

Fostering Accountability

Sub-National (Local Government) PEFA
Assessment in Tanzania

Korogwe Town Council Final Report

July 2016

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Acronyms

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

Acronym	Definition	Acronym	Definition
	Board		Authority
ICT	Information and Communication Technology	PSM	Public Sector Management
IFA	International Federation of Accountants	RAM	Regularity Audit Manual
IFMS	Integrated Financial Management System	RAS	Regional Administrative Secretariat
IIA	Institute of Internal Auditors	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

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

1. Summary assessment

1.1. Overview of ratings

Table 1: Overall ratings

Summary Ratings		
Performance Indicators	Description	PEFA 2015 rating
HLG-1	Predictability of transfers from a Higher Level of Government	NR
A. PFM Out-Turns: Budget Credibility		
PI-1	Aggregate expenditure out-turn compared to original approved budget	D
PI-2	Composition of expenditure out-turn compared to original approved budget	D+
PI-3	Aggregate revenue out-turn compared to original approved budget	D
PI-4	Stock and monitoring of expenditure arrears	D+
B. Key Cross-Cutting Issues: Comprehensiveness and Transparency		
PI-5	Classification of the budget	C
PI-6	Comprehensiveness of information included in budget documents	A
PI-7	Extent of unreported government operations	A
PI-8	Transparency of inter-governmental fiscal relations	D
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D
PI-10	Public access to key fiscal information	C
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	NR
PI-16	Predictability in the availability of funds for commitment of expenditures	D
PI-17	Recording and management of cash balances, debt and guarantees	D
PI-18	Effectiveness of payroll controls	D+
PI-19	Competition, value for money and controls in procurement	D+
PI-20	Effectiveness of internal controls for non-salary expenditure	D+
PI-21	Effectiveness of internal audit	C+

Summary Ratings		
(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	B+
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 Korogwe alone but to all the LGAs assessed as a part of the current assignment.

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

1.3. Integrated Assessment of PFM performance

Korogwe TC has been able to take advantage of the existing institutional structures for public financial management (PFM) in Tanzania to operate in a challenging environment. These structures include a defined legal and regulatory environment for PFM; well understood planning and budgeting framework; operations through EPICOR - the Integrated Financial Management System; accounting statements drawn up in line with IPSAS and the national requirements and audited by the Controller and Auditor General (CAG), an independent oversight authority. The Council Officials, in general, are aware of policies and procedures as well as expectations.

A summary of the key high level weaknesses observed by the Assessment Team and their main causes appear in o. 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 Korogwe TC. The most important of PFM weaknesses in Korogwe TC are discussed here.

Predictability of Fund Flows

The dependency of Korogwe TC on the funds transferred by the Central Government was on an average 91.2% during the period, 2011-12 to 2013-14. The uncertainties in their timing and actual availability is a serious impediment to the overall planning and budget execution process at the LGA level.

The problems are further aggravated due to the relative non transparency of rule based transfers which do not always work effectively in practice in a situation of cash rationing and resource crunch. 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 grass-root 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 several areas of concern in Korogwe TC referred to by both the internal auditors as well as the CAG. These relate to compromise of basic financial controls in critical areas such as unsupported payments, unauthorised expenditure, improper cash payments, and disbursements to employees not on the payroll and others. The lack of a complete tax registration system, and implementation of timely

collections, failure to account for all receivables and weaknesses in control over receipt books related to tax collections and others show the need for strengthening internal systems in these areas. The failure of the Audit Committee to meet in this context is an area of key concern. Absence of a structured system of follow-up of audit observations reflects the general weaknesses in overall accountability structures related to PFM functions.

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

Local Governments' dependence on the Central Government fund transfers is high in Tanzania. In 2013-14, the Council earned 86% of its total revenues from the Central Government grants.

The total Central Government transfers were lower than budgeted in all of the last three years (43%, 2011-12, 16%, 2012-13 and 25%, 2013-14). On own revenue side, unrealistic forecasts combined with lack of effective penalty mechanism by the LGA to ensure optimal revenue collection leads to low collections in the last three years. In 2011-12 and 2012-13, actual own source revenue collection was 42% and 42% of the budget respectively which further reduced the resource availability. Further, the LGA was able to spend on an average only 3/4th of the budget during the last three years. Korogwe has improved its performance over the last three years i.e., budget outturn improving from 54% in 2011-12 to 81% in 2013-14.

The impact of poor own source revenue collection and the Central Government transfers were also seen in changing priorities of the LGA during the financial year. The compositional variance of expenditure was 32.5%, 27%, 48% in 2011-12, 2012-13, and 2013-14 respectively.

In case the government entity excessively delay payments to the creditors, the aggregate expenditure outturn compared with original budget may not reflect the actual credibility of the budget. Therefore, the monitoring of expenditure arrears is essential to assess the budget credibility. The Central Government has directed the LGAs to submit payment arrears to the Internal Auditor General as per the definition prescribed in December 2014. The payables ageing more than 30 days as documented in the Audited Annual Financial Statements were nearly 2.2% in 2013-14.

Comprehensiveness and Transparency (PI 5-10)

Korogwe TC has moved towards Government Finance Statistics (GFS) 2001 based classification of the Budget. However, there is also no clear evidence of functional classification in line with Classification of the Functions of the Government (COFOG).

All funding for donor projects is routed through the Central Government. While the Budget Document includes basic items, some of the other items required under the PEFA framework are not provided. It should be noted here that the format of the Budget is decided by the Central Government to be followed by the LGAs. Based on the information available for 2014-15, on extra-budgetary expenditure, it can be inferred that expenditure such community contributions are included in the Budget but are not included in the Annual Financial Statements. Transfers to lower level of governments are made as per various sector/project specific guidelines, but comprehensive list of these guidelines were not available to assess their comprehensiveness and compliance. Some of the key fiscal information is available for public access such as annual budget and procurement contracts but there is a scope for improvement.

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 the available feedback during our discussions at Korogwe TC, 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 year Strategic plan for Korogwe TC 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 Korogwe TC are (i) Produce cess, (ii) Service levy, and (iii) property taxes,. Though full council meetings as well as Ward Executive Officers endeavour to inform taxpayers on the nature of taxes, levies, lack of focused efforts and absence of any dedicated information desks cannot counter the challenges of general low awareness levels of the nature and nuances of each tax and their methods of collection.

The lack of a comprehensive database of potential taxpayers for certain key taxes such as produce cess is a serious constraint for a rational assessment of revenue. Even for those levies where such a database exists though manual in Korogwe TC, such as in case of service levy, clarity on its completeness is an issue especially for small businesses that do not have tax identification numbers linked to the national system. Though the existing legal framework does not allow any discretionary powers to the tax collectors, the general weakness in the capacity to assess expected tax revenues reduces efficiency in measuring collections.

A development was however noted in case of property tax where the council had commissioned the property tax evaluation poll which was completed in May 2014 and provided basis for future estimation of expected property tax revenue in the Council. This mechanism was not yet in use at the time of this assessment.

Internal control systems (PI 16- 21)

Cash and debt management (PI 16-17): Central Government transfers constitutes significant portion of Korogwe TC's revenues. No information on expected periodic transfers from the Central Government is shared with the Town 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 Town Council at the start of the financial year. The Town Council also is not in a position to provide in-year information on ceilings to departments for expenditure commitments. Information on in-year adjustments during the year is not available.

From the assessment, the team confirmed that Korogwe TC didn't have any outstanding debt. 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 the Paymaster General (PMG) had issued the circular requiring all internal auditors to indicate the status of implementation of previous audit recommendations (both CAG and Internal Audit). There are cases of pending arrears related to promotion. The absence of documented verification at LGA level on changes made to the personnel database and the absence of focused periodic payroll audits reflect the absence of suitable oversight mechanisms in this important functional area.

Procurement (PI-19): Nearly 79% of the procurement is done through competitive bidding. Internal Auditor General and CAG has pointed towards internal control weaknesses with regard to Public Procurement. With the implementation of the Public Procurement Act 2011, Public Procurement Regulation 2014, and Local Government Authorities' Tender Boards (Establishment And Proceedings) Regulations, 2014 (LGA TB), the legislative framework has strengthened. However, the public access to key procurement information is weak. Lastly, the procurement complaints are not reviewed by an independent body.

Other Internal Controls (PI-20): Effective commitment control through budgetary ceilings cannot be implemented due to cash rationing with cash limits being fed into the EPICOR system until notification of actual fund releases is obtained from the Central Government. Though this helps expenditures to be booked in line with available cash, there are distortions in practice due to local purchase orders for certain activities being raised manually outside the system. The activities of checking on available cash balances and allocation for payments therefore takes place outside the system leading to inappropriate controls. The internal audit as well as CAG audit reports have referred to weaknesses resulting in excess payments, inadequacy of documentation and records, and 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): The quality of internal audit has been strengthened through ongoing capacity building initiatives by the Local Government Audit Section at the Internal Auditor General Office. Internal Audit in Korogwe TC is conducted as per the annual risk based audit plan. The Internal auditor prepares quarterly audit reports and submits these to the auditees, the CAG and Internal Auditor General. Our observations showed that the audit focus of the audit plan for 2013/14 in terms of budgeted time was 25% in transactions and 75% in systems. Audit reports showed that

85% of the audit issues related to systemic weaknesses while the balance related to transactions. In addition, all the internal audit reports provided analysis on number of implemented recommendations from the previous periods. Additionally, management responses to the issues identified remains a challenge as referred in the CAG's management letter. The CAG Management Letter also refers to the need to facilitate the IAF with necessary and resources and training to enable it carry out its responsibilities more effectively and efficiently; responsible authorities to employ the internal auditors to the optimal level; and ensure an audit approach for each audit component has been prepared and details are made available for verification.

Accounting, Recording and Reporting (PI 22-25)

Korogwe TC has seven active bank accounts. Bank reconciliations are performed in all bank accounts on a monthly basis and are available by the 15th of the following month for the previous month. There are no unresolved differences between the Council's cash account and the bank statements for four out of the seven accounts for which bank reconciliation statements were shared with the assessment team.

There appears to be adequate control information over imprest/staff balances. As per the audited financial statements for the Town Council for 2013-14, there were no staff dues/imprest that have been long outstanding as on 30th June 2014.

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

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

Korogwe TC is preparing its AFS, as confirmed by the CAG, based on the International Public Sector Accounting Standards (IPSAS) and the provisions of the LGFA. Para 31(3) of the Local Authority Financial Memorandum (LGFM) prescribes the composition of the AFS. The CAG's management letter also indicated that the AFS of Korogwe TC for the year end on the 30th of June 2014 were originally received by the extended statutory due date of 15 October 2014. However, the revised AFS were re-submitted on 24th January 2014 after rectification of errors and omissions highlighted by the CAG.

We have noted that the Central Government is presently following IPSAS (cash) but is planning to move over to accrual basis in the near future while the LGAs like Korogwe are already on accrual basis. However, considering the quality issues referred to by the CAG as mentioned above, ensuring full compliance with accrual based IPSAS appears to present a challenge. This highlights the imminent need for training of personnel and may result in more time taken by LGAs to stabilize accrual based IPSAS.

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

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

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

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

Available evidence points to consideration of budgets and audited financial statements by the Finance Committee and the Full Council of the LGA. However, details of Full Council's approval of the CAG reports were not made available to the assessment team for all 3 required years. In addition, minutes of meeting for discussion of CAG audit report were not all made available and information on frequency of LAAC meetings to discuss CAGs findings were not available.

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

Our assessment shows that within the limitations of resources, uncertainty of fund flows and institutional weaknesses in several areas, the LGA in general has endeavoured to operate within the norms of the fiscal framework. One of the contributing factors is that Korogwe TC (similar to other LGAs in Tanzania) on an annual basis plans for balanced budget. Secondly, structures for in-year budgetary controls are well established. While these factors contribute to fiscal discipline, risks remain from the side of (i) large amount 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 and lack of sufficient effort to increase collections. 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 lack of a medium term perspective in planning for spending. There is weak integration of recurrent and investment costs in proposals for capital projects. Compliance to rules for internal controls to ensure efficient budget execution remains an

area that requires improvement. Internal audit systems have improved but management response to the recommendations remains poor.

Service delivery and value for money

Resources transferred to service delivery units are reported on a quarterly basis. Value for money is achieved through cleaning of payroll deficiencies, use of open procurement methods, enhancing transparency, and greater scrutiny by the Council. However, significant dependency of the LGA (similar to other LGA) and irregular flow of funds severely impacts achieving cost efficiency in public expenditure.

1.5. Prospects for Reform Planning and Implementation

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

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

GoT and implementing agencies at all levels have demonstrated commendable ownership and commitment in roll-out activities, as is evidenced by the findings of the Mid Term Review of PFMRP IV as well as by the Joint Supervision Mission for PFMRP held in Sept-Oct 2015. Progress in the LGA component of reforms has been found to be good with most of the milestones 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) has rolled out several initiatives in recent years targeted at improving the public financial management (PFM) systems in the country. Key reforms in this area were introduced as part of the Public Financial Management Reform Programme (PFMRP) which was kicked off in 1998. The Programme is currently in its fourth phase, with some of the programme targets also relating to systems at the local government level. With the support of European Commission, 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 PFM action plan drawn to address these issues identified in the PEFA assessment for the Central Government of 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 with the PFMRP Phase IV. In 2013-14, an additional component (Key Result Area (KRA) 6: LGA Reform Sub Programme) targeted towards local governments was added. The Component is entirely funded by Department for International Development (DFID). The Sub-Programme includes strengthening PFM systems in 10 regions (67 LGAs), Prime Minister's Office-Regional Administration and Local Governments (PMO-RALG, the nodal ministry for local governments) and other relevant MoF institutions. DFID has also procured technical assistance comprising of 7 staff to render PFM related technical support and advice to PMO-RALG and Regional Administrations/LGAs. The component caters to:

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

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

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

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

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

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

2.2. Process of preparing the report

The coordination 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 members². Out of these six members, two are from PMO-RALG, two from Regional Administrative Secretariat (RAS), and the remaining two are from LGAs (exclusive of the LGAs assessed under this project).

Field visits to the LGAs were preceded by a project kick-off meeting, stakeholder discussions at the central level and followed up by a training workshop on PEFA methodology contextualized to the local governments. The broad scope of the assignment was finalized in the kick-off meeting. PFMRP 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 Authorities of Tanzania³ (ALAT) which is a registered civil society organization, Twaweza and Sikika (non-government organizations operating in the health and education sectors respectively in the Country) and Confederation of Tanzania Industries (TCI) to corroborate and supplement findings from field visits with information from non-state actors.

