
| **PI-15** | **Effectiveness of collection of tax payments** | |
| **(i)** | Collection ratio for gross tax arrears being the percentage of tax arrears at the | The average debt collection ratio in the two most recent fiscal years was 90% or above OR the total |

| PI | Description | Criteria for "A" Rating |
|---|---|---|
| | beginning of a fiscal year (average of the last two fiscal years) | amount of tax arrears is insignificant (i.e. less than 2% of total annual collections). |
| **(ii)** | Effectiveness of transfer of tax collections to the Treasury by the revenue administration | All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily. |
| **(iii)** | Frequency of complete accounts reconciliation between tax assessments collections, arrears records and receipts by Treasury | Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month. |
| **PI-16** | **Predictability in the availability of funds for commitment of expenditures** | |
| **(i)** | Extent to which cash flows are forecasted and monitored | A cash flow forecast is prepared for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows. |
| **(ii)** | Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment | MDAs are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations. |
| **(iii)** | Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs. | Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way. |
| **PI-17** | **Recording and management of cash balances, debt and guarantees** | |
| **(i)** | Quality of debt recording and reporting | Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly |
| **(ii)** | Consolidation of government's cash balances | All cash balances are calculated daily and consolidated. |
| **(iii)** | System for contracting loans and issuance of guarantees | Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity. |
| **PI-18** | **Effectiveness of payroll controls** | |
| **(i)** | Degree of integration and reconciliation between personnel records and payroll data | Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation. |
| **(ii)** | Timeliness of changes to personnel records and the payroll | Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments). |
| **(iii)** | Internal controls over changes to personnel records and the payroll | Authority to change records and payroll is restricted and results in an audit trail. |
| **(iv)** | Existence of payroll audits to identify control weaknesses and/or ghost workers | A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers. |
| **PI-19** | **Competition, value for money and controls in procurement** | |
| **(i)** | Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold | The legal framework meets all six of the listed requirements. |

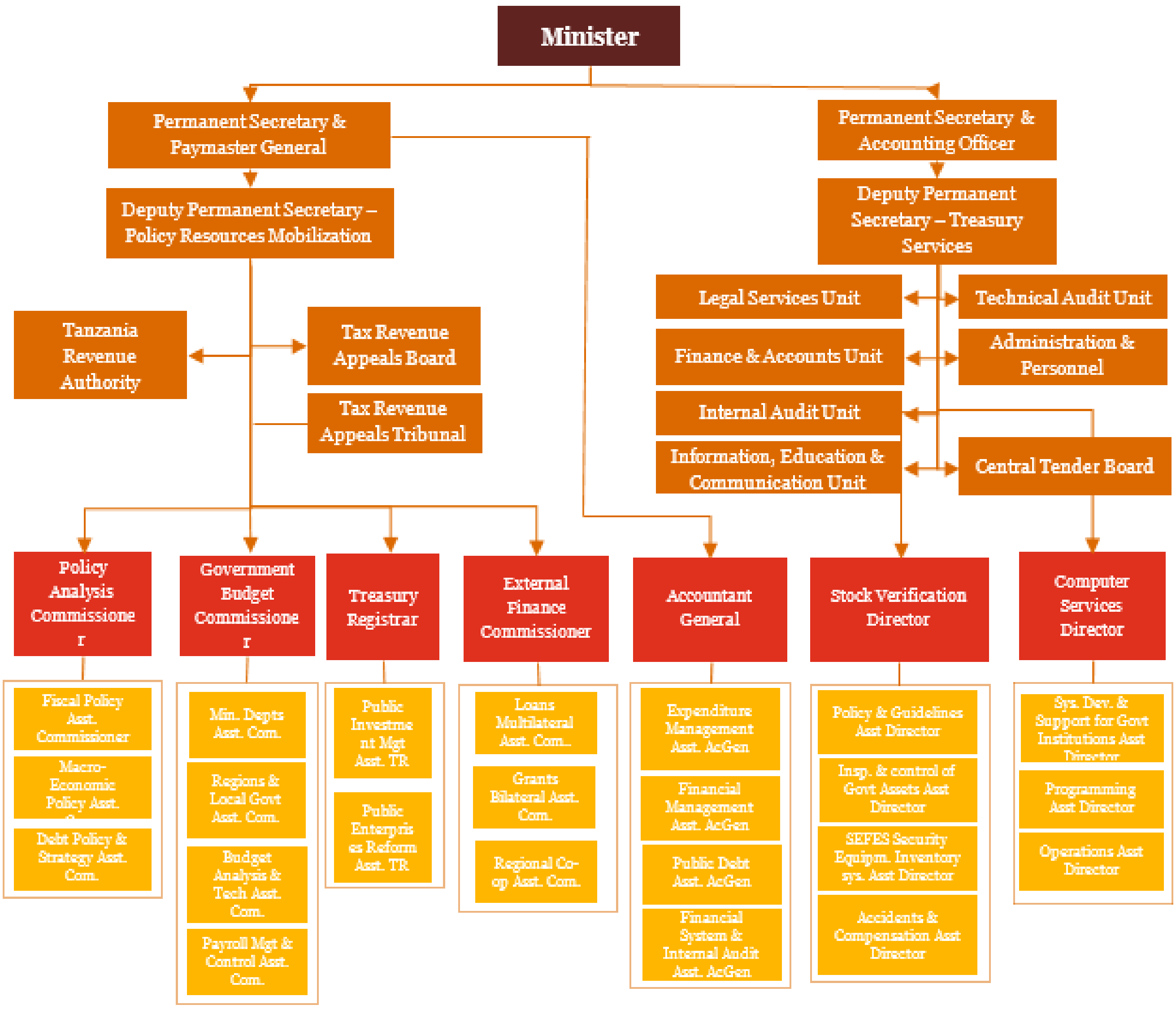
| PI | Description | Criteria for "A" Rating |
|---|---|---|
| | for small purchases (percentage of the number of contract awards that are above the threshold). | |
| **(ii)** | Extent of justification for use of less competitive procurement methods | When contracts are awarded by methods other than open competition, they are justified in accordance with the legal requirements in all cases |
| **(iii)** | Public access to complete, reliable and timely procurement information | All of the key procurement information elements are complete and reliable for government units representing 90% of procurement operations (by value) and made available to the public in a timely manner through appropriate means. |
| **(iv)** | Existence of an independent administrative procurement complaints system | The procurement complaints system meets all seven criteria. |
| **PI-20** | **Effectiveness of internal controls for non-salary expenditure** | |
| **(i)** | Effectiveness of expenditure commitment controls | Comprehensive expenditure commitment controls are in place & effectively limit commitments to actual cash availability & approved budget allocations (as revised). |
| **(ii)** | Comprehensiveness, relevance and understanding of other internal control rules/procedures | Other internal control rules & procedures are relevant, & incorporate a comprehensive & generally cost effective set of controls, which are widely understood. |
| **(iii)** | Degree of compliance with rules for processing and recording transactions | Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant. |
| **PI-21** | **Effectiveness of internal audit** | |
| **(i)** | Coverage and quality of the internal audit function | Internal audit is operational for all central government entities, and generally meets professional standards. It is focused on systemic issues (at least 50% of time). |
| **(ii)** | Frequency and distribution of reports | Reports adhere to a fixed schedule and are distributed to the audited entity, ministry of finance and the SAI. |
| **(iii)** | Extent of management response to internal findings | Action by management on internal audit findings is prompt and comprehensive across central government entities. |
| **(iii) Accounting, Recording and Reporting** | | |
| **PI-22** | **Timeliness and regularity of accounts reconciliation** | |
| **(i)** | Regularity of bank reconciliation | Bank reconciliation for all central government bank accounts take place at least monthly at aggregate & detailed levels, usually within 4 weeks of end of period. |
| **(ii)** | Regularity of reconciliation and clearance of suspense accounts and advances | Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward. |
| **PI-23** | **Availability of information on resources received by service delivery units** | Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools |

| PI | Description | Criteria for "A" Rating |
|---|---|---|
| | | and primary health clinics across the country. The information is compiled into reports at least annually. |
| **PI-24** | **Quality and timeliness of in-year budget reports** | |
| **(i)** | Scope of reports in terms of coverage and compatibility with budget estimates | Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. |
| **(ii)** | Timeliness of issue of reports | Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period. |
| **(iii)** | Quality of information | There are no material concerns regarding data accuracy. |
| **PI-25** | **Quality and timeliness of annual financial statements** | |
| **(i)** | Completeness of financial statements | A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities. |
| **(ii)** | Timeliness of submission of financial statements | The statement is submitted for external audit within 6 months of the end of the fiscal year. |
| **(iii)** | Accounting standards used | IPSAS or corresponding national standards are applied for all statements. |
| **(iv) External Scrutiny and Audit** | | |
| **PI-26** | **Scope, nature, and follow-up of external audit** | |
| **(i)** | Scope/nature of audit performed (including adherence to auditing standards) | All entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues. |
| **(ii)** | Timeliness of submission of audit reports to legislature | Audit reports are submitted to legislature within 4 months of end of period covered & in the case of financial statements from their receipt by the auditor. |
| **(iii)** | Evidence of follow up on recommendations | There is clear evidence of effective and timely follow up. |
| **PI-27** | **Legislative scrutiny of the annual budget law** | |
| **(i)** | Scope of legislature's scrutiny | The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue. |
| **(ii)** | Extent to which the legislative procedures are well established and respected | The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures. |
| **(iii)** | Adequacy of time for the legislature to provide a response to budget proposals | The legislature has at least two months to review the budget proposals. |
| **(iv)** | Rules for in-year amendments to the budget without ex-ante approval by the legislature | Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected. |

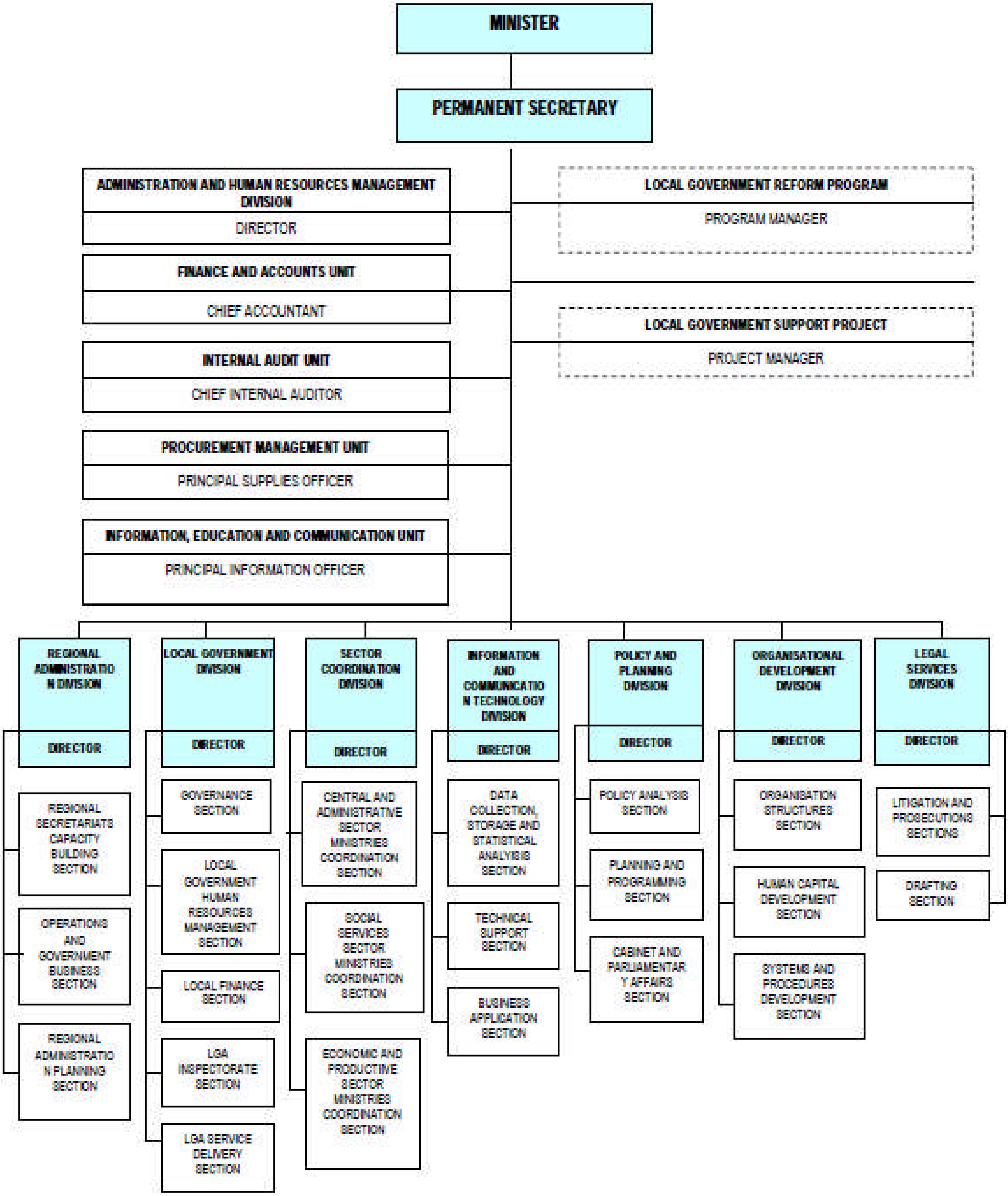
| PI | Description | Criteria for "A" Rating |
|---|---|---|
| **PI-28** | **Legislative scrutiny of external audit reports** | |
| **(i)** | Timeliness of examination of audit reports by the legislature | Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports. |
| **(ii)** | Extent of hearings on key findings undertaken by the legislature | In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion. |
| **(iii)** | Issuance of recommended actions by the legislature and implementation by the executive | The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented. |
| **D. Donor Practices** | | |
| **D-1** | **Predictability of Direct Budget Support** | |
| **(i)** | Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body) | In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 5%. |
| **(ii)** | In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates) | Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years. |
| **D-2** | **Financial information provided by donors for budgeting and reporting on project and program aid** | |
| **(i)** | Completeness and timeliness of budget estimates by donors for project support | All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification. |
| **(ii)** | Frequency and coverage of reporting by donors on actual donor flows for project management | Donors provide quarterly reports within one month of end-of-quarter on all disbursements made for at least 85% of the externally financed project estimates in the budget, with a break-down consistent with the government budget classification. |
| **D-3** | **Proportion of aid that is managed by use of national procedures** | 90% or more of aid funds to central government are managed through national procedures. |