Field visit to the Korogwe Town Council was carried out on the 11th and 12th February 2015. Subsequently, an individual draft LGA report was prepared and submitted to the following stakeholders for review and comments on 20 October 2015: (i) PEFA Task Force Committee; (ii)

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

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

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

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 Korogwe TC and consideration of further information and explanations received, a Draft Consolidated Report (DCR) was prepared and submitted on 11 November 2015 containing on our findings relating to all the 12 LGAs under this assignment, including our consolidated observations on Korogwe TC. 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 Korogwe TC was submitted on 30th May, 2016 taking into account all relevant comments of the LGA, the GoT, independent reviewers and other stakeholders and incorporated the impact of all such comments as appropriate. Follow-up comments on the final draft report have been addressed in this Final Report.

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

2.2.1. Methodology

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

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

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

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

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 Korogwe TC. 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 Korogwe TC on the Central Government

The intergovernmental transfers are the largest source of financing for Korogwe LGA (accounting on an average more than 91.2% of LGA financing) as shown in Table 2. This reflects high dependency of the LGA on the Central Government funding. It should be noted that in 2013-14, the dependency of the LGA on central government resources declined to 86% from 94.8% despite of increase in development grants by 150%. This was due to receipts from sale of building plants and plots to TZS 1347 million in 2013-14 constituting 73% of total own source revenues of the LGA.

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

<i>Item</i>	2011-12	2012-13	2013-14
<i>Total revenue</i>	8090	10248	13307
<i>Recurrent grants</i>	6972	9005	9665
<i>Development grants</i>	523	712	1791
<i>Total grants</i>	7495	9716	11456
Grants as % of Total Revenues	92.65%	94.81%	86.09%

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

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

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

Secondly, one of the key components of the inter-government transfers is Local Government 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 the budget estimates.

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

3. Country background

3.1. Country Economic Situation

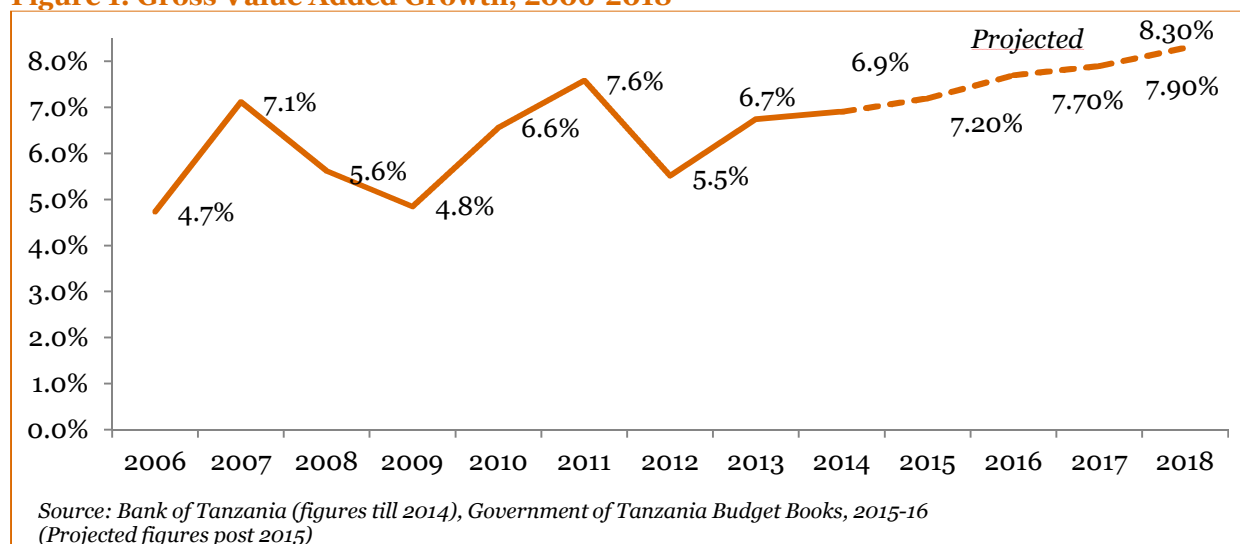
3.1.1. Country Context

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” category⁴ to “lower middle income” category in 2015. Figure 1 shows growth rate of Tanzania's Gross Value Added (GVA). The economy has been growing at an average annual growth of 6.2% since 2006 as compared with growth rate of 4.7% for developing countries in Sub-Saharan Africa as a group. As per the Government of Tanzania's projections, the economy is expected to achieve 8.3% growth by 2018. In comparison with its eight bordering countries, Tanzania's performance has been better than Kenya, Burundi, and Malawi. Though economies such as Rwanda, Uganda, Mozambique and Democratic Republic of Congo are growing at a higher rate relative to Tanzania, it should be noted that these economies are at earlier stages of economic development and are therefore, at a smaller base of GVA in comparison with Tanzania

Figure 1: Gross Value Added Growth, 2006-2018



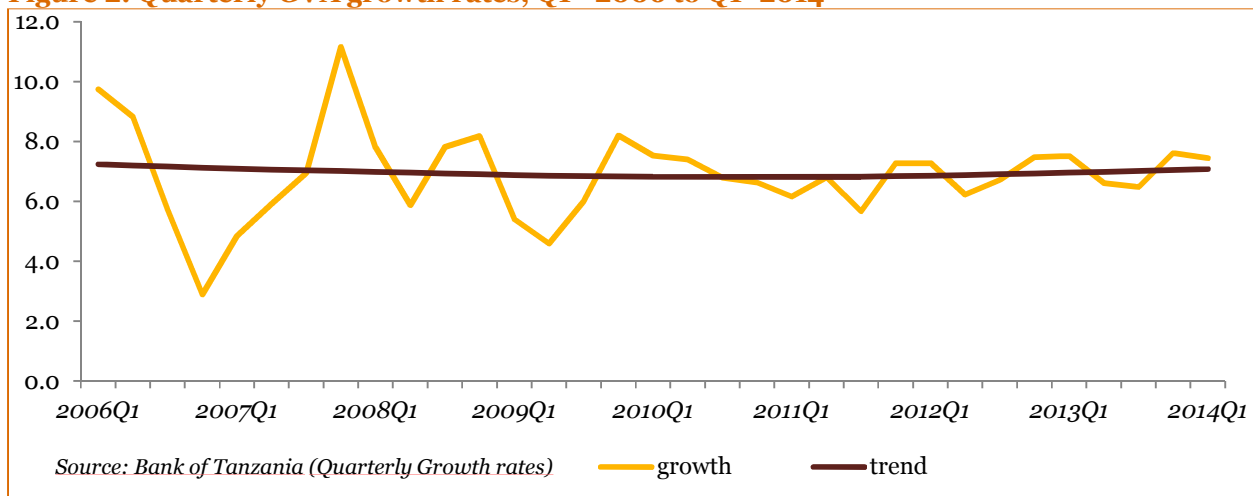
Apart from high growth, Tanzania has also achieved greater economic stability within the year, i.e. quarterly growth rates closely revolve around “trend growth rates (or average sustainable growth rate)”⁵. Figure 2 shows quarterly growth rates for the Country since 2006. It can be inferred that post third quarter of 2009, volatility in quarterly growth declined sharply and it closely revolved around

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

⁵ 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



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 reduction⁶. 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

⁶ 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 Tanzania⁷. 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

⁷ 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%
<i>Own Revenue</i>	12.7%	12.9%	13.6%
<i>Grants</i>	3.3%	2.6%	2.1%
Total Expenditure	18.9%	20.6%	24.0%
<i>Non-interest expenditure</i>	18.2%	19.5%	22.7%
<i>Interest expenditure</i>	0.8%	1.2%	1.3%
Aggregate deficit	-6.2%	-7.8%	-5.1%
Expenditure float	-0.3%	-0.5%	-0.8%
Adjustment to cash	-0.3%	0.7%	0.4%
Primary deficit	-3.6%	-5.0%	-3.3%
Net financing	3.6%	5.0%	3.3%
<i>external</i>	3.1%	3.4%	3.0%
<i>domestic</i>	0.6%	1.6%	0.3%

Source: Ministry of Finance, Government of Tanzania

Article IV consultation report on Tanzania in May 2014 established that Central Government faces low risk from both external debt and domestic debt majorly due to fiscal consolidation measures

adopted by the Government. However, the Report also notes that fiscal consolidation measures need to be continued to stabilize the public debt in future.

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

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

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

Source: Ministry of Finance, Government of Tanzania

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

3.3. Legal and institutional framework for Public Financial Management

3.3.1. Legal framework

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

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

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

- Para 137 – covers the preparation and submission of the annual estimates for the revenue and expenditure that are included in the annual budget;
- Article 138-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 Byelaws 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 public⁸.

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

⁸ 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).

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.

3.3.3.1. Planning and budgeting

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

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

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

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

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

3.3.3.2. Funds flow

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

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

At the LGA level, funds flow to the lower level government constitutes transfers to service delivery units and villages for development projects. The transfers are made using specified formulae depending on the type of transfer. The transfers to lower level government units are significantly dependent on funds received from the central government and often funds received are not adequate to meet the set priorities.

3.3.3.3. Procurement

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

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

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

3.3.3.4. Accounting and financial reporting

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

assessment, the EPICOR system was yet to be wholly automated. Some accounting and reporting functions were still undertaken outside the system.

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

1. *Monthly reports:* LGAs prepare monthly reports indicating their income and expenditure for each month. These reports are submitted to the Council Director and later to the Finance Committee by 10th of the following month. The monthly reports are designed to include the necessary reconciliations for bank balances, imprest and staff advances, etc.;
2. *In-year budget reports: these are prepared on quarterly basis:* Councils prepare Council financial (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

Korogwe Town is the second largest urban centre in Tanga Region after Tanga City, and covers an area of 212 square kilometers. With its central location, Korogwe Town is well connected to the rest of Tanga Region, the northern Kilimanjaro and Arusha Regions, and the Coastal and Dar es Salaam Regions to the south.

Table 6 depicts broader economic situation of Korogwe Town. Since relevant data for town wise detailed comparison is not available, an attempt for comparison of Korogwe region with other regions (as part of PEFA assessment) has been made in **Table 7** below.

Table 6: Factsheet-Korogwe Town

Item	Value
Area	212 square km
Share in Region's Area	0.8%
Population (2012 projected)	331143
Population growth rate (projected 2007-12)	2.32% per annum
Per Capita Income	TZS 450,000/ -
Occupational Structure	83% males, 89% females are Farmers, Livestock Keepers, Fishermen

Source: Korogwe Town Council profile

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)	885,803	37,576	13,250	26,677	70,624	66,040	16,710	37,040	9,467	21760
	Share in total land	33.8	4.2	1.5	3.0	8.0	7.5	1.9	4.2	1.1	2.5
Size of serving population	Population (2012) in "000"	43,625	1,694	1,640	2,045	2,218	1377	941	2,458	1,425	702
	Share in National Population (2012)	33.2%	3.9%	3.8%	4.7%	5.1%	3.2%	2.2%	5.6%	3.3%	1.6%
Public awareness	Median years of schooling completed (Male-	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
	2010)										
	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

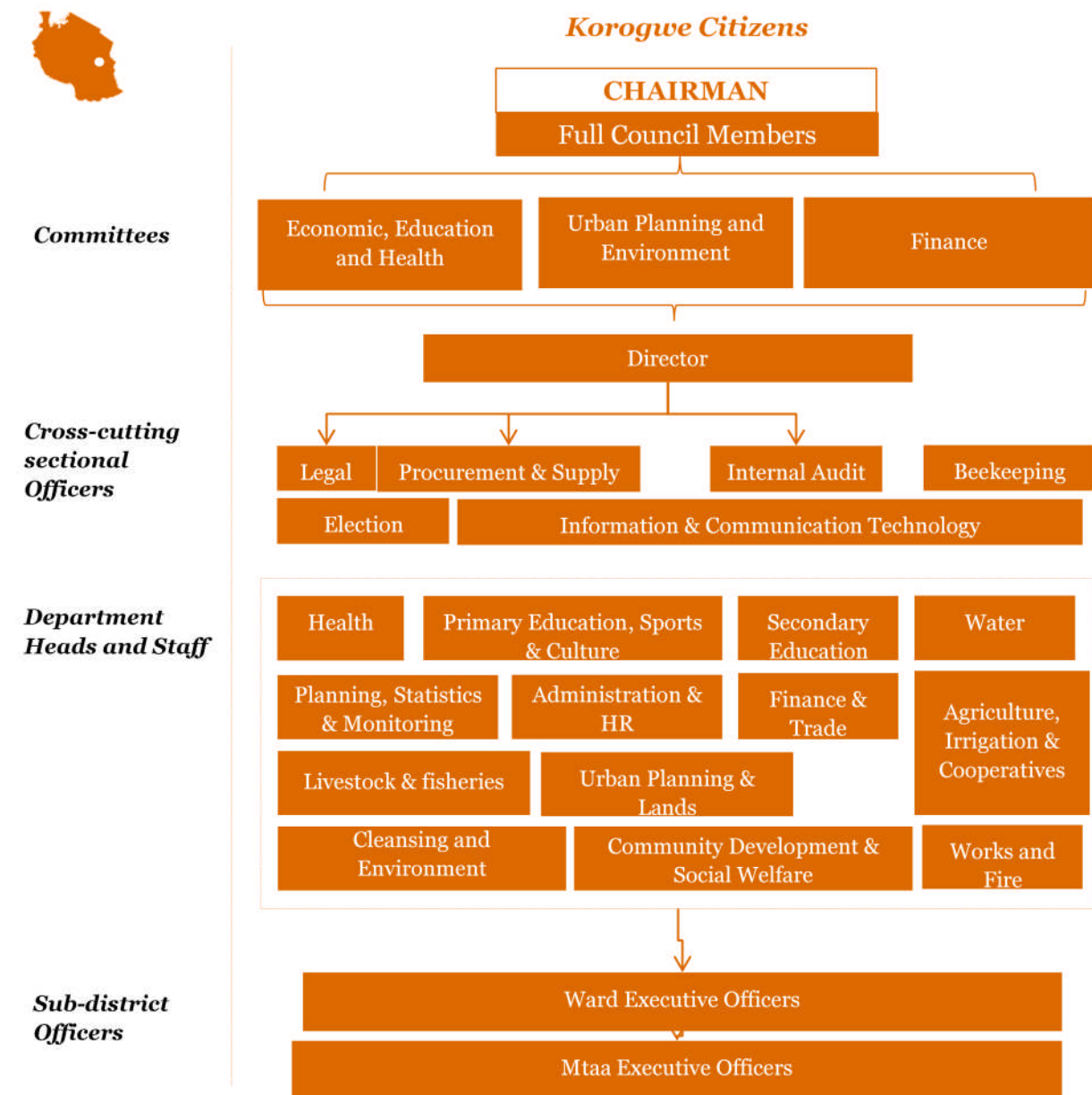
Source: National Bureau of Statistics, Tanzania

4.2. Institutional Framework of LGA

Figure 3 shows the organizational structure of Korogwe TC.

At the apex of Korogwe TC's organization structure are the people of Korogwe Town (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, Korogwe TC has thirteen departments headed by a Departmental Heads. Council staff are recruited by PO-PSM and paid by the central government.

Figure 3: Organization Structure of Korogwe TC



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

Externally, there are three standing committees in Korogwe TC that also assists in the operations of the council. The committees are:

- Finance Committee;
- Economic, Education and Health Committee;
- Urban Planning and Environment Committee.

4.3. Fiscal performance of LGA

As shown in Table 2, the Central Government grants constitutes significant portion of LGA's total revenues (on an average 91.2%). Table 8 shows trend of revenues of the Korogwe TC for the last three years. The total revenues have increased by 65% during last three years while own source revenues has nearly increased seven times over the same period. This led to increase in share of own source revenues in total revenues of the LGA from 2.9% in 2011-12 to 13.9% in 2013-14.

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

Items	2011-12	2012-13	2013-14
Local Taxes	42	39	19
Fee, fines, penalties and licenses	176	243	342
Revenue from exchange transactions	7	14	1369
Other own revenue	10	56	121
Total Own Source Revenue	235	352	1851
Land Rent	362	179	0
Recurrent grant	6972	9005	9665
Development grant	523	712	1791
Total Revenue	8090	10248	13307

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

Table 9 shows total expenditure by functions for 2011-12, 2012-13 and 2013-14. Similar to other LGAs, the education, water and administration were the top three functions during the period, 2011-12 to 2013-14.

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

Function Name	Average Share	2011-12	2012-13	2013-14
Administration	14.3%	1169	1359	1968
Human resource management and development	2.8%	194	584	34
Finance	1.1%	167	67	50
Trade and economic affairs	0.8%	69	43	162
Livestock	1.7%	178	192	110
Agriculture	2.6%	139	274	458
Education	45.7%	3297	5567	5546
Primary health services	7.9%	676	952	778
Water	8.1%	313	453	2148
Works	7.8%	849	821	612
Lands	5.1%	211	142	1512
Natural resources	0.0%	0	0	8
Community development, gender and children	1.0%	72	125	135

LGCDG	1.1%	187	96	0
Total		7520	10677	13523

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

Table 10 shows total expenditure of Korogwe TC for the last three years by economic categories. Total expenditure of Korogwe TC increased by 41% in 2012-13 and 27% in 2013-14. Higher growth rate in 2012-13 was due to increased wage bill and capital expenditure in 2012-13. Largest component of total expenditure is “wages, salaries and employee benefits” constituting on an average 65% of total expenditure. This component has gone up in the last three years.

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

Item	2011-12	2012-13	2013-14	Average Share
Wages, salaries and employee benefits	4332	7343	9359	65.2%
Supplies and consumables used	1403	1377	767	12.4%
Maintenance expenses	909	521	940	8.0%
Grants and other transfer payments	426	728	316	4.9%
Finance Cost	0	0	0	0.0%
Capital Expenditure	451	708	2141	9.5%
Total Expenditure	7520	10677	13523	100.0%

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

Table 11 shows deficit/surplus for Korogwe TC. In two of the last three years, Korogwe TC had deficit.

Table 11: Deficit/surplus, Korogwe TC, TZS million

Item	2011-12	2012-13	2013-14
Total Revenue	8090	10248	13307
Total Expenditure	7520	10677	13523
Surplus	570	-429	-216

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

5. Assessment of the PFM systems, processes and institutions

5.1. Predictability of central transfers

HLG-1 Predictability of transfers from higher level of Government

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

Table 12 shows transfers from the higher level of government to the local government for the period 2011-12 to 2013-14. In all of the last three completed financial years, actual Central Government transfers were lower than budgeted. The predictability of amount of transfers was even lower in case of development grants. Since development transfers do not constitute significant portion of total transfers, the low predictability on development transfers did not significantly impact total transfers' predictability.

It should be noted that under LGCDG, the allocations to the LGA are made based on the annual assessment results. These assessments cover various areas including financial management, functional processes, budgeting and planning, procurement, project implementation, and human resource development. The Korogwe Town Council was among the 27 LGAs⁹ which were rated as "Reasonable" which resulted in allocation of 80% (as against 100%) of their allocation entitlements under Capacity Development Grant, Agriculture Sector Development Grant, Health Sector Development Grant and Water Sector Development Grant. It needs to be mentioned that these annual assessments are for determination of allocable amounts only which may be different from actual transfers made to the LGA.

Table 12: Transfers from the higher level of government, 2011-12 to 2013-14, TZS million¹⁰

In TZS million		Recurrent Grants	Development Grants	Total Grants
2011-12	Budget	10780	2299	13078
	Actual	6972	523	7495
	Deviation	-35%	-77%	-43%
2012-13	Budget	9726	1876	11601
	Actual	9005	712	9716
	Deviation	-7%	-62%	-16%
2013-14	Budget	12480	2801	15281
	Actual	9665	1791	11456
	Deviation	-23%	-36%	-25%

Source: Audited annual financial statements, 2011-12, 2012-13 and 2013-14

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

⁹ Out of 132 LGAs, 104 LGAs were rated "Good" implying the allocation to the LGA was 100% of their entitlements. Only one LGA was rated "challenging" to whom 50% of entitlement was allocated.

¹⁰ It should be noted that budget as well as actual fiscal data is used from the same source, i.e. Annual Financial Statements.

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. Dis-aggregated actual recurrent and development transfers are available but dis-aggregated planned recurrent transfers are 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)

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 Governments¹¹, in the absence of disbursement timetable, a default of a quarterly distribution is to be used. The assessment team was informed that schedule of transfers across the year 2011-12 is not available. In the absence of information for 2011-12, the dimension has not been rated.

Table 13: Summary rating for HLG-1

Indicator	Rating	Brief explanation
HLG-1: Predictability of Transfers from a Higher Level of Government	NR	
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter’s budget	D	In all of the last three completed financial years, HLG transfers have fallen short of the estimate by more than 5%.
(ii) Annual variance between actual and estimated transfers of earmarked grants	NR	Information on dis-aggregated actual recurrent and development transfers is available on AFS. However, disaggregated information on budgeted recurrent grants 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)	NR	Schedule of transfers in 2011-12 is not available for assessment.

5.2. PFM-out-turns: Budget credibility

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

¹¹ Page 10, footnote 4

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 Korogwe TC, which is highly dependent on Central Government transfers of funds, the budgetary performance is dependent on not just its ability to spend the resources but also on the Central Government for transferring budgeted resources in a timely fashion.

Subject to our comments on data issues, the comparison of aggregate actual total expenditure with the original budget shows negative deviations of 46% in 2011-12, 16% in 2012-13 and 18% in 2013-14. One of the prime reasons for such variations can be traced to low transfers of resources from the higher level government (Table 12), particularly those related to development grants.

As per the CAG management letter for 2013-14, as per the establishment list there are approved number of staff of 1,258 employees. However, the Council has only 1094 employees, implying a vacancy of 13%. This may be affecting the budget execution ability.

Table 14: Aggregate primary expenditure outturn as compared with budget 2011-12 to 2013-14, TZS million¹²

Item	2011-12		2012-13		2013-14		Deviation		
	Budget	Actual	Budget	Actual	Budget	Actual	2011-12	2012-13	2013-14
Total Expenditure	13925	7520	12692	10677	16548	13523	-46.0%	-15.9%	-18.3%

Source: Audited annual financial statements, 2011-12, 2012-13 and 2013-14

Table 15: Summary rating for PI-1

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

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

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

Variation in the aggregate expenditure may not be able to analyse the quality of budgetary performance. This is only possible by examining the variations in each component of expenditure.

¹² PEFA Field guide requires comparison of aggregate primary expenditure outturn as against the budget. Firstly, in case of Korogwe TC, there was no interest payment made on the borrowings in the last three completed financial years (i.e., 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 total expenditure has been used as aggregate primary expenditure.

The objective of this indicator is to analyze the variation in the composition of the total expenditure after controlling for variation in the aggregate expenditure.

The PEFA framework recommends analysis of expenditure outturn against the original budget on a functional basis. In case of Korogwe TC, budgets are available for thirteen functions only. These functions are (1) Administration (2) Human resource management and development, (3) Finance, (4) Trade and economic affairs, (5) Livestock, (6) Agriculture, (7) Education, (8) Primary health services, (9) Water, (10) Works, (11) Land, (12) Natural Resources and (13) Community development, gender and children. In case of Korogwe TC, the concerned function for expenditure under Local Government Capital Development Grant (LGCDG) is Town Planning. However, the AFS does not provide any information on budget for this function. The assessor has therefore considered, Town Planning, as an additional function in the analysis. Hence, total expenditure is clubbed under 14 departments.

Table 16: Variation in the composition of aggregate expenditure, 2011-12 to 2013-14¹³

Year	for PI-2 (i) composition variance
2011-12	32.5%
2012-13	26.8%
2013-14	47.9%

Source: Audited annual financial statements, 2011-12, 2012-13 and 2013-14

Analysis of the composition of total expenditure on a functional basis reveals that in all of the last three completed financial years, the compositional variance was more than 15%. Table 17 shows department wise deviations in actual expenditure from the budget. Key departments of the LGA are Education, Administration, Primary Health Services, and Water which together contribute to 75% of the total actual expenditure, on an average, in the last three completed financial years. Deviations in the expenditure of these departments across the years are reflected in overall expenditure composition as shown in Table 14.

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

Function Name	Average Share	2011-12	2012-13	2013-14
Administration	14.4%	-48.9%	-14.0%	105.7%
Human resource management and development	2.8%	684.6%	2066.2%	-41.1%
Finance	1.1%	-80.4%	195.5%	-31.8%
Trade and economic affairs	0.8%	-89.9%	263.4%	-57.1%
Livestock	1.7%	-11.6%	-4.9%	-74.7%
Agriculture	2.6%	-82.4%	-66.8%	-44.5%
Education	45.7%	-47.3%	-9.0%	-41.9%
Primary health services	7.7%	-38.3%	-27.6%	-29.7%
Water	8.1%	99.6%	-69.6%	11.3%
Works	7.8%	59.3%	6.9%	-38.5%

¹³ The screenshots highlighting the calculations for PI-2 are provided in Annexure.7.

Function Name	Average Share	2011-12	2012-13	2013-14
Lands	5.1%	77.2%	65.8%	1666.4%
Natural resources	0.0%	-100.0%	-97.8%	-79.5%
Community development, gender and children	1.0%	-51.4%	149.0%	18.7%
LGCDG	1.1%	-75.9%	-51.5%	-

Source: Audited annual financial statements, 2011-12, 2012-13 and 2013-14

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

It is understood that at the LGA level there is no contingency fund and there is neither accounting of any kind 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 18: Summary rating for PI-2

Indicator	Rating	Brief explanation
PI-2 Composition of expenditure outturn compared to original approved budget.	D+	
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	Variance in expenditure composition exceeded 15% across all of the last 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 the budget and we were informed that there is no accounting related to such items included in any other head in case of Korogwe TC.

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

Robust revenue forecasts are essential for preparation of a credible budget. In case of optimistic revenue forecasts, the government tends to over commit spending amounts resulting in high fiscal deficit. On the other hand, in case of pessimistic revenue forecasts, proceeds from over-realization are used for spending which has not been subject to budget scrutiny.

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

Revenue for the Council can be clubbed into four categories (i) Local Taxes (37%) (ii) Fee, fines, penalties and licenses (32%) (iii) Revenue from exchange transactions (26%), and (iv) Other Own revenues (6.2%)¹⁴. Table 19 shows revenue performance of Korogwe TC in the last three completed financial years.

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

Table 19: Summary of Korogwe TC domestic revenue, 2011-12 to 2013-14 (in TZS million)

Revenue sources	2011-12		2012-13		2013-14		Actual as % of budgeted		
	Budget	Actual	Budget	Actual	Budget	Actual			
Local Taxes	206	405	408	219	81	19	196.2%	53.7%	23.3%
Fee, fines, penalties and licenses	523	176	343	243	402	342	33.6%	71.0%	85.0%
Revenue from exchange transactions	13	7	142	14	332	1369	57.4%	9.6%	412.8%
Other own revenue	109	10	201	56	150	121	9.2%	27.7%	80.5%
Total Own Source Revenue	851	595	1093	531	965	1851	69.9%	48.6%	191.7%
Deduct Land Rent	306	362	248	179	9	0	118.4%	72.4%	0.0%
Adjusted Own Source Revenue	545	232	845	352	957	1851	42.6%	41.6%	193.5%

Source: Audited annual financial statements, 2011-12, 2012-13 and 2013-14

On an overall basis, nearly 42.6%, 41.6% and 193% of the budgeted LGA's actual domestic revenue (or own source revenue) was collected in 2011-12, 2012-13, and 2013-14 respectively. Poor performance under this dimension in 2012-13 can be attributed to underperformance in "local taxes" and "fee, fines, penalties and licenses" which contributes on an average to 34% of total own source revenue of the LGA.

CAG in its management letter for 2013-14 notes following weaknesses on revenue management:

- Inadequate control and monitoring of collection agents:** The CAG notes that there was no evidence if the Council conducted a baseline survey of potential revenue under various levies/taxes before outsourcing to the collection agents. There are was inadequate monitoring of collection efforts by the agents and actual collections by the agents. The accountability framework in the contracts does not foster efficiency.
- Weaknesses in internal controls of revenue collectors:** CAG notes that there was no evidence that the Council regularly audits revenue collector's cash books to ensure that the collected amount is rightly deposited into the treasury.
- Inadequate follow-ups on land rent collection:** CAG notes that inadequate follow-up by the LGA led to under-recovery of land rent from the Ministry of Land, Housing and Human Settlement Development by 26% in 2013-14.