# *Appendix 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



# Appendix 6. Revenue and Expenditure Calculations

In this appendix, 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 Lindi District Council provides budgeted revenue and expenditure, and actual revenue and expenditure (by economic classification) during the year. The "Statement of Comparison of Budget and Actual Amount- by Function shows the same details except that expenditure is classified by functions.

The budget is prepared on a cash basis. However, the actual revenue and expenditure as reflected in the Statement includes items such as amortization of capital grant/depreciation. Therefore, adequate adjustments have been made to calculate total revenue and expenditure of the Council. Table 76 and Table 77 shows example of adjustment made for the financial year 2011-12, 2012-13 and 2013-14 for total expenditure and total revenue respectively.

**Table 76: Adjustment for Total Expenditure[30], TZS million**

| | 2011-12 | | 2012-13 | | 2013-14 | | Source | |
|---|---|---|---|---|---|---|---|---|
| Item | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual |
| Total Expenditure as per AFS | 17397 | 16269 | 17627 | 15666 | 19752 | 17352 | Sheet "BudVsActN" | |
| Deduct (-): Depreciation | 0 | 471 | 0 | 544 | 0 | 587 | Sheet "BudVsActN" | |
| Add(+): Capital Expenditure | 1819 | 1534 | 2163 | 2213 | 5488 | 3700 | Sheet "BudVsActN" | |
| Adjusted Total Expenditure | **19215** | **17332** | **19790** | **17334** | **25239** | **20465** | | |

**Table 77: Adjustment for Total Revenue, TZS million**

| Item | 2011-12 | | 2012-13 | | 2013-14 | | Source | |
|---|---|---|---|---|---|---|---|---|
| | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual |
| Total Revenue | 17397 | 16320 | 17627 | 15838 | 19752 | 18019 | Sheet "BudVsActN" | |
| Deduct(-): Recurrent Grants | 16904 | 15086 | 17104 | 14501 | 18876 | 15438 | Sheet "BudVsActN" | |
| Deduct(-): Amortization of capital grants | | 471 | | 544 | | 587 | Sheet "BudVsActN" | |
| Add(+): Actual Receipts of Recurrent Grants | 16904 | 14131 | 17104 | 14921 | 18876 | 15921 | Sheet "BudVsActN" | Note 11 to the Financial Statement |
| Add(+): Actual Receipts of Capital Grants | 1819 | 2278 | 2163 | 2659 | 5488 | 3535 | Sheet "Capex" | Sheet "Capex" |
| **Adjusted Total Revenues** | **19215** | **17172** | **19790** | **18373** | **25239** | **21450** | | |

[30] The assessor has noticed differences in total expenditure for 2011-12. Adequate adjustments have been done.