Local taxes include property tax, land rent, produce cess, service levy, guest house levy and other levies on business activity. As per the Sub-National Government (SNG) guidelines, the LGA's revenue includes, (i) revenue collected by SNGs directly; (ii) shared revenues collected and retained by the SNGs; (iii) entity's revenues not collected directly but collected by the Central Tax Authority (these are neither transfers nor shared revenues). Land Rent is collected by the LGA but not retained. The rate, structure, frequency of payment, penalty for non-compliance is decided by the Ministry of Lands, Housing and Human Settlements Development, Government of Tanzania. The LGA merely collects and is required to remit the entire amount to the Central Government. Thereafter, 30% of

collected land rent, as commission, is transferred by the Central Government to the LGA. Therefore, it does not fall under the category (ii). Therefore, this indicator has been rated excluding land rent.

Table 20: Summary rating for PI-3

Indicator	Rating	Brief explanation
PI-3 Aggregate revenue out-turn compared to original approved budget		
Dimension (i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget	D	Actual domestic revenue was 42.6%, 41.6% and 192% 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

Existing legislation and regulations relating to arrears

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

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

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

Korogwe TC presents an aging analysis of the aggregate payables in its annual financial statements. This has been presented in Table 21. It should be noted (i) all payables overdue for more than a month (i.e. more than 30 days) have been considered as payment arrears for rating under this dimension, (ii) the TC did not provide a detailed breakup of the total payables in the AFS.

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

Outstanding for	2011-12	2012-13	2013-14
1-3 months	0	0	0
3 to 12 months	7.6	266.9	296.3
Over 1 year	87.3	87.3	
As % of Total Expenditure	1.3%	3.3%	2.2%

Outstanding for**2011-12 2012-13 2013-14**

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

As highlighted in Table 21, the total payables ageing more than one months increased from 1.3% in 2011-12 to 2.2% in 2013-14.

(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 LGAs¹⁵. With respect to recording of arrears, the key findings for LGAs were¹⁶:

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

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

Table 22: Summary rating for PI-4

Indicator	Rating	Brief explanation
PI-4 Stock and monitoring of expenditure payment arrears	D+	
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the	C	Data on payables with ageing profile available enabled computation of arrears for 2013-14, which revealed a low rate of 1.17%.

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

¹⁶ Source: Final Report of the Study dated November 2014

corresponding fiscal year) and any recent change in the stock

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

PI-5 Classification of the budget

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

Budget for the Korogwe TC is presently following administrative, economic and project wise classification. There is no clear evidence for functional classification of budget in line with COFOG (or at least 10 main COFOG functions). The LGA uses the “Planrep” software for classification of the expenditure. Administrative classification is presented as cost center at 4 digit level. Economic classification is reflected by GFS codes at the six digit level.

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

As per the PMO-RALG, two kinds of chart of accounts are prepared, (i) main chart of account (ii) warrant to Cost Centre. The main chart of account consists of eight segments complying fully with classification in GFS manual 2001 as given in Table 23.

The main chart of accounts extends to 28 digits. The linkages flow from region (vote) to council (sub-vote) to objectives to targets to activities and to costs of these activities on a detailed line item basis. The chart of accounts coding structure is provided in Table 23. The warrant to cost centers has four segments, (i) GFS account code, (ii) vote (iii) council codes, and (iv) cost centers.

Table 23: Chart of accounts

S. No.	Code	No. of digits	Type	Example
1	Vote	2	Vote	Represents the region. For example Vote No. 86 stands for Tanga region
2	Council	4	Council	Each council has its own code. e.g. 2025-Korogwe TC
3	Cost center	4	Cost center	Represents sector/department, for example 500A stands for General Administration
4	Fund Type	1	Fund Type	Denotes nature of grants/ expenditure, e.g. 1 stands for recurrent and 2 for development
5	Fund Source	1	Fund Source	Classifies the source of funding, e.g. block grants, LGCDG, RWSSP
6	Project	4	Project	Stands for national projects, e.g. road rehabilitation, construction of irrigation schemes
7	Activity	6	Activity	Generated for each target in MTEF for which inputs are identified. Depicted as a combination of objective, target, target type and activity, e.g. B01S03
8	GFS	6	GFS Codes	Represents Government Finance Statistic (GFS) Codes, e.g. 210101-salaries/civil servant

Source: PMO-RALG

Current and planned activities:

With assistance from IMF, the GoT has prepared a road map for the introduction of formal programme based budgeting within the medium term framework. This will require significant simplifications of the budget classification system so that programme managers have the flexibility to manage their inputs effectively to meet the programme objectives.¹⁷

Table 24: Summary rating for PI-5

Indicator	Rating	Brief explanation
PI-5 Classification of the	C	

¹⁷ PEFA (National) 2013

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

PI-6 Comprehensiveness of information included in budget documentation

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

The assessment of Korogwe TC 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. Korogwe TC had submitted consolidated budget book named “Medium Term Expenditure Framework and Budget for 2014-15 to 2016-17” 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).

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 25 provides assessment on each of the required information benchmarks.

Table 25: Information provided in budget documentation

S. No.	Dimension	Availability	Notes
1.	Macroeconomic assumptions: including at least estimates of aggregate growth, inflation and exchange rate;	NA	Macroeconomic assumptions, economic growth, exchange rate and inflation are included in the Central Government budget documentation and are hence, not applicable at the LGA level.
2.	Fiscal deficit: defined according to GFS or other internationally recognized standard;	NA	Given the high dependence of LGAs on transfers from the Central Government and in the absence of reliable information from MoF/ PMO-RALG on expected transfers during the year, LGAs are not in a position to accurately estimate financing gaps and the consequent need for raising borrowings for the ensuing/ current financial year. Consequently, this dimension is not applicable to LGA.
3.	Deficit financing: describing anticipated composition;	NA	Given the non-applicability of the previous dimension on fiscal deficit, this dimension is also not applicable.
4.	Debt stock: including details at least for beginning of the current year	NA	As mentioned above, there is no debt stock outstanding for Korogwe LGA.
5.	Financial assets: including details at least for the beginning of the current year;	No	Information on the stock of LGA's financial assets (such as bank balances) is not provided in the budget for FY2014-15.
6.	Prior year's budget out-turn: presented in the same format as the budget proposal;	Yes	Prior year's budget outturn is provided at an aggregate level and for specific items of expenditure. These include items such as recurrent expenditure on Local government block grant, HSBF, and recurrent revenue collections.
7.	Current year's budget out-turn: presented in the same format as the budget proposal;	Partially complied	The budget guidelines requires LGAs to present actual performance for first half of current year's budget and likely outturn for remaining part. But in case of Korogwe Town Council, performance until December of the current financial year is

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

Table 26: Summary of rating under PI-6

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

PI-7 Extent of unreported government operations

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

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

The assessment team ascertained that 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 Town Council 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 0.40% of the total expenditure of the LGA in 2013-14 as computed in Table 27 below.

Table 27: Extra-budgetary expenditure, 2013-14

S/N	Item	Is it included in?			Extra-budgetary ("Yes" if not included in either of three documents and "No" if included in all)	Amount (In TZS million), 2013-14	As % of Total Expenditure
		I- MTEF (Budget Document)	II- In-year budget execution Report	III- Annual Financial Statement			
1	Transfers (Drugs) from Medical Store Department, Government of Tanzania	No	No	Yes	Yes	58.24	0.43%
2	Community Contributions	Yes	No	No	Yes	50	0.37%
Total						108.24	0.80%

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

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

Table 28: Summary of rating under PI-7

Indicator	Rating	Brief explanation
PI-7 Extent of unreported government operations	A	
(i) Level of extra-budgetary expenditure (other than donor-funded project), which is unreported, i.e. not included in fiscal	A	Local communities provide financial and in-kind support directly to the beneficiaries on behalf of the LGA. Transfers from MSD are included in the Annual Financial Statement but not included in the MTEF. Together, these two extra-budgetary

	reports		expenditures accounted for nearly 0.8% of total expenditure in 2013-14.
(ii)	Income/expenditure information on donor-funded projects included in the fiscal reports	NA	All donor funds are routed through the central budget and no direct donor funding to the LGA is provided.

PI-8 Transparency of inter-governmental fiscal relations

This indicator assesses the transparency of transfers from local governments to lower levels of government (i.e., wards) during the last completed financial year 2013-14. Majority of the expenditure at the lower level government is financed by transfers from the LGA or some in-kind transfers (such as drug supplies) from the Central Government. They do not have their own sources of revenues but are permitted to collect revenue on behalf of the LGA. The Council in turn finances its expenditure through own sources of revenue as well as grants from the Central Government.

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

Table 29 shows projects under which transfers were made to LLG in 2013-14 and corresponding criteria.

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

S. No.	Transfer item	Purpose	Rationale for transfer
1.	Health Sector Basket Fund (HSBF)	Renovation of health facilities, procurement of medicines and administrative cost for health facilities	Transfers to health centers are made as per the budget submitted. A significant portion of these funds are retained at the LGA level.
2.	Primary Education Development Programme (PEDP) and Secondary Education Development Programme (SEDP)	Funds for overall development of primary and secondary education	Capitation grant: 100% transferred-distributed to units by equal amount for each student in primary schools Construction of classes, toilets, and staff offices: No money is transferred to primary schools and all procurement is done at the LGA level only
3.	Tanzania Commission on AIDS (TACAIDS)	Support in terms of procuring medicines and syndromes for cure of HIV-AIDS	- Part of TACAIDS money is distributed to community based organizations by the coordinator and rest is used at the town level - Allocation of money to be spent at

S. No.	Transfer item	Purpose	Rationale for transfer
			the town level and to be distributed among CBOs based on the budget proposal submitted by CBOs
4.	Local Government Capital Development Grants		50% of the Central Government transfers under the programme is to be spent at the council level and 50% is to be transferred to lower levels of government. Distribution across LLG is through local participatory planning and budgetary processes.
5.	ASDP	For Agriculture development	Funds are transferred only to communities. And these transfers are based on the budget/plan submitted by these communities. At the council, expenses include supervision cost, and in some cases procurement of goods.
6.	Constituency Development Catalyst Fund		
7.	Other charges	Operational cost	<ol style="list-style-type: none"> 1. General Purpose Grants: 20% of funds received are transferred in equal proportion to all LLGs 2. LGA's own source money for OC is transferred based on budget submitted by wards.

With the exception of GPG and capitation grants for primary and secondary education, funds are transferred to lower level of governments based on negotiations at the budget preparations stage and are not formula based.

It should be noted that these transfers do not include personnel emoluments transfers. The dimension only assesses the transparency and rules based systems in transfers from LGA to LLG. Personnel emoluments transfers are made directly from the Central Government based on the payroll list, therefore it does not affect the rating of the local government.

As Table 12 shows, there is a variation of 25% in the budgeted and actual grants received by the LGA during 2013-14. As per the discussion with PMO-RALG it is noted that under budget cuts, the re-distribution of funds to the LGA under various programme are not transparent and are subject to deviations from the rules specified in respective programme regulations.

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

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

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

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

Lower level governments, Mitaas conduct monthly meetings. The minutes of these meetings provide details on total revenue and expenditure of the Mitaas in the month as well as on specific key development issues faced. It should be noted that all transfers by the LGA to LLGs are booked as expenditure on disbursement.

The minutes are shared with the LGA on a quarterly basis. The revenue and expenditure information reported in these minutes does not conform to the LGA classification of expenditure (i.e. the GFS codes). But since all outflows to LLGs are reported as expenditure at LGA level, the impact at the LGA level on classification of expenditure may be limited. But this may affect tracking of expenditure by the LGA centrally, particularly relating to Mitaas’ own expenditure.

As per the letter number CE.31215/01 129 issued by PMO-RALG to the LGA for preparation of the Financial Statements for the financial year 2013-14, lower level local government accounts (villages) should be reflected in the financial statements. However, the CAG notes that these accounts were not reflected in the LGA’s financial statements for the financial year 2013-14.

Table 30: Summary of rating under PI-8

Indicator	Rating	Brief explanation
PI-8 Transparency of inter-governmental fiscal relations	D	
(i)	D	Rules for transfers of funds across various grants to the LLG are specified. However, in case of budget cuts, re-distribution of transfers are not transparent and are subject to deviations from the respective rules.

(ii)	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)	D	While village councils do submit periodic fiscal reports, i.e. assembly minutes, these do not adopt the GFS account codes used by the LGA. As per the CAG management letter for 2013-14, the village accounts are not reflected in the AFS.

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 Korogwe Town Council.

Though as per the clause 23 (d) of the Water Supply and Sanitation Act 2009, the Water Supply and Sanitation Authorities (WSSAs) are eligible for financial support from the LGAs, there is no evidence of financial responsibility on the LGA to take financial risk in case of financial distress at the Authority level. LGA 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 LGA is done through the Town Director who is member on the Board of the concerned WSSA as a representative of the Town.

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

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

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

Minutes of village council meetings forwarded to the District Council on a quarterly basis document include details on the receivables and payables of LLGs. CAG in its management letters for 2013-14 notes that village council financial accounts are not reflected in the annual financial statement.

Table 31: Summary of rating under PI-9

Indicator	Rating	Brief explanation
PI-9 Oversight of aggregate fiscal risk from other public sector entities	D	
(i) Extent of local government monitoring of autonomous government agencies and public enterprises	NA	On a quarterly basis, meeting minutes capturing details on revenue and expenditure of the LLGs are submitted to the concerned LGAs. Information on receivables and payables of LLGs is also included in these minutes. Additionally, on an annual basis, LLG accounts are submitted to the LGAs for consolidation. However, the AFS of the LGAs does not contain a separate statement on revenue and expenditure of the LLGs nor a consolidated overview of the fiscal risks of LLGs
(ii) Extent of local government monitoring of lower levels of governments' fiscal position	D	Lower levels of governments do not have their own sources of revenues. Thus, all expenditure is financed through transfers from the Local government. On a quarterly basis, revenue and expenditure of the village councils are submitted to the LGA and consolidated into the CFRs. CAG in its management letters for 2013-14 notes that village council financial accounts are not reflected in the annual financial statement.

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.

Korogwe TC does not have its own website. In Table 32 we assess performance of Korogwe TC as regards information dissemination.

Table 32: Public access to key fiscal information

S. No.	Item	Available	Notes
1.	Annual budget documentation submitted to council	Yes	Summary of the budget by village and ward is put up on the notice board of the Town Council.

S. No.	Item	Available	Notes
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	The annual financial statement for 2012-13 was published in the newspaper. The date on which the report was published is not available.
4.	External audit reports within six months of completed audit	No	In the last completed financial year (2013-14), the CAG audit report for 2012-13 was issued in March 2014. The date on which the report was published is not available.
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 was informed that the summary of resources transferred to and available at facilities is displayed outside the facility and the town council office. We confirmed information displayed at the TC office, but not at the facility level.
7.	Fees, charges and taxes	No	We were informed that council Byelaws are available with the town treasurer which can be accessed by general public but are not explicitly published on the notice board.
8.	Service provided to communities	No	Information on services provided to communities could not be found on the Town Council's notice board.

Table 33: Summary of rating under PI-10

Indicator	Rating	Brief explanation
PI-10 Public access to key fiscal information	C	
(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)	C	Only 3 out of the 8 attributes are met by the LGA

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, Korogwe TC in this case, does not prepare/ issue a separate budget calendar to the spending units under it. Table 34 shows the relevant sections of the budget calendar as per the Central Government's guidelines for 2014-15.

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

Date as per the calendar	Main Activity	Key Actors	Actual Date
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)	7 January 2014
07 th of January, 2014	MDAs, RS and LGAs to get budget ceilings for the fiscal year 2014-15	MoF	27 January, 2014 (date of issue by MOF for Other Charges only)
08 -28 of January, 2014	MDAs, RS and LGAs preparing and submitting to the Ministry of Finance and Planning Commission (non-tax revenue, recurrent and development expenditure) for fiscal year 2014/15	LGAs, MDAs, RS	05 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	Not available

Though the budget calendar for 2014-15 was received by the District Council only on 7 January 2014, instructions to LLGs, line departments and programme coordinators for initiation of preparation of budget proposals were issued on 29 November 2013 by the Korogwe TC 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 Korogwe TC 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 villages and wards undergo several rounds of revisions before finally being presented to the Full Council for submission to MoF. The village councils first submit their proposals to the Ward Development Committees (WDC) for review and approval. These are then forwarded to the respective line departments at the district level by the district planning and logistics officer (DPLO). Once reviewed by the line departments, the budget estimates are presented to respective Standing Committees who have the authority to revise estimates in line with district priorities and the expected budget ceilings from MoF. Post finalization by the Standing Committees, the estimates are finally presented to the Full Council and subsequent to approval are sent to the Regional Consultative Committee (RCC) for checking for adherence to regional priorities for spending. Only after the review by RCC the budget estimates are submitted to MoF and PMO-RALG. At each stage of approval/ review, revisions made to allocations may not always be communicated/ discussed with concerned village councils/wards/line departments

(iii) Timely budget approval by the legislature

As discussed above, the annual budget is approved first by the Full Council for submission to PMO-RALG. Once discussed and reviewed by PMO-RALG and MoF, it is presented to the Parliament for final approval. Table 35 shows relevant dates for approval of the budget.

Table 35: Budget approval dates

Year	Date of approval by council	Date of approval of budget by the national assembly
2012-13	30 th April 2012	14 th June 2012
2013-14	19 th February 2013	12 th June 2013
2014-15	30 th January 2014	13 th June 2014

Table 36: 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	LGA does not prepare its own budget calendar. It only follows central government budget calendar which provides timelines for various activities. The Calendar provides more than four weeks to LGAs to submit their budget requests, however the LGA received the budget circular only three weeks before the date of submission of budget. The Central Government via various notifications pushes the timelines for various activities. This undermines the credibility of the budget calendar. Further, the level of compliance to the calendar was featured with delays by the LGA.
(ii)	Guidance on the preparation of budget submissions	D	While Korogwe TC does issue guidelines to spending units, these do not contain fresh budget ceilings for administrative units or functional areas for the ensuing financial year. As per the discussions with the Council staff, the Departments are advised to use previous year ceilings as the base for preparation of budget proposal for ensuing year.
(iii)	Timely budget approval by the legislature	A	The budget in the last three years was approved before the start of the financial year.

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

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

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

Korogwe TC 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 TC 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.

(ii) Scope and frequency of debt sustainability analysis

In the last three completed financial years i.e., 2011-12, 2012-13 and 2013-14, Korogwe Town Council did not have any outstanding 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 Town Council has a medium term development plan (2012-13 to 2016-17). The Strategic Plan provides details on programmes, goals, outcomes, and outputs. There are no cost estimates in the strategic plan.

(iv) Linkages between investment budgets and forward expenditure estimates

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

In this dimension only investments under the control of the LGA are to be considered. LGAs 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 are not considered in the forward budget estimates for the sector.

Table 37: 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 the classification prescribed under GFS Manual 2001. 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	Korogwe did not have any debt outstanding in any of the last three completed financial years.
(iii) Existence of costed sector strategies	D	There is a strategic plan reflecting the development priorities of the LGA. There are no cost estimates in the strategic plan.
(iv) Linkages between investment budgets and forward expenditure	D	Forward budget estimates are not prepared through any scientific analysis. There are no linkages between investment budgets and forward

Indicator	Rating	Brief explanation
estimates		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 38 below shows broad structure of own revenue sources of Korogwe District Council. 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 38: Rationale for identification of Tax revenues

S. No.	Revenue item	Included/excluded as “Tax Revenue”	Rationale
1.	Property tax	Included	As per para 5.40 Property taxes are charged as a percentage of the value of the immovable properties which include buildings and other structures.
2.	Land rent	Not Included	As per para 5.40 land rents are charged on the value of the land. However, these are not included as part of local taxes because they are charged by the Central Government and the TC only acts as a collection agent and remits the entire collections to the CG. The TC in return, receives commission as a percentage of collections from the CG.
3.	Fines and penalties	Not included	As per para 5.103 the GFS 2001, fines, penalties are part of the other revenues and should not be included in tax revenue.
4.	Produce cess	Included	As per para 5.48 of the GFS manual, tax revenue includes taxes charged on <i>production</i> , leasing, delivery, sale, purchase, or other change of ownership of a wide range of goods and the rendering of a wide range of services. Produce cess is a levy on agriculture produce. There are various kinds of produce cesses. These include cess for (i) Beans, (ii) Maize (iii) forest produce and (vi) other produce.
5.	Business licenses, Permit fees for billboards, posters or hoarding, environmental protection charges, Market	Not Included	As per para 5.99, GFS manual 2001, if the license fees are such that license is granted automatically after payments then the receipts shall be termed as administration fees only.

S. No.	Revenue item	Included/excluded as "Tax Revenue"	Rationale
	Fees, Tender fees, building permit fees, parking fees, plot application fees, sale of bid documents, Livestock market fees, slaughter house charges, rent of council houses, communication towers fees		
6.	Hotel levy	Not Included	As per Section 7 (1) (u) of the Local Government Finance Act, 1982, all moneys payable under the Hotel Levy Act, by the proprietor of guest houses and collected within the boundaries of the district council are included in Local Government Authority's revenues. This levy was abolished as at the time of the assessment.
7.	Service levy	Included	Unlike forest levy, it is charged as well as collected by the LGA themselves; therefore it is being included since it does not call for providing corresponding services in lieu of the receipts of funds.

As specified in Table 38, we have considered following sources of revenues as taxes (i) Produce cess (ii) Property tax and (iii) Service levy.

PI-13 Transparency of taxpayer obligations and liabilities

(i) Clarity and comprehensiveness of tax liabilities

As per the feedback during our discussion, tax/ levies can be governed by byelaw and/or main law (the Central Government legislation). The latest Korogwe TC byelaws are contained in the amended version of 2010 called Korogwe Town Council Byelaws (Levy and Markets), 2010 and published under Government Notices No. 495 – 501 of 17 December 2010. Part IV of the Local Government District Authorities Act 1982 gives power to district councils to make their own byelaws. The Byelaws provide the type of local taxes, applicable rates, evidence of collection, responsibilities of taxpayers, matters in relation to tax paying responsibilities, and the penalties if convicted guilt of tax offences. In case the main-law lapses, the relevant byelaw at the LGA level automatically becomes invalid.

Table 39: Legislative framework of taxes/fees

S. No.	Source of revenue	Byelaw	Main law	Details
1.	Produce Cess	√	√	Byelaw: This includes farm (i) beans produce cess; (ii) maize cess; (iii) forest produce cess; and (v) other produce cess – various and produced from

S. No.	Source of revenue	Byelaw	Main law	Details
				other neighbouring districts and charged on crossing Korogwe without permit from the district of origin Main-law: Section 7(1) (g) of the Local Government Finance Act, 1982
2.	Service levy	√	√	Main-law: Section 7 (1) z) of the Local Government Finance Act, 1982
3.	Property tax	√	√	Main-law: Section 7(1)(y) of the Local Government Finance Act, 1982 Is also in the Byelaws as Korogwe is a Town Council In addition, in 2014 the Council commissioned a special property tax valuation that provides rates based on the nature of the properties.

The law provides for imposition of service levy amounting 0.3% of turnover on all economic activities in the Council including manufacturing, agricultural production, distribution of goods, rendering of services, and commerce. The actual amount of service levy to be paid is based on the financial returns shared by the payees. 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 WDC 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 township authority by whom it was made and shall at all reasonable times be open to inspection by the public free of charge. Similar provisions are applicable to ward committees in section 161 (3).

There are no special information desks in the Town 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 discuss with the general public on the taxes/fees/levies applicable, rate and procedures for payments.
- b) Ward executive officers educate the target population on various taxes/levies/fees applicable

As per recent studies made on key issues in revenue mobilization¹⁸, 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 Korogwe specifically. However, keeping in mind:

- the absence of a computerized tax information system, the lack of adequate resources to disseminate knowledge of the various taxes and their procedural and administrative requirements, and
- the general weaknesses in revenue related internal controls referred to by the CAG in areas such as (i) Revenue potentials are not exhaustively tapped, (ii) inadequate follow-up on the revenue collections leading to low collections from own source revenues vis-à-vis budgets, (iii) existence of loopholes in collection of revenues from respective sources

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

(iii) Existence and functioning of a tax appeals mechanism

At the district level, if the taxpayers are not satisfied with any element of a certain local tax, there is a Council’s grievances desk. But this desk deals with all kinds of public queries including tax. As per the feedback from our discussions, tax related complaints are handled by the District Executive Director (DED) and the Director’s agents at the village level. In case the applicant is not convinced with the response, the applicant can appeal to 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 Korogwe TC that there have not been any cases of complaints with regard to taxes and no related legal cases were pending at the district level. As there was no complaint register maintained, the team could not confirm with certainty whether there has ever been tax complaint and how these might have been dealt with in the past.

Table 40: Summary of rating under PI-13

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

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

Indicator	Rating	Brief explanation
(i) Clarity and comprehensiveness of tax liabilities	D	Comprehensive documentation of existing taxes as regards methods of levy, assessment and collection are absent for many areas. The proposed new system of valuation of properties is yet to be fully operationalised and though scope for administrative discretion is limited. In case of service levy collection, there appear to 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.
(iii) Existence and functioning of a tax appeals mechanism	D	We were informed that currently, first point of contact for tax related complaints was the DED who is indirectly involved in tax assessments. We did not come across any evidence of a functioning tax appeals mechanism at the LGA level in Korogwe.

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

(i) Controls in the taxpayer registration system

In Korogwe TC, all cesses is levied through the Revenue Collection Agents sourced through open tenders. The TC does not have a specialized tax registration and assessment system in place for any of the taxes. The council maintains separate manual records of tax payers for each type of tax. Completeness of records is uncertain because there is no number control of total number of tax payers maintained. The assessment team was informed that revenue is estimated each year using subject matter experts within the TC. Prior to the beginning of the year, the Council team goes around the district and estimates collectable revenue using the details contained in the prior years' respective collection registers for each tax as a starting point. Findings from the assessment are tabled at the Council Management Team (CMT) meetings, which recommend improvements. The estimated revenue is used as the basis for evaluating the submitted tenders. A bidder with a price closer to the estimate is awarded a contract and required to pay a determined amount prior to commencing collecting revenue. At the end of the year, reconciliations are made between actual and expected collections. The assessment team was also informed that the Council had commissioned property evaluation exercise which was expected to be used as basis for property tax rates. This exercise was completed in May 2014 but was not yet in use at the time of completion of our assessment.

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

There is no regulation mandating the taxpayer to register with the Town Council. Therefore, no penalties are provided in case the taxpayers do not register themselves with the Council. However, the Section 10 (1) of the Byelaws specify that any person who (a) fails or refuses to pay a specified tax which is due to and payable by him under the Byelaws, (b) fails to remit the amount collected, (c) refuses to provide information in relation to tax liability, (d) will promote non-payment of taxes by self or others, (e) will restrict collection by the agent/s, (f) will lie and lead to loss of revenue, and (g) will fail to keep records of information relevant for levy assessment, is guilty of an offence. The offender shall be liable on conviction to a fine specified in Section 11 of TZS 50,000 to TZS 300,000 or to imprisonment for a term between 6 months and 12 months, or both. The Byelaws also provide that the tax defaulter, shall also be liable for repayment of the estimated loss, which will include any enforcement costs.

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 LGA level, there is no separate audit conducted to identify the defaulters. Tax as part of revenue collection, is part of routine quarterly internal audit.

Table 41: Summary of rating under PI-14

Indicator	Rating	Brief explanation
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	D	
(i) Controls in the taxpayer registration system	D	The Council does not have any dedicated registration system in place. In addition, there is no link between the council tax payers' record and the other databases.
(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 town council, but there are penalties for declaration obligations. There were no evidence of enforcement in penalties for failure to declare tax obligations. In addition, CAG in his Management Letter for financial year 2013/14 indicated that revenue may not have been collected at the optimal level due to weaknesses in the internal control and monitoring of revenue estimation and collection, which includes enforcement of penalties for failure to declare the tax obligations.
(iii) Planning and monitoring of tax audit and fraud investigation programs	D	No special tax audits are conducted.

PI-15 Effectiveness in collection of tax payments

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

As per our discussion with the Town Council and review of the audited financial statements for years from 2011-12 to 2013-14, there were no reflection of any tax arrears nor receivables from collection agents (this was recorded as zero for all years under “amounts due from customers for contract work”). In addition, there was also no evidence of a credible system for recording receivables for service levy which was charged based on the organisations’ turnover and hence it was an expectation that at the end of the year there could be unsettled service levies. In the absence of any reliable data on tax arrears for all of the assessment years, computation of collection ratio for gross tax arrears is not possible. No reliable data on tax collectability and revenue base in the absence of direct billing for major taxes. The CAG in 2013-14 indicated recording and tracking of receivables was not effective as, for example in case of service levy, TZS 7,797,761 was not collected against the budget of TZS 10,000,000.