# Appendix 7. Screenshots for HLG -1 and PI -1 and PI -2

## 7.1. HLG-1 dim (iii) screenshot (in TZS)

| Year | Date | Actual Transfer | Days into the FY | Year | Date | Actual Transfer | Days into the FY | Year | Date | Actual Transfer | Days into the FY |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2011-12 | 11 July 2011 | 10819000 | 10 | 2011-12 | 07 February 2012 | 2342286 | 221 | 2011-12 | 30 June 2012 | 3530109.5 | 365 |
| 2011-12 | 14 July 2011 | 19817390 | 13 | 2011-12 | 07 February 2012 | 19715900 | 221 | 2011-12 | 30 June 2012 | 33503404.55 | 365 |
| 2011-12 | 15 July 2011 | 5000000 | 14 | 2011-12 | 15 February 2012 | 2682212.68 | 229 | 2011-12 | 30 June 2012 | 71894700 | 365 |
| 2011-12 | 16 July 2011 | 30039006.97 | 15 | 2011-12 | 18 February 2012 | 11363636 | 232 | 2012-13 | 20 July 2012 | 50000000 | 19 |
| 2011-12 | 19 July 2011 | 533547572.7 | 18 | 2011-12 | 18 February 2012 | 171460000 | 232 | 2012-13 | 27 July 2012 | 437450913.2 | 26 |
| 2011-12 | 30 July 2011 | 57904330 | 29 | 2011-12 | 18 February 2012 | 11296000 | 232 | 2012-13 | 05 August 2012 | 336332000 | 35 |
| 2011-12 | 05 August 2011 | 34002000 | 35 | 2011-12 | 18 February 2012 | 11593500 | 232 | 2012-13 | 16 August 2012 | 15144000 | 46 |
| 2011-12 | 22 August 2011 | 518207788.2 | 52 | 2011-12 | 21 February 2012 | 86255000 | 235 | 2012-13 | 17 August 2012 | 19055000 | 47 |
| 2011-12 | 30 August 2011 | 5648000 | 60 | 2011-12 | 21 February 2012 | 247901000 | 235 | 2012-13 | 18 August 2012 | 56056517.79 | 48 |
| 2011-12 | 30 August 2011 | 35000 | 60 | 2011-12 | 21 February 2012 | 550000000 | 235 | 2012-13 | 21 August 2012 | 434446645.1 | 51 |
| 2011-12 | 08 September 2011 | 69461635.25 | 69 | 2011-12 | 22 February 2012 | 19027860.15 | 236 | 2012-13 | 22 August 2012 | 10675756 | 52 |
| 2011-12 | 08 September 2011 | 34708403.25 | 69 | 2011-12 | 22 February 2012 | 146273875 | 236 | 2012-13 | 23 August 2012 | 87266700 | 53 |
| 2011-12 | 09 September 2011 | 27285016.05 | 70 | 2011-12 | 23 February 2012 | 495743921.4 | 237 | 2012-13 | 24 August 2012 | 334745000 | 54 |
| 2011-12 | 26 September 2011 | 4200000 | 87 | 2011-12 | 25 February 2012 | 11572077 | 239 | 2012-13 | 24 September 2012 | 435525866.6 | 85 |
| 2011-12 | 28 September 2011 | 4075860.89 | 89 | 2011-12 | 29 February 2012 | 4157750 | 243 | 2012-13 | 25 September 2012 | 145714500 | 86 |
| 2011-12 | 28 September 2011 | 492335809.8 | 89 | 2011-12 | 09 March 2012 | 47767491.4 | 252 | 2012-13 | 27 September 2012 | 5000000 | 88 |
| 2011-12 | 30 September 2011 | 200000000 | 91 | 2011-12 | 13 March 2012 | 13860000 | 256 | 2012-13 | 27 September 2012 | 5000000 | 88 |
| 2011-12 | 13 October 2011 | 8276731.57 | 104 | 2011-12 | 19 March 2012 | 426115600 | 262 | 2012-13 | 08 October 2012 | 136195000 | 99 |
| 2011-12 | 13 October 2011 | 31223000 | 104 | 2011-12 | 20 March 2012 | 7388500 | 263 | 2012-13 | 13 October 2012 | 31957700 | 104 |
| 2011-12 | 21 October 2011 | 61391292 | 112 | 2011-12 | 22 March 2012 | 500181018.5 | 265 | 2012-13 | 24 October 2012 | 431863761.2 | 115 |
| 2011-12 | 21 October 2011 | 473329149.6 | 112 | 2011-12 | 29 March 2012 | 265558500 | 272 | 2012-13 | 30 October 2012 | 17962462.65 | 121 |
| 2011-12 | 24 October 2011 | 8407787.02 | 115 | 2011-12 | 29 March 2012 | 120238679.1 | 272 | 2012-13 | 30 October 2012 | 91102984.37 | 121 |
| 2011-12 | 26 October 2011 | 17144700 | 117 | 2011-12 | 30 March 2012 | 7000000 | 273 | 2012-13 | 31 October 2012 | 20085030.9 | 122 |