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 42 below, service levy is collected by the revenue accountant and trade officer; all other taxes are collected by agents.

Revenue collected directly for service levy and property taxes are directly deposited in the own source revenue account with varying frequency. Revenue collected is reflected in the own source revenue account on a daily basis (if in cash) and generally within 3 days for cheques. Other revenue payments are deposited to own source revenue account directly by agents on their instalment due dates. However, the Management Letter for 2013/14 includes observations that revenue collectors did not submit the revenue collectors’ cash books; there was no evidence that the council audited the revenue collection cash books; there was a delay in remittance to the cashier of collections amounting to TZS 6.6 million and its subsequent banking. In addition, the Management Letter for financial year 2012/13 shows that deposit register submitted for audit was not updated with appropriate deposit information. Missing of collectors’ cash books and lack of reliable updates in the deposit register, undermines certainty on timeliness in actual collections compared to subsequent transfer to the treasury.

Table 42: Structure of taxes

Cesses	Who collects	Who evaluates	Frequency
Service levy	Service levy charged on services provided to the council: 1. Council deducts from payment to Business entity; and	Revenue accountant and trade officer based on three month’s revenue return submitted by business enterprises directly to the	Not fixed, as and when the transaction is processed and chasing is ad-hoc

Cesses	Who collects	Who evaluates	Frequency
	2. Service levy charged on other activities: Revenue accountant and Trade officer	council.	using field officers who are responsible for following up collections.
Produce cess	RCAs	1. TC at the beginning of the year and prior to contracting	1. Agreed contract instalments
Property tax	TC directly – up to the time of assessment.	TC - Flat rate depending on the property nature (from TZS 3,000)	Once in a year.

Section 39 (2) of the Local Government Finances Act, 1982 requires the Town 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, except for service levy and property tax, all revenues are collected through agents. The collection agents pay to the council instalments based on the contracted amounts for each instalment. Hence no reconciliations are conducted between assessed, collected and received amounts.

Table 43: 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. The council has no tax arrears recording system in use and hence, there are neither any computation of tax arrears nor records of in-year collections of revenue arrears from prior years.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	D	The general rule is that all tax revenues are to be paid directly to the bank accounts by the RCAs on agreed periods. For collections made directly by the Council, deposits are to be made as and when they are collected. However, observations by the CAG poses concerns on the undermines certainty on timeliness in actual collections compared to

Indicator	Rating	Brief explanation
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	subsequent transfer to the treasury. No invoices are raised for any receivable tax revenue. Therefore, complete reconciliation between tax assessments, arrears records, and receipts are not done. However, reconciliation between tax collected and amount transferred to treasury is done on monthly basis.

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

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

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

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

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

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

Once the Parliament approves the annual budget for the LGA, an action plan is prepared by the Town 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 Town Council, however, is largely dependent on the funds from the Central Government and hence, on the communication from MoF on the expected transfers during the financial year. As per discussions with MoF, it is understood that while a ministry level Ceilings Committee reviews the cash flow position of the Central Government on a monthly basis, there is no advance notification made to LGAs on expected fund releases. This, in turn, limits the ability of the Town 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 Town Council, there is no advance information provided to departments, villages, and wards on actual resources available.

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

Para 18 of the LGFM specifies the modalities for virements and supplementary budget. As per our discussion with Korogwe TC, annually during December, in-year budget adjustments are undertaken.

In case of Korogwe Town Council, the extent of virements in 2013-14 were insignificant. In 2013-14, re-allocations were made under nearly 60 account heads amounting TZS 121.773 million. This was nearly 0.9% of the total expenditure in 2013-14. Therefore, this dimension is not applicable to the LGA.

Table 44: Summary of rating under PI-16

Indicator	Rating	Brief explanation
PI-16 Predictability in the availability of funds for commitment of expenditures	D	
(i) Extent to which cash flows are forecast and monitored	D	At present, LGA do not do any cash forecasting including on relating to their own sources. It is informed that annually cash flow plans are shared with the Ministry of Finance but these are only funds requirements.
(ii) Reliability and horizon of periodic in-year information to departments on ceilings for expenditure commitment	D	No advance intimation is provided to LLGs to make commitments both related to Central Government transfers and own source revenue transfers.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of departments	NA	Virements in 2013-14 were insignificant, i.e. only 0.9% of total expenditure. 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 nodal ministry of local governments, i.e. PMO-RALG does not have outstanding debt data for LGAs. Each LGA processes fresh loan requests (only for projects involving capital investments such as construction of roads) to PMO-RALG for approval. The request is accompanied by last three years' own source revenues, schedule of loan payment and interest payments in the future. Post scrutinisation and approval (if given), the request is sent to Prime Minister Office. However, PMO-RALG does not receive any information on whether loan has been approved/ disbursed or not.

As mentioned before, Korogwe TC didn't have any debt outstanding in the last three completed financial years. Therefore, this dimension is not applicable to the LGA.

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

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

As per clause 46 of the Local Government Finance Memorandum, the accounting officer or his authorised representative is required to arrange for surprise check of cash in hand on irregular intervals. CAG in its management letter for 2012-13 notes that there was no evidence of surprise cash survey conducted by the LGA.

(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.

Table 45: Summary of rating under PI-17

Indicator	Rating	Brief explanation
PI-17 Recording and management of cash balances, debt and guarantees	D	
(i) Quality of debt data recording and reporting	NA	The LGA didn't have any outstanding debt in the last three completed financial years.
(ii) Extent of consolidation of the government's cash balance	D	Korogwe TC calculates and consolidates cash balances in different bank accounts on a quarterly basis.
(iii) Systems for contracting loans and issuance of guarantees	NA	Issuance of guarantees is the mandate Ministry of Finance and therefore not applicable to LGAs. Local Government Authorities are allowed to borrow but each

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

PI-18 Effectiveness of payroll controls

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

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

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

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

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

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

The forms and documentation have to be scanned and uploaded on HCMIS by the Human Resource Department officials in the Council for approval by the PO-PSM. Since the System's automatic cut-off date for monthly salary is 20th of the month, TC 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 TC officials, the entire process of updating personnel information in the System should take not more than 4-5 working days. In case of new recruits, depending on the time of joining, salaries may be processed only by the next month. However, our discussion with Korogwe TC and reports generated, uncovered that there are various cases of salary arrears. As on 30 June, 2014, there were nearly 17 cases of salary arrears. Out of these, 12 cases related to “new hire” and 5 cases related to “promotion”. These cases were pending as on 20 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.

CAG in its management letter for 2012-13 notes cases of payment of salaries amounting TZS 5 million to deceased, retired, absentee without reason and absconded employees. It was noted that the trend of payroll inconsistencies continued in the following year as evidenced by further comments of the CAG in its management letter for 2013-14 pointing out instances of irregular payments to terminated and absconding employees.

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

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

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

In accordance to Standing Orders F.16 for the Public Service, 2009; where a public servant is absent from duty without leave or reasonable cause for a period exceeding five days, that public servant may be charged with the disciplinary offence of being absent without leave and punished by dismissal. As per the CAG management letter for 2013-14, no disciplinary action was undertaken against teachers absconded from their duty station for the period ranging from 6 to 48 months. Additionally, the management letter notes that cases of payment of salaries to deceased, retired, absentees without reason and absconded employees.

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

In 2013, IAG of the Tanzania conducted a payroll study for entire public sector examining July – September 2013 salary payments across the public sector. The report concluded that there are areas where anomalies are found. The findings are not specific to Korogwe TC but apply to the entire public sector in Tanzania. Some of the findings included retired employees and employee ageing less than 18

years being part of the payroll list, payment of salary arrears twice for the same claims, more than one employee receiving salary through one bank account etc.

Table 46: Summary of rating under PI-18

Indicator	Rating	Brief explanation
PI-18 Effectiveness of payroll controls	D+	
(i) Degree of integration and reconciliation between personnel records and payroll data	A	Since personnel records and payroll database are part of one system, there are reconciliation between the two once PO-PSM approves the request. . In addition, changes to the establishment list are also made directly through the HCMIS though no independent verification is made at the LGA.
(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. In some cases this may indicated that changes to personnel records do not get reflected in the payroll records timely. Instances of processing delays and consequential implications pointed out by the CAG in his reports do reflect that inputs could take significantly longer than 3 months.
(iii) Internal controls of changes to personnel records and the payroll	C	The system maintains audit trails reflecting changes made to the system. Access to the System is restricted to only the Head of Human Resource Department in the Town Council. However, the audit trail in the System is not documented/filed, verified or even covered by the internal auditors during their assessments. Consequently, the actual authorisation of and basis for the changes is not independently verified during the course of the financial year.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	B	A payroll audit was conducted in 2013 which identified various weaknesses. Though there is no annual payroll audit exercise, the CAG and Internal Auditor do cover payroll under their respective audits.

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

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

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

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

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

Public Procurement Act, 2011 and Public Procurement Regulations 2013

Application

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

Accessibility

The Act is freely accessible to the public on [PPRA website](#). Information through website is one means of providing information at low cost to all those who might want it. However, this mode of public access is questionable given the low internet penetration¹⁹. Excerpts from the act are provided in the box below.

Public Procurement Act, 2011

Institutional arrangements

Central

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

The Act also provides for establishment of PPRA to ensure application of fair, competitive,

¹⁹ Nearly 17% of Tanzanian’s population had access to internet in 2012. This is due to high illiteracy, poor infrastructure, and unavailability of internet services in semi-urban and rural areas.

Public Procurement Act, 2011

transparent, non-discriminatory and value for money procurement standards and practices; set standards for public procurement systems; monitor compliance of procuring entities; and build, in collaboration with Public Procurement Policy Division and other relevant professional bodies, procurement capacity in the United Republic.

Local Government

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

Planning

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

Internal controls

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

External scrutiny

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

Accountability

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

Competitive bidding

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

Table 47: Method of selection as per Procurement Regulations 2013

Method of tendering	Goods	Works	Non-consultancy services	Disposal of public assets
International	No limit	No limit	No limit	No limit

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

Source: Public Procurement Regulations, 2013

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

Public access

Section 68 (1) of the PPA 2011 requires any tender notice to be published in sufficient time. Procurement plans for the year are prepared and approved by the accounting officer. These plans are required to be submitted to PPRA within fourteen days after completion of the budget process. It is not mandatory to publish these plans. On the other hand, section 18(1) of the procurement regulations calls for publishing the summary of general procurement notice (prepared based on procurement plans) for the year in the PPRA journal and the tender's portal. Section 19 (3) provides an option to the procuring entity to publish the tender notice (in case of international tendering) in appropriate foreign or international publications or professional or trade journals. Section 45 (1) of the regulations requires PPRA to publish contract awards under the preference scheme (to local communities) in the Journal and Tender Portal. Section 158 (2) of the procurement regulations

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

Dispute resolution

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

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

The regulations applies to all local government authorities in respect of procurement of goods, works, non-consultancy services and disposal of public assets by tender and selection, employment of consultancy. The regulations specifies general principles for procurement at the LGA level, establishment of the tender board, its proceedings, functions of tender board, finance committee , and council officer, regional commissioner investigation, procurement limits for accounting officer and head of department. Table 48 provides a broad overview of existing legal and regulatory framework against the standards set under this benchmark.

Table 48: Legal and regulatory framework

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

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

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

(ii) Use of competitive procurement methods

As mentioned before, PPA 2011 and corresponding regulations provides for open competition as preferred method of procurement. In the last completed financial year 2013-14, Korogwe TC procured goods and services worth TZS 1855 million. Out of these, approximately, 79% of the procurement was done through open competition and 21% through minor value procurement. Table 49 below provides information on procurement by volume and value.

Table 49: Break-up of procurement in 2013-14 by method of procurement

<i>Procurement through tender process (competitive tender, competitive quotations, restricted tenders)</i>						
Item	Goods	Works	Consultancy Services	Non-Consultancy Services	Disposal of assets by tender	Total
Number of contracts	1	9	-	15	-	25
Amount (TZS million)	17.94	1413.62	Nil	21.46	Nil	1453

Procurement under Minor Value Procurement

Number of Local Purchase Order	503	5	-	87	-	595
Amount (TZS million)	306.53	9	-	87.21	-	402.7
Total procurement (TZS Million)						1855.7

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.

Internal Auditor has noted that there are internal control weaknesses with regard to procurement. For example, Internal Auditor in the report for Q3 2013-14 and Q4 2013-14 has noted that nearly TZS 12 million and TZS 2.8 million worth of services were procured from suppliers who were not pre-qualified by the Council. Though the value of such aberrations constitutes a small fraction of the total value of procurements by the Town Council, their occurrence in every other quarter of the financial year indicates weak procurement controls.

In his Management letter for 2013-14 the CAG has also pointed out important compliance issues in procurement highlighting the laxity of the evaluation committee and the Procurement Management Unit in awarding of contract inclusive of VAT to non-registered suppliers as well as procurement without issue of local purchase order.

Although extent of justification for use of less competitive methods is not known, the CAG and internal auditor's observations on procurement processes provided below indicate weak procurement controls.

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

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

As per the PPA 2011, each procuring entity is required to publish summary of the General Procurement Notice (GPN) prepared based on the annual procurement plan. Unlike the Procurement Plan, the GPN does not reflect the budgeted amount of the procurement. The review of GPN for 2014-15 also reveals that although description of the items to be procured is provided, expected date of invitation to tender, closing date, award notification date are not provided for majority of the procurement during the financial year. This undermines the quality of information available to the relevant stakeholders. Procurement officials in Korogwe TC informed the assessment team that on 10/09/2014, the GPN was published on the Council's notice board for the financial year 2014-15.

The bidding opportunities are published in Daily Newspaper (local newspaper). Review of a sample procurement notice suggest that the Council issued the notice in nearly 21 days advance to the date of submission of bid. The contract awards are posted on the PPRA website and the council's notice

board. However, the awards are posted on the PPRA website with months of delay. For example, one of the tender for construction of new bus stand in Korogwe Town Council through national competitive bidding was awarded on 13-May-2015 but it was published in PPRA Journal on 21-July-2015.

As per the discussion with the LGA, there is a register which records information on complaints related to procurement. However, there has not been any complaints related to procurement. Therefore, this procurement information is not applicable. Overall, out of three procurement information applicable, only one procurement information was made available to the public through appropriate means.