| 2011-12 | 08 November 2011 | 2494650 | 130 | 2011-12 | 30 March 2012 | 1350537.8 | 273 | 2012-13 | 06 November 2012 | 162582500 | 128 |
| 2011-12 | 10 November 2011 | 7426384 | 132 | 2011-12 | 04 April 2012 | 31884470 | 278 | 2012-13 | 12 November 2012 | 4641000 | 134 |
| 2011-12 | 17 November 2011 | 49604000 | 139 | 2011-12 | 04 April 2012 | 17623000 | 278 | 2012-13 | 17 November 2012 | 133943500 | 139 |
| 2011-12 | 24 November 2011 | 73079620.37 | 146 | 2011-12 | 04 April 2012 | 21512000 | 278 | 2012-13 | 23 November 2012 | 63141965.12 | 145 |
| 2011-12 | 25 November 2011 | 292547750 | 147 | 2011-12 | 18 April 2012 | 14620335 | 292 | 2012-13 | 26 November 2012 | 45320039.99 | 148 |
| 2011-12 | 26 November 2011 | 484288871.3 | 148 | 2011-12 | 18 April 2012 | 9858000 | 292 | 2012-13 | 27 November 2012 | 6746233.33 | 149 |
| 2011-12 | 15 December 2011 | 47092165.04 | 167 | 2011-12 | 20 April 2012 | 494082213.8 | 294 | 2012-13 | 27 November 2012 | 134924666.7 | 149 |
| 2011-12 | 19 December 2011 | 248176500 | 171 | 2011-12 | 30 April 2012 | 19950000 | 304 | 2012-13 | 27 November 2012 | 9560000 | 149 |
| 2011-12 | 20 December 2011 | 503398746.2 | 172 | 2011-12 | 30 April 2012 | 53718348.27 | 304 | 2012-13 | 30 November 2012 | 295541600 | 152 |
| 2011-12 | 28 December 2011 | 17622203 | 180 | 2011-12 | 30 April 2012 | 57666840 | 304 | 2012-13 | 13 December 2012 | 161300400 | 165 |
| 2011-12 | 28 December 2011 | 21512000 | 180 | 2011-12 | 10 May 2012 | 51357000 | 314 | 2012-13 | 18 December 2012 | 24116130 | 170 |
| 2011-12 | 28 December 2011 | 19655660 | 180 | 2011-12 | 10 May 2012 | 50987700 | 314 | 2012-13 | 20 December 2012 | 10885015.55 | 172 |
| 2011-12 | 29 December 2011 | 583813.61 | 181 | 2011-12 | 10 May 2012 | 47221472 | 314 | 2012-13 | 28 December 2012 | 438740359.5 | 180 |
| 2011-12 | 29 December 2011 | 22808524.09 | 181 | 2011-12 | 10 May 2012 | 7388500 | 314 | 2012-13 | 18 January 2013 | 11592000 | 201 |
| 2011-12 | 29 December 2011 | 101240633.1 | 181 | 2011-12 | 22 May 2012 | 44842329.2 | 326 | 2012-13 | 28 January 2013 | 421135112.7 | 211 |
| 2011-12 | 12 January 2012 | 100000000 | 195 | 2011-12 | 22 May 2012 | 402072990.3 | 326 | 2012-13 | 31 January 2013 | 7338515.63 | 214 |
| 2011-12 | 12 January 2012 | 50000000 | 195 | 2011-12 | 30 May 2012 | 34832131.08 | 334 | 2012-13 | 31 January 2013 | 8153506.25 | 214 |
| 2011-12 | 12 January 2012 | 42671000 | 195 | 2011-12 | 31 May 2012 | 9569013.96 | 335 | 2012-13 | 31 January 2013 | 12674208.91 | 214 |
| 2011-12 | 17 January 2012 | 41357000 | 200 | 2011-12 | 08 June 2012 | 7500000 | 343 | 2012-13 | 31 January 2013 | 146770312.5 | 214 |
| 2011-12 | 17 January 2012 | 31070439 | 200 | 2011-12 | 08 June 2012 | 7500000 | 343 | 2012-13 | 31 January 2013 | 163070125 | 214 |
| 2011-12 | 18 January 2012 | 5147500 | 201 | 2011-12 | 12 June 2012 | 9864000 | 347 | 2012-13 | 31 January 2013 | 253484178.2 | 214 |
| 2011-12 | 20 January 2012 | 3874224.77 | 203 | 2011-12 | 13 June 2012 | 146273875 | 348 | 2012-13 | 02 February 2013 | 9470700 | 216 |
| 2011-12 | 20 January 2012 | 491263725.6 | 203 | 2011-12 | 15 June 2012 | 26777592 | 350 | 2012-13 | 07 February 2013 | 58870700 | 221 |
| 2011-12 | 26 January 2012 | 17449773.81 | 209 | 2011-12 | 20 June 2012 | 74000000 | 355 | 2012-13 | 07 February 2013 | 78485879 | 221 |
| 2011-12 | 05 February 2012 | 34523587.02 | 219 | 2011-12 | 21 June 2012 | 356566703.3 | 356 | 2012-13 | 11 February 2013 | 138127500 | 225 |