(iv) Existence of an independent administrative procurement complaints system

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

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

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

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

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

Table 50: 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. The scoring for this dimension will be the same across all LGAs because the legal and regulatory framework is made at the central level.
(ii) Use of competitive procurement methods	D	Internal Auditor has pointed towards procurement of services from suppliers which are not pre-qualified by the LGA. CAG has also noted instances of weaknesses in procurement and contracts management. Total extent of such occurrences is not readily available and reflects lack of reliable data.
(iii) Public access to complete, reliable and timely procurement information	D	GPN are published but are incomplete. Bidding opportunities are published through appropriate means. Contract awards are published but there are months of delay. There is a procurement complaints register but there has not been any recorded complaint. Therefore, this procurement information is not relevant. Overall, out of three procurement information applicable, only one information item is available to the public through appropriate means.
(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 criteria

(ii) under this dimension. Criteria ii requires complaints to be reviewed by a body which is not involved in any capacity in procurement transactions or in the process leading to contract award decisions. However, Korogwe TC is involved both in reviewing the complaints as well as making the procurement decisions.

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

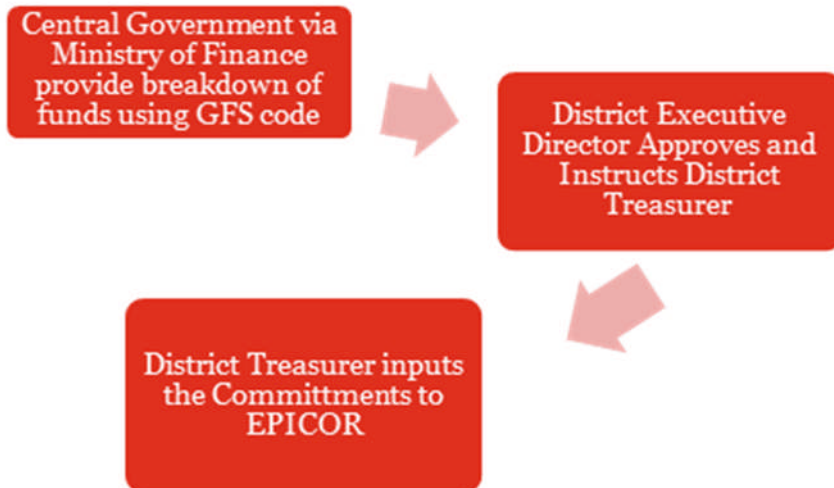
This indicator aims to assess controls relating to payments for capital expenditure, goods and services, casual labour, and discretionary staff allowances. Other controls for cash management, payroll, and procurement are covered in PI – 17 to 19.

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 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.

(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 Korogwe TC 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 has the ability to limit commitments to the available cash.



However, we came to find out during the assessment that commitments are still made outside the EPICOR system, thus creating arrears. The LGA officials had sometimes issued Local Purchase Orders (LPO's) without making any inputs to the computerized system. The Internal Auditor General has highlighted weaknesses in the internal controls and some instances are shown in the Table 51.

Table 51: Consolidated Summary of Major Audit Observations and Recommendations from Internal Audit Reports of LGA's for the Year Ended 30th June 2014

Coverage	Description
First Quarter	<ul style="list-style-type: none"> • Payments made without complete/proper supporting documents (improperly vouched expenditure) TZS 6,416,755 • Payments made against incorrect budget codes
Second Quarter	<ul style="list-style-type: none"> • Uncontrolled funds allocation leading to an over-allocation amounting to TZS 582,990,000
Third Quarter	<ul style="list-style-type: none"> • Payments made without complete/proper supporting documents (Improperly vouched expenditure) TZS 149,575,256 • Payments made in wrong account code TZS 740,000 • Miscellaneous Deposit Account funds used to finance council activities TZS 5,227,000 • Procurement from suppliers not pre-qualified by the Council; TZS 12,032,305
Fourth Quarter	<ul style="list-style-type: none"> • Overstatement of Other Charges Expenditure revenue TZS 50,251,627 • Understatement of expenditure made out of Own Source revenue TZS 53,809,439 • Payments made without complete/proper supporting documents (Improperly vouched expenditure) TZS 14,842,815 • Funds allocations in excess of budget TZS 16,330,000

- Expenditure in excess of funds allocation TZS 1,702,767 budget
- Difference noted between actual salaries received from Treasury and actual amount paid by KTC; TZS 40,016,663
- Procurement from suppliers not pre-qualified by the council TZS 2,850,000

In reality, due to the uncertainties in the availability of cash and expectation of fund flows, the present district staff allow LPOs to be raised for procurement that are outside the IFMS while some project related commitments on long term contracts may not be fully accommodated on the existing IFMS leading to manual controls over such commitments/disbursements. This creates problems in identifying arrears under the existing environment as discussed in PI-4 and the impact on commitment controls is acute across LGAs in general, with Korogwe TC being no exception.

In collecting evidence of effectiveness of the commitment controls available at Korogwe TC, 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. Hence, the general inability of the LGA to produce a statement on arrears vis-à-vis commitments made (only a statement of payables 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

Korogwe TC has no user friendly manuals to map work and document flows in financial areas. The council staff use the LAAM and the LGFM for LGAs which contain only the accounting policies but do not provide the detailed accounting procedures. Additionally, in course of our discussions it was known that staff apply other internal control procedures based on their experience.

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

Table 52: Assessment of internal control areas

Internal control areas	Present provisions prescribed for LGAs	Observation
1. Segregation of duties	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Staff in general appeared to be aware of their responsibilities. However, there was no documented procedures manual. This led to lack of step by step explanation of tasks to be accomplished while executing the control functions and the flow of documents and information integral to the processing of financial transactions.

Internal control areas	Present provisions prescribed for LGAs	Observation
	<p>internal checks.</p>	<ul style="list-style-type: none"> • Initiation of payment, preparation of payment vouchers in Epicor 9.05 system and pre-audit function were executed by one Accounting staff – Q3 2013/14 internal audit observation. • Lack of reliable control to access cash office/strong room and Epicor room contra to Order No 101 and 102 of LAFM, 2009 – Q3 2013/14 internal audit observation.
<p>2. Authorization of transactions and activities.</p>	<ul style="list-style-type: none"> • 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) 	<ul style="list-style-type: none"> • The Internal Audit reports (for 6 quarters) reviewed and the CAG one (for 2012-13) highlighted incidences of payments made without appropriate authorisations as well as procurement board approvals. • Procurement from Suppliers not pre-qualified by the council; Tsh. 12,032,305 – Q3 2013/14 internal audit observation.
<p>3. Adequacy of verification processes</p>	<ul style="list-style-type: none"> • The verification requirements for transactions and their frameworks are defined by the LAAM and LGFM 	<ul style="list-style-type: none"> • Internal audit reports have pointed out repeated instances of payments that were made without the required pre-audit, which is aimed at verifying accuracy and completeness of the transactions. • Bank Reconciliation statements not signed by Town Treasurer and Town Director – Q3 2013/14 internal audit observation. •
<p>4. Physical control of assets and records</p>	<ul style="list-style-type: none"> • Para 88 of LGFM prescribes maintenance of a Motor Vehicles register and Para 103 of a Register of Fixed Assets • Para 11 (3b) of LGFM prescribes restriction of access to records, documents relating to Councils financial 	<ul style="list-style-type: none"> • No updates to the fixed assets register for 2012-13 • Outdated Miscellaneous Deposits Register – Q2 2013/14 internal audit observation. • Improper movements of Files: staffs in KTC carry their own

Internal control areas	Present provisions prescribed for LGAs	Observation
	and other transactions.	<p>personal files especially when they have payments claims – Q3 2013-14 internal audit observation.</p> <ul style="list-style-type: none"> Absence of insurance cover and non-service of vehicle with registration No. DFP 8991 – Q3 2013-14 internal audit observation. Unsatisfactory maintenance of Imprest register
5. Internal Oversight function	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> CAG Management Letter for 2013-2014 indicated that the audit could not access the files and related documents, hence did not evaluate effectiveness of the Audit Committee for the year. However, the Management Letter for FY 2012-13 highlighted significant lapses in the Internal Audit committee for the Town Council performing its functions.
6. EPICOR system	<ul style="list-style-type: none"> The entire accounting and financial reporting system is expected to be done through EPICOR 	<ul style="list-style-type: none"> CAG’s Management Letter for FY 2013-2014 specifically highlighted that although the EPICOR systems has been installed in Korogwe TC, it still suffered from the following weaknesses: (i) cash receipts reports were not generated from the Epicor system; (ii) receipts were posted in the cashbook within Epicor system without indicating the payee names; (iii) the approved estimates carried forward and supplementary budget could not be distinguished in the Epicor system; (iv) the internal auditors had no skills on audit of Epicor and PLANLEP systems. Un-controlled allocation of funds in EPICOR 9.05 system – Q2 2013/14 internal audit observation.

(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. CAG cited reasons for significant number of errors and omissions to include: (i) data used to prepare the financial statements not being extracted from reliable sources; (ii) the council submitting the financial statements merely to meet the deadline; (iii) inadequate training on preparation of IPSAS compliant financial statements; and transfer of some IPSAS conversant staff from the Council.

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 IAF and CAG on the extent of errors, omissions and misclassification in the financial statements produced and submitted which have to undergo revision after scrutiny is a pointer to the state of the underlying compliance mechanism and degree of adherence to rules for processing of transactions. In addition, Table 52 above shows that the core set of rules are often not complied with on a routine basis. In addition, Management Letter for 2012-14 cites the fact that the village accounts are not integrated with the main Council Financial Statements.

CAG issued unqualified audit reports for both 2012-13 and 2013-14.

Table 53: Summary of rating under PI-20

Indicator	Rating	Brief explanation
PI-20 Effectiveness of internal controls for non-salary expenditure	D+	
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 results 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 on the day to day operations or on the complexities of operations in a computerized environment. In addition, findings from various reviews indicate some

Indicator	Rating	Brief explanation
iii. Degree of compliance with rules for processing and recording transactions	D	<p>compliance issues to the internal control requirements.</p> <p>The Council uses the LAAM as a reference document in processing and recording transactions, however in practice, Korogwe TC have had instances of divergences from the principles of transaction processing and recording including errors and omissions in figures included in the financial statements.</p>

PI-21 Effectiveness of internal audit

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

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

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

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

(i) Coverage and quality of the internal audit function

Internal Audit is a separate department in the Korogwe TC 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 Town Council Executive Director. Supporting the Council Internal Auditor (CIA) there was 1 more audit staff, making the total number of employees in that department become 2 with deficit of 1 staff of the country wide council requirement of 3 staff. Selection of staff for this department is done at the Central level through the Prime Minister’s Office Public Service Management, where they determine their required entry qualifications and progression criteria as

they acquire further qualifications and on the job experience. The deficit of staff was explained to be a temporary phenomenon because one audit staff was in a study leave.

While assessing Korogwe TC, we observed that the IAF was independent of the payment and accounting processes. We also confirmed that the Internal Auditors cover all activities of the council, public service delivery units and the village level governments.

The Internal audit was guided by the IA charter issued by the CIA at the central government and customised locally. The audit is also based on the IA annual plan that is risk based. The risk for each IA activity is identified based on findings from the prior year audit, external audit recommendations, special circulars on certain audit areas e.g. payroll, development projects and revenue. Through discussions with the CIA, the team was informed that the split of IA review emphasis is 75% on systems and 25% on transactions. Review of the Internal reports confirmed that the IAF performed both transaction as well as systems audit, although there was no evidence of conscious quantification of time spent between the transaction and systems audits (in the absence of time sheets). Though a specific split between system based and transaction based audit was not readily available in the audit plans, the 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 85% of the focus was on systemic issues and the balance of 15% was on transactions. Notable high systems coverage is on the quarter 1 October – 31 December 2013, where the coverage was 100% followed by 4th quarter 1 July – 30 September 2014 where coverage was at 94%. The rest quarters, the coverage of systems was significantly above 50%. Breakdown of internal audit focus per quarter is presented in Table 54.

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

Quarter	Systems – areas (%)	Transaction/compliance – areas (%)
1 July – 30 September 2013	6 (55%)	5 (45%)
1 October – 31 December 2013	8(100%)	0 (0%)
1 January – 31 March 2014	11 (85%)	2 (15%)
1 April – 30 June 2014	12 (92%)	1 (8%)
1 July – 30 September 2014	15 (94%)	1 (6%)
1 October – 31 December 2014	4 (80%)	1 (20%)
Total	56 (85%)	10 (15%)
Average	9.3 (85%)	1.7 (15%)

The CAG in its latest available Management letter for the year 2013-14 had highlighted weaknesses relating to the IAF to include (i) the unit was inadequately staffed with only two instead of three

auditors; (ii) inadequate allocation of transport resources – hindering the IAF undertaking planned field audit activities effectively; (iii) IAF lacking skills for reviewing the HRMIS and Epicor systems; (iv) internal audit charter was not customised to fit the environment of the Council because it was adopted as the whole from the charter of the Internal Auditor General; (v) lack of proper reporting showing extent to which audit approaches were met for planned audit against actual performed audit activities ; (vii) not finalising all the planned audit works within the relevant financial year – examples of work not completed included audit of development projects.

(ii) Frequency and distribution of the reports

Para 14(7) of the Financial Memorandum requires the Internal Auditor to prepare and submit two (2) types of 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. Paras 14 (6) and 14(8) of the Financial Memorandum require that after action by the Finance Committee, the Accounting Officer is required to forward a copy of the Internal Audit report to the CAG (residential auditor), Permanent Secretary for PMORALG, and RAS within 15 working days from the date of receipt from the Internal Auditor.

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

In our assessment carried out for Korogwe, we got to understand that the Council prepares quarterly reports. 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.

The IA reports were submitted to the Council Director during Full Council meeting after the 15th of the month following each quarter for all the six quarters of starting from 2013-14 to 31 December 2014. It was also brought to our attention that the report is distributed by the Council Director to other stakeholders such as IAG (very recent decision that eliminates need for sharing with PMO-RALG), CAG and RAS but we are not sure if at all this has been operationalized). The dates for report sharing with these stakeholders are listed in Table 55 below.