| Year | Date | Actual Transfer | Days into the FY | Year | Date | Actual Transfer | Days into the FY | Year | Date | Actual Transfer | Days into the FY |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2012-13 | 18 February 2013 | 35245208 | 232 | 2012-13 | 28 June 2013 | 455080869.6 | 362 | 2013-14 | 28 February 2014 | 48062181.46 | 242 |
| 2012-13 | 18 February 2013 | 43023995 | 232 | 2012-13 | 30 June 2013 | 29591400 | 364 | 2013-14 | 05 March 2014 | 9423599 | 247 |
| 2012-13 | 22 February 2013 | 62685121.75 | 236 | 2013-14 | 24 July 2013 | 532170582.8 | 23 | 2013-14 | 06 March 2014 | 75714433 | 248 |
| 2012-13 | 25 February 2013 | 39190000 | 239 | 2013-14 | 30 July 2013 | 1847439.53 | 29 | 2013-14 | 19 March 2014 | 206600100 | 261 |
| 2012-13 | 04 March 2013 | 150000000 | 246 | 2013-14 | 30 July 2013 | 4056423.73 | 29 | 2013-14 | 20 March 2014 | 37080000 | 262 |
| 2012-13 | 04 March 2013 | 829640600 | 246 | 2013-14 | 30 July 2013 | 36948790.5 | 29 | 2013-14 | 20 March 2014 | 69734291.74 | 262 |
| 2012-13 | 04 March 2013 | 73590000 | 246 | 2013-14 | 30 July 2013 | 81128474.57 | 29 | 2013-14 | 25 March 2014 | 12820513 | 267 |
| 2012-13 | 07 March 2013 | 27442000 | 249 | 2013-14 | 30 July 2013 | 300000000 | 29 | 2013-14 | 26 March 2014 | 498876874.4 | 268 |
| 2012-13 | 12 March 2013 | 508481310 | 254 | 2013-14 | 31 July 2013 | 23186500 | 30 | 2013-14 | 27 March 2014 | 49342500 | 269 |
| 2012-13 | 12 March 2013 | 11037210 | 254 | 2013-14 | 31 July 2013 | 322164729 | 30 | 2013-14 | 27 March 2014 | 125957250 | 269 |
| 2012-13 | 12 March 2013 | 5991194.9 | 254 | 2013-14 | 05 August 2013 | 31454000 | 35 | 2013-14 | 08 April 2014 | 84150000 | 281 |
| 2012-13 | 12 March 2013 | 9399787 | 254 | 2013-14 | 12 August 2013 | 427053.77 | 42 | 2013-14 | 08 April 2014 | 230000000 | 281 |
| 2012-13 | 12 March 2013 | 13388730 | 254 | 2013-14 | 12 August 2013 | 7077010.5 | 42 | 2013-14 | 08 April 2014 | 204529300 | 281 |
| 2012-13 | 12 March 2013 | 47534150 | 254 | 2013-14 | 12 August 2013 | 234727231 | 42 | 2013-14 | 17 April 2014 | 6981500 | 290 |
| 2012-13 | 15 March 2013 | 579607688 | 257 | 2013-14 | 25 August 2013 | 535235459.2 | 55 | 2013-14 | 18 April 2014 | 15977000 | 291 |
| 2012-13 | 20 March 2013 | 31954000 | 262 | 2013-14 | 12 September 2013 | 21563356.5 | 73 | 2013-14 | 28 April 2014 | 522054241 | 301 |
| 2012-13 | 25 March 2013 | 60882819.33 | 267 | 2013-14 | 25 September 2013 | 528176021.6 | 86 | 2013-14 | 28 April 2014 | 547220750.5 | 301 |
| 2012-13 | 26 March 2013 | 160983700 | 268 | 2013-14 | 04 October 2013 | 7000000 | 95 | 2013-14 | 06 May 2014 | 7902240 | 309 |
| 2012-13 | 26 March 2013 | 426767477.9 | 268 | 2013-14 | 04 October 2013 | 12000000 | 95 | 2013-14 | 10 May 2014 | 20707500 | 313 |
| 2012-13 | 07 April 2013 | 82326000 | 280 | 2013-14 | 09 October 2013 | 6981000 | 100 | 2013-14 | 13 May 2014 | 218159843.8 | 316 |
| 2012-13 | 07 April 2013 | 272407600 | 280 | 2013-14 | 09 October 2013 | 156909500 | 100 | 2013-14 | 16 May 2014 | 28924280.88 | 319 |
| 2012-13 | 07 April 2013 | 110624700 | 280 | 2013-14 | 13 October 2013 | 2798400 | 104 | 2013-14 | 16 May 2014 | 3964016 | 319 |
| 2012-13 | 07 April 2013 | 204567420 | 280 | 2013-14 | 18 October 2013 | 29229756.86 | 109 | 2013-14 | 23 May 2014 | 13057300 | 326 |
| 2012-13 | 18 April 2013 | 14826409 | 291 | 2013-14 | 25 October 2013 | 514705735.1 | 116 | 2013-14 | 23 May 2014 | 254974500 | 326 |
| 2012-13 | 19 April 2013 | 161300400 | 292 | 2013-14 | 06 November 2013 | 3865470.75 | 128 | 2013-14 | 23 May 2014 | 564364090.6 | 326 |
| 2012-13 | 23 April 2013 | 458035251 | 296 | 2013-14 | 06 November 2013 | 3730298.97 | 128 | 2013-14 | 03 June 2014 | 88080000 | 337 |
| 2012-13 | 23 April 2013 | 512610678.8 | 296 | 2013-14 | 11 November 2013 | 112348800 | 133 | 2013-14 | 03 June 2014 | 9381928.1 | 337 |
| 2012-13 | 25 April 2013 | 132807700 | 298 | 2013-14 | 17 November 2013 | 23185000 | 139 | 2013-14 | 03 June 2014 | 50285025 | 337 |
| 2012-13 | 08 May 2013 | 12505586.6 | 311 | 2013-14 | 19 November 2013 | 12370469.88 | 141 | 2013-14 | 05 June 2014 | 28933905 | 339 |
| 2012-13 | 09 May 2013 | 66526736.69 | 312 | 2013-14 | 29 November 2013 | 509848638.5 | 151 | 2013-14 | 17 June 2014 | 27926000 | 351 |
| 2012-13 | 09 May 2013 | 161781058.9 | 312 | 2013-14 | 03 December 2013 | 25494503.23 | 155 | 2013-14 | 18 June 2014 | 271414908 | 352 |
| 2012-13 | 10 May 2013 | 15977000 | 313 | 2013-14 | 05 December 2013 | 98710562 | 157 | 2013-14 | 19 June 2014 | 281250200 | 353 |
| 2012-13 | 16 May 2013 | 17283100 | 319 | 2013-14 | 13 December 2013 | 229324000 | 165 | 2013-14 | 24 June 2014 | 600186919.6 | 358 |
| 2012-13 | 16 May 2013 | 57600048 | 319 | 2013-14 | 13 December 2013 | 38061600 | 165 | | | | |
| 2012-13 | 17 May 2013 | 322600800 | 320 | 2013-14 | 18 December 2013 | 317087450 | 170 | | | | |
| 2012-13 | 21 May 2013 | 97005586 | 324 | 2013-14 | 19 December 2013 | 43023995 | 171 | | | | |
| 2012-13 | 27 May 2013 | 455900573.4 | 330 | 2013-14 | 19 December 2013 | 35246208 | 171 | | | | |
| 2012-13 | 11 June 2013 | 77309415 | 345 | 2013-14 | 20 December 2013 | 67373640 | 172 | | | | |
| 2012-13 | 11 June 2013 | 74605979.3 | 345 | 2013-14 | 24 December 2013 | 517936283.1 | 176 | | | | |
| 2012-13 | 12 June 2013 | 34829395.84 | 346 | 2013-14 | 10 January 2014 | 122414649 | 193 | | | | |
| 2012-13 | 17 June 2013 | 16103120 | 351 | 2013-14 | 18 January 2014 | 30612500 | 201 | | | | |
| 2012-13 | 26 June 2013 | 127409729 | 360 | 2013-14 | 24 January 2014 | 558341217.1 | 207 | | | | |
| 2012-13 | 28 June 2013 | 863573.88 | 362 | 2013-14 | 27 January 2014 | 41945203.1 | 210 | | | | |
| 2012-13 | 28 June 2013 | 1779637.88 | 362 | 2013-14 | 07 February 2014 | 31954000 | 221 | | | | |
| 2012-13 | 28 June 2013 | 368912.5 | 362 | 2013-14 | 07 February 2014 | 67952000 | 221 | | | | |
| 2012-13 | 28 June 2013 | 17271477.6 | 362 | 2013-14 | 17 February 2014 | 6981500 | 231 | | | | |
| 2012-13 | 28 June 2013 | 35592757.6 | 362 | 2013-14 | 25 February 2014 | 507608498.8 | 239 | | | | |
| 2012-13 | 28 June 2013 | 7378250 | 362 | 2013-14 | 28 February 2014 | 67696051.27 | 242 | | | | |

| Front loading (Weighted average no. of days into the financial year): SUMPRODUCT OF "Amount (TZS million) AND "Days into the financial year"/ Total Transfers |
|---|
| 199.35 |
| 213.16 |
| 203.94 |
| In Months |
| 6.65 |
| 7.11 |
| 6.80 |

# 7.2. PI-2 screenshots

**Calculation Sheet for PFM Performance Indicators PI-1 and PI-2 (as revised January 2011)**

Step 1: Enter the three fiscal years used for assessment in table 1.
Step 2: Enter **budget** and **actual** expenditure data for each of the three years in tables 2, 3, and 4 respectively.
Step 3: Enter **contingency** data for each of the three years in tables 2, 3, and 4 respectively.
Step 4: Read the results for each of the three years for each indicator in table 5.
Step 5: Refer to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score for each indicator.

**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 |
| Trade and economic affairs | 0.0 | 0 | 0.0 | 0.0 | 0.0 | - |
| Livestock | 0.0 | 0 | 0.0 | 0.0 | 0.0 | - |
| Agriculture | 1,319,936.0 | 594975 | 1,190,578.6 | -595,603.6 | 595,603.6 | 50% |
| Education | 7,536,793.0 | 7528532 | 6,798,166.4 | 730,365.6 | 730,365.6 | 11% |
| Primary health services | 2,369,302.0 | 1960738 | 2,137,103.8 | -176,365.8 | 176,365.8 | 8% |
| Water | 940,308.0 | 738562 | 848,155.2 | -109,593.2 | 109,593.2 | 13% |
| Works | 753,038.0 | 497443 | 679,238.2 | -181,795.2 | 181,795.2 | 27% |
| Lands | 113,510.0 | 99002 | 102,385.7 | -3,383.7 | 3,383.7 | |
| Natural resources | 0.0 | 0 | 0.0 | 0.0 | 0.0 | |
| Community development, gender and children | 817,056.0 | 552437 | 736,982.3 | -184,545.3 | 184,545.3 | |
| allocated expenditure | 19,215,447.0 | 17,332,280.0 | 17,332,280 | (0) | 4,595,827 | |
| contingency | | | | | | |
| total expenditure | 19215447 | 17332280 | | | | |
| overall (PI-1) variance | | | | | | 10% |
| composition (PI-2) variance | | | | | | 27% |
| 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 | 4,012,870.0 | 3215014 | 3,515,557.1 | -300,543.1 | 300,543.1 | 9% |
| Human resource management and development | 1,530,000.0 | 627985 | 1,340,387.9 | -712,402.9 | 712,402.9 | 53% |
| Trade and economic affairs | 0.0 | 0 | 0.0 | 0.0 | 0.0 | - |
| Livestock | 0.0 | 0 | 0.0 | 0.0 | 0.0 | - |
| Agriculture | 809,621.0 | 580821 | 709,285.1 | -128,464.1 | 128,464.1 | 18% |
| Education | 7,336,335.0 | 7385078 | 6,427,146.7 | 957,931.3 | 957,931.3 | 15% |
| Primary health services | 2,707,501.0 | 3200286 | 2,371,961.8 | 828,324.2 | 828,324.2 | 35% |
| Water | 1,372,268.0 | 552232 | 1,202,203.5 | -649,971.5 | 649,971.5 | 54% |
| Works | 667,738.0 | 734169 | 584,985.6 | 149,183.4 | 149,183.4 | 26% |
| Lands | 119,570.0 | 27725 | 104,751.8 | -77,026.8 | 77,026.8 | |
| Natural resources | 0.0 | 0 | 0.0 | 0.0 | 0.0 | |
| Community development, gender and children | 1,233,793.0 | 1013859 | 1,080,889.7 | -67,030.7 | 67,030.7 | |
| allocated expenditure | 19,789,696.0 | 17,337,169.0 | 17,337,169.0 | 0.0 | 3,870,877.9 | |
| contingency | | | | | | |
| total expenditure | 19789696 | 17337169 | | | | |
| overall (PI-1) variance | | | | | | 12% |
| composition (PI-2) variance | | | | | | 22% |
| 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 | 2,771,150 | 2107910 | 2,246,923.9 | -139,013.9 | 139,013.9 | 6% |
| Human resource management and development | 845,000 | 589256.3538 | 685,149.0 | -95,892.7 | 95,892.7 | 14% |
| Trade and economic affairs | 36,000 | 3600 | 29,189.8 | -25,589.8 | 25,589.8 | 88% |
| Livestock | - | 0 | 0.0 | 0.0 | 0.0 | - |
| Agriculture | 2,355,911 | 1214381.812 | 1,910,236.8 | -695,855.0 | 695,855.0 | |
| Education | 9,837,777 | 10427854 | 7,976,737.7 | 2,451,116.3 | 2,451,116.3 | 31% |
| Primary health services | 3,637,610 | 1718554 | 2,949,473.3 | -1,230,919.3 | 1,230,919.3 | 42% |
| Water | 2,740,468 | 1547698.329 | 2,222,046.1 | -674,347.8 | 674,347.8 | 30% |
| Works | 1,331,884 | 732400 | 1,079,927.8 | -347,527.8 | 347,527.8 | 32% |
| Lands | 169,870 | 74035 | 137,735.2 | -63,700.2 | 63,700.2 | 46% |
| Natural resources | 110,890 | 101259 | 89,912.6 | 11,346.4 | 11,346.4 | |
| Community development, gender and children | 1,402,559 | 1947617 | 1,137,233.1 | 810,383.9 | 810,383.9 | |
| allocated expenditure | 25,239,119 | 20,464,565 | 20,464,565 | - | 6,545,693 | |
| contingency | | | | | | |
| total expenditure | 25239119 | 20464565.49 | | | | |
| overall (PI-1) variance | | | | | | 19% |
| composition (PI-2) variance | | | | | | 32% |
| 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 | 9.8% | 26.5% | |
| 2012 | 12.4% | 22.3% | 0.0% |
| 2013 | 18.9% | 32.0% | |

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

# Appendix 8. Performance indicators summary

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

| | | |
|---|---|---|
| **PI-6** | **Comprehensiveness of information included in budget documents** | **C** |
| **PI-7** | **Extent of unreported government operations** | **B** |
| **(i)** | The level of extra budgetary expenditure (other than donor funded projects) which is reported | B |
| **(ii)** | Income/expenditure information on donor-funded projects which is included in fiscal reports | NA |
| **PI-8** | **Transparency of inter-governmental fiscal relations** | **D** |
| **(i)** | Transparent and rules -based systems in horizontal allocation among lower level governments of unconditional and conditional transfers (both budgeted and actual allocations) | D |
| **(ii)** | Timeliness of reliable information to lower level governments on their allocations for the coming year | D |
| **(iii)** | Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sector categories | D |
| **PI-9** | **Oversight of aggregate fiscal risk from other public sector entities** | **C** |
| **(i)** | Extent of monitoring public enterprises | NA |
| **(ii)** | Extent of the Central Government monitoring of sub-national governments' fiscal position | C |
| **PI-10** | **Public access to key fiscal information** | **B** |
| **C. Budget Cycle** | | |
| **(i) Policy-Based Budgeting** | | |
| **PI-11** | **Orderliness and participation in the budget process** | **C+** |
| **(i)** | Existence and adherence to a fixed budget calendar | C |
| **(ii)** | Guidance on preparation of budget submissions | D |
| **(iii)** | Timely budget approval by the legislature | A |
| **PI-12** | **Multi-year perspective in fiscal planning, expenditure policy, and budgeting** | **D+** |
| **(i)** | Preparation of multi-year fiscal forecasts and functional allocations | C |

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

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

| | | |
|---|---|---|
| **(iii)** | Degree of compliance with rules for processing and recording transactions | C |
| **PI-21** | **Effectiveness of internal audit** | **D+** |
| **(i)** | Coverage and quality of the internal audit function | B |
| **(ii)** | Frequency and distribution of reports | B |
| **(iii)** | Extent of management response to internal findings | D |
| **(iii) Accounting, Recording and Reporting** | | |
| **PI-22** | **Timeliness and regularity of accounts reconciliation** | **B+** |
| **(i)** | Regularity of bank reconciliation | A |
| **(ii)** | Regularity of reconciliation and clearance of suspense accounts and advances | B |
| **PI-23** | **Availability of information on resources received by service delivery units** | **B** |
| **PI-24** | **Quality and timeliness of in-year budget reports** | **C+** |
| **(i)** | Scope of reports in terms of coverage and compatibility with budget estimates | C |
| **(ii)** | Timeliness of issue of reports | A |
| **(iii)** | Quality of information | C |
| **PI-25** | **Quality and timeliness of annual financial statements** | **B+** |
| **(i)** | Completeness of financial statements | B |
| **(ii)** | Timeliness of submission of financial statements | A |
| **(iii)** | Accounting standards used | B |
| **(iv) External Scrutiny and Audit** | | |
| **PI-26** | **Scope, nature, and follow-up of external audit** | **C+** |
| **(i)** | Scope/nature of audit performed (including adherence to auditing standards) | B |
| **(ii)** | Timeliness of submission of audit reports to legislature | B |
| **(iii)** | Evidence of follow up on recommendations | C |
| **PI-27** | **Legislative scrutiny of the annual budget law** | **D+** |

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

# Appendix 9. List of people met

**Table 78: List of people met**

| S. No. | Name | Designation | Organisation |
|---|---|---|---|
| ***At the central level*** | | | |
| **1.** | Charles Mwamwaja | Deputy Commissioner for Budgets Responsible for RASs and LGAs | Ministry of Finance |
| **2.** | Jumanne A. Sagini | Permanent Secretary | PMO-RALG |
| **3.** | Awadh Sulho | Acting Director | Capacity Building & Advisory Services, PPRA |
| **4.** | Onesmo France | Procurement expert | PPRA |
| **5.** | Juma S Maguru | Acting Director | Planning Department, Ministry of Finance |
| **6.** | Mohammed A. Mtonga | 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.** | Stanslaus Mpembe | 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.** | Mwanyika M. Semroki | Assistant Internal Auditor General (Local Government) | Ministry of Finance |
| **13.** | Omari Msuya | Internal Auditor | Ministry of Finance |
| **14.** | Pole John Magesa | Principal Economist | National Audit Office of Tanzania |
| **15.** | Faraja Tarimo | Accountant | Account General Office, Ministry of Finance |
| **16.** | Chausiku Nyanda | Financial Management Officer | PMO – RALG |

| S. No. | Name | Designation | Organisation |
|---|---|---|---|
| 17. | Prwatus Lipili | Human Resource Officer | PMO – RALG |
| 18. | Juma Mabrouk | Human Resource Officer | PMO – RALG |
| 19. | Daria Justine Bujiku | Loans and Investment Financial Management Officer | PMO – RALG |
| 20. | Mustapha S Yusuf | Procurement Financial Management Officer | PMO – RALG |
| 21. | Isack Jeremah | Assistant Director | PMO-RALG |
| 22. | Dennis Bandisa | Assistant Director, Governance and Service Delivery Section | Governance and Service Delivery Section, PMO-RALG |
| 23. | Linus Kakwesigambo | Financial Expert | Public Financial Management Reform Programme |
| 24. | Aleyande Lweikila | Communication Specialist | Ministry of Finance |
| 25. | E Macha | Financial Management Officer | Ministry of Finance |
| 26. | Johnson Mjiji | Local Government Reform Programme II | PMO-RALG |
| 27. | Steven Benedict | Chief Internal Auditor, and PEFA counterpart | RS Lindi |
| 28. | Munguatosha Macha | Financial Management Officer, and PEFA counterpart | RS Geita |
| 29. | Fulgence Luyagaza | Accountant and PEFA Counterpart | Kinondoni Municipal |
| 30. | Waziri Ally | Accountant and PEFA Counterpart | PMO-RALG |
| 31. | Raheli Ntiga | Budget Officer | Budget Division, MoF |
| ***At the district level*** | | | |
| *32.* | John Likango | ACGEN. Regional Administrative Secretary | Lindi Regional Administrative Secretariat |
| 33. | Oliver Wavunge | District Executive Director | Lindi District Council |
| 34. | Gervas Ngomano | District Treasurer | Lindi District Council |
| 35. | Andrea Chezue | Economist | Lindi District Council |
| 36. | Yumua N Muhehe | Revenue Accountant | Lindi District Council |

| S. No. | Name | Designation | Organisation |
|---|---|---|---|
| 37. | Mohamedi Ausi | Education Officer - Primary | Lindi District Council |
| 38. | Alphonce Ngongi | Education Officer - Secondary | Lindi District Council |
| 39. | Dr Boniphace Richard | District Health Officer | Lindi District Council |
| 40. | Iddy Mboweto | Internal Auditor | Lindi District Council |
| 41. | Daniel Kasembe | Head of Procurement Management Unit | Lindi District Council |
| *PEFA Counterpart Team* | | | |
| 42. | Steven Benedict | PEFA Counter Part | Lindi Regional Office |
| 43. | Daria Bujilu | PEFA Counter Part | PMO RALG |
| 44. | Fulgence Luyagaza | PEFA Counter Part | Kinondoni Municipal Council |
| 45. | Ally Waziri | PEFA Counter Part | Bagamoyo District Council |
| 46. | Munguatosha Macha | PEFA Counter Part | Geita Region |
| 47. | Chausiku Nyanda | PEFA Counter Part | PMO RALG |

# Appendix 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 (LGFM)
5. Local Government Accounting Manual (LGAM)
6. Local Government Finance Act (LGFA)
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 Appendix 1)
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 , 2012-13 and 2013-14
22. CAG's Management Letter on Financial Statements of Lindi DC for 2012-13
23. MTEF of Lindi DC for 2014-17
24. Quarterly Internal Audit Reports for Lindi DC, 2013-14 and 2014-15
25. Budget guidelines issued by Ministry of Finance for 2014-15
26. Budget instructions issued by Lindi DC 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

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 the United Republic 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.