Table 55: Dates for distribution of Internal Audit Reports

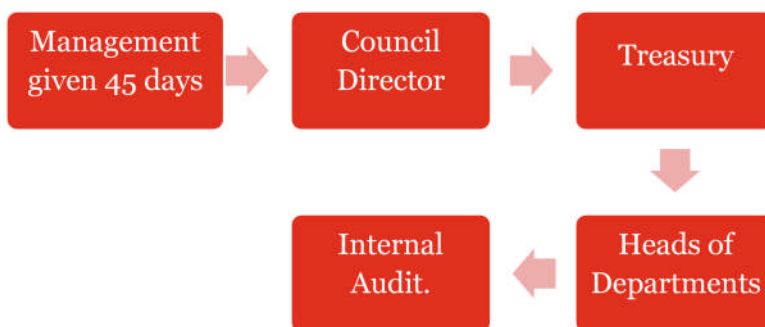
SN	Period	Date submitted to Council Director	Date Council Director forwarded to NAO, RAS and IAG
1.	1 July – 30 September 2013	28 October 2013	<ul style="list-style-type: none"> • RAS Tanga (30 October 2014) • IAG – Dar (31 October 2013)
2.	1 October – 31 December 2013	27 January 2014	<ul style="list-style-type: none"> • IAG – Dar (31 January 2014)

3.	1 January – 31 March 2014	28 April 2014	<ul style="list-style-type: none"> • RAS Tanga (28 April 2014) • NAO – 9 May 2014
4.	1 April – 30 June 2014	24 July 2014	<ul style="list-style-type: none"> • NAO/RAS Tanga (25 July 2014) •
5.	1 July – 30 September 2014	30 October 2014	<ul style="list-style-type: none"> • NAO/RAS Tanga (31 October 2014) •
6.	1 October – 31 December 2014	28 January 2015	<ul style="list-style-type: none"> • NAO/RAS – 30 January 2015

(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 were favourably forthcoming with a small proportion of outstanding recommendations at the end of each quarter. The Internal Auditor maintains dedicated record of management responses. In addition, each IA report summarise the number of recommendations addressed during the quarter by the LGA and articulates those that remained outstanding at the end of the previous quarter. Table 56 below provides a summary of the recommendations for six (6) quarters from quarter 1 of 2013/14 to quarter 2 of 2014/15 as extracted from the KTC’s IA’s recommendations’ response register.

Table 56: Status on recommendations

Quarter	No. of implemented recommendations from previous quarter	No. of recommendations still outstanding from previous quarter
1 July – 30 September 2013	16	10
1 October – 31 December 2013	9	2
1 January – 31 March 2014	2	6
1 April – 30 June 2014	10	3
1 July – 30 September 2014	11	2
1 October – 31 December 2014	10	6

On the whole the quality of the reports therefore was sufficient to provide a clear picture of the nature and extent of recommendations that are due for implementation for long periods of time. For each quarter, the IA report also highlighted outstanding recommendations from all previous quarters of the year. The consistency in spill over of recommendations on which actions were yet to be taken at the end of each quarter is indicative of general delays in acting on recommendations. The weaknesses in Audit Committee functioning noted by the CAG in his management letter for the year 13-14 are also pointers to inadequacies in the oversight structure for internal controls

Table 57: Summary rating for PI-21

Indicator	Rating	Brief Explanation
PI-21 Effectiveness of internal audit	C+	
(i) Coverage and quality of the internal audit function.	B	The IA plan did not articulate split of planned time for system and transaction audit. However, Sample audit reports showed significantly high coverage of systems audit (up to 100% with an average of 85%). The rating has also taken into consideration the CAG's recommendations from the 2013/14 audit on IAF areas needing further improvement.
(ii) Frequency and distribution of reports	B	Reports did not adhere to the fixed quarterly and annual schedules. All reports for the first 6 quarters – 4 of 2013-14 and the first 2 of 2014-15 were submitted to the Council Director after 15 th of a month after the end of the quarter. However, reports distributed to the parties outside the audited entity, i.e. CAG, IAG and RAS were all submitted on time.
(iii) Extent of management response to internal audit	C	There is a steady pattern of spill over of audit

findings	recommendations that were to be acted on. The weaknesses in the functioning of the Audit Committee pointed out by the CAG in his Management letters for 12-13 and 13-14 also endorse general inadequacies in oversight structures for report follow up. .
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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 requirement of Para 29 (2) of the Local Government Financial Memorandum, it is understood from discussions that different expenditure accountants of the Korogwe TC carry out reconciliations between bank statements for individual accounts and cash books maintained through EPICOR on a monthly basis. Korogwe TC has 7 active bank accounts. The Town Treasurer (TT) consolidates reconciliations of all the 7 accounts. The status of reconciliations at the time of our visit on 10th and 11th February 2015 is shown in **Table 58**.

Table 58: Reconciliation status

S. No.	Name of the Account	Reconciliation Completed up to	Date of Approval by DT
1	Development Account	31/12/2014	07/01/2015
2	Own Source Revenue Account	31/12/2014	07/01/2015
3	Road Fund Account	31/12/14	08/01/15
4	NWSDP Account	31/12/2014	08/01/15
5	Personal Emolument Cash Account	31/12/14	07/01/15
6	Other Charges Expenditure Account	31/12/2014	08/01/2015
7	Miscellaneous Deposit Account	31/12/2014	07/01/2015

Our review of the bank reconciliation statements for all the seven accounts of TC revealed that they were prepared at a detailed level and there were no unresolved differences between the Council's cash account and the bank statements.

A review of CAG's Management Letter on the Financial Statements of Korogwe TC for 2012-13 reveal that the Town Council did not adhere to the directives of PMO-RALG on operation of the above listed new bank accounts through EPICOR which mandated that funds from old bank accounts should be transferred to new accounts only after outstanding issues in the old accounts have been cleared. Korogwe TC did not prepare bank reconciliation statements on the date of migration to the new six accounts to substantiate correctness of the old bank balances transferred to new bank accounts. These statements, were however later prepared, shared with the CAG in January 2014 and the issue was cleared.

(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. Our discussions confirmed that staff advances for salaries were being given but these were not included in the latest audited financial statements for FY 2012-2013 and 2013-2014 because there were no outstanding balances. The norms for making personal advances to employees as prescribed by para 41 of the Financial Memorandum which only covers (i) salary advances up to a maximum of 3 month salary, recoverable over a maximum 12 instalments (ii) personal salary advance not exceeding one month pay and recoverable in the same month. Paras 5.17 and 5.18 of LAAM prescribes registers for imprest and salary advances respectively. 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.

As per the audited annual financial statements, there were no salary advances and imprest to staff at the end FY 2012-13 and 2013-2014.

Table 59: 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 7 accounts were made up to 31 st December 2014 and approved timely. In addition, there were no outstanding unreconciled items at the time of the assessment.
(ii) Regularity of Reconciliation and clearance of Suspense Accounts and advances	B	Town Council does not have any suspense accounts. Reconciliations take place annually within 2 months of the close of year. There were no recoverable salary advances and imprest

Indicator	Rating	Brief Explanation
		amounts which were outstanding at the end of the last two FYs ended on 30 th June 2013 and 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 and secondary 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 and 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.

Due to the uncertainties in fund flows and limitations of cash forecasting discussed earlier, there were no schedules of disbursements prepared for the lower lever units. The Council only transfers funds directly into the schools' bank accounts on ad-hoc 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 or on behalf of PMO-RALG; and (iii) other allowances for food, etc.

There are a total of 31 primary schools in Korogwe Town which includes 28 government schools and three (3) private schools. The Council only provides counselling, examination, inspection and sports related support to the private schools. There are 12 secondary schools in Korogwe Town out of which 9 are public and 3 are private. The Council does not provide any financial support to the private schools.

The Heads of Primary and Secondary Education Departments at the Council 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 details of transfers made to schools in 2011-12, 2012-13 and 2013-14 covering both cash and in-kind transfers from the Council as well as direct transfers from PMO-RALG.

As regards transfers related to health expenditure, the council supports 10 health facilities – 2 health centres (both owned by FBO); and 8 dispensaries (all council owned). Most of funds transferred by the Treasury to the council for primary health facilities are not disbursed to the primary health facilities; rather the Korogwe TC incurs expenditure on behalf of the primary health facilities and transfers the procured items for their consumption.

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 cash receipts against each fund transfer. The Council is also involved in approving all expenditure prior to schools incurring them. This is through countersigning the cheque as endorsement to authorise the bank to honour the payment.

The current accounting system, i.e. EPICOR, in Korogwe TC is not geared to capture in-kind resources received by individual service delivery units (specifically primary schools and primary health centers). Accordingly, there are no annual reports consolidating the non-cash resources (in-kinds) received by the service delivery units. 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 the last three years, there have not been any special surveys undertaken to collect data on resources to services delivery units. However, quarterly monitoring activities are undertaken and reports prepared for all SDUs. 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.

In 2010 a public expenditure and tracking survey was undertaken for primary and secondary education in Mainland Tanzania. Some of the issues highlighted in the study were (i) significant disparities in allocations between urban and rural councils and to primary education (ii) discretionary funding channels involving multiple ministries and disbursement channels.

Table 60: Summary of rating under PI-23

Indicator	Rating	Brief explanation
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	B	Our findings are <ul style="list-style-type: none"> • EPICOR does not capture all information at the individual service delivery level since each unit of

Indicator	Rating	Brief explanation
<p>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.</p>		<p>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.</p> <ul style="list-style-type: none"> • However, data is available at the department level on transfers both cash and kind for education and health • Quarterly and annual reports are available for health and secondary education. PETS has examined systemic issues but there is no data available on service delivery units.

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

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

In-year budget reports are prepared by Korogwe TC on a quarterly basis on Microsoft Excel using information drawn from the EPICOR system. The reports provide 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 structure of information used in preparing the report is derived 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 Town Treasurer and the Town Planning Officer, these reports are distributed to the Finance Committee in the subsequent month that follows the quarter end and are also discussed with the Full Council on a quarterly basis.

(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 IFMS which includes the accounting systems (EPICOR), in order to enhance their credibility.

Table 61: Summary of rating under PI-24

Indicator	Rating	Brief explanation
PI-24 Quality and timeliness of in-year budget reports	C+	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	In-year budget reports are generated in line with the GFS 2001 classification of annual budgets. This allows for direct comparison to the original budget. However, the expenditure information does not include details on commitments.
(ii) Timeline of the issue of reports	A	Reports by the LGA are prepared on a quarterly basis and are issued within two weeks in the subsequent month.
(iii) Quality of information	C	Although reports are prepared using information generated from the IFMS, these are prone to errors and omissions that take place during the exporting process from the EPICOR system to MS Excel sheets.

PI-25 Quality and timeliness of annual financial statements

Financial statements must be intelligible to the reader and complete by including all transactions of revenue, expenditure, assets and liabilities thereby contributing to transparency and overall quality. This indicator examines these aspects. In addition, it examines 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 LGFM²⁰ 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

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

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 Korogwe TC for the year 2012-13 and underlying systems from the perspective of completeness are given in Table 62.

Table 62: Comments on audited financial statements

Topic	Comments
Components of financial statements	<p>Based on the last financial year audited till the date of our visit it was noted the financial statements for 2013-14 include statements on: (i) financial position; (ii) financial performance; (iii) changes in net assets; (iv) cash flow. In addition, the following matters are included:</p> <ul style="list-style-type: none"> • A Statement of Responsibility signed by the Accounting Officer containing affirmations on the compliance with internal controls, integrity of the financial statements and their compliance with IPSAS and the directives issued by the Ministry • Notes to the financial statements including: <ul style="list-style-type: none"> ○ Summary of significant accounting policies ○ Statement of financial performance by function (key departments/service centres) ○ Comparison of budget and actual by nature (type of expense or income) • Comparison of budget and actual by function
Consolidation of information	<p>We noted that the accounting information reflected in the financial statements included those of all the departments of the council and its wards, operating service delivery units and villages. Since the production of final accounts is centralized, aggregation of information is undertaken by the Town 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</p>

(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. We note that for the latest audited financial year 2013-14, the financial statements were

approved by the Full Councillors meeting on 13 October 2014 and submitted for CAG audit on the extended submission date of 15 October 2014. The CAG's management letter also indicated that financial statements of Korogwe TC for the year ended on 30th of June 2014 were received by the statutory due date. It is noteworthy that financial statements submitted by Korogwe TC on 15th of October, 2013 were not accepted by the CAG at the first submission because they had significant irregularities, and therefore the Council had to resubmit the financial statements after rectification of the pointed out irregularities, on 24 January 2014. The major irregularity in the preparation of the financial statements was in respect to understatement and overstatement of figures, which amounted to TZS 6.67 billion and 449.03 million, respectively. These were equivalent to 57.6% and 3.9% of the total expenditure, respectively.

Though the focus of this analysis is on the last financial statement prepared, we are giving below a comparative table on the compliance of timelines for financial year 2012-13 as well. .

Table 63: Korogwe Town Council: Submission timelines for financial statements

Activity	2012-13	2013-14
Approval by Full Council	29.09.2013	13.10.2014
Submission to NAO	30.09.2013	13.10.2014
Re-submission to NAO	22.01.2014	09.01.2015

(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 LGAs' personnel on the accounting expectations for full IPSAS compliance. Taking into account the opinion of the CAG, it may therefore be construed that the presentation of the financial statements are based both on IPSAS as well as the stipulations of local legislation as defined in Part IV of the Local Government Finances Act.

Table 64: Summary rating for PI-25

Indicator	Rating	Brief Explanation
PI-25 Quality and timeliness of annual financial statements	B	
(i) Completeness of the financial statements	B	The Financial statements are prepared as prescribed, and the CAG issued the unqualified audit opinion with few exceptions on council not receiving back 20% worth of land rent collected by the council on the Ministry of Land, Housing and Human Settlement Development; and council entered into contract agreements and made various payments with VAT inclusive to various contractors while the contractors were not eligible to collect VAT as they were not registered.
(ii) Timeliness of submission of the financial statements	B	The financial statements for the last audited year 2013-14 were initially submitted to the external auditors within the extended period from close of the fiscal year and the corrected statements submitted by January 2015 (within 7 months of close of year).
(iii) Accounting standards used	B	Standards applied are a mix of IPSAS as well as practices prescribed by the LGFA. However, the CAG has made a common observation across all LGAs covered under this assessment on the need for training of LGA personnel on the accounting expectations for full IPSAS compliance. In view of this and other qualifications on the financial statements of the LGAs in the last three financial years, application of IPSAS standards and those prescribed by the LGFA across all statements is not ensured.

5.5. 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 65: Regulatory framework for external audit

Document	Remarks
Constitution of the United Republic of Tanzania 1997 (revised 2005)	Article 143 establishes the office of the CAG and defines its responsibilities and powers which includes the right to examine books and accounts and submit an audit report
The Local Government Finances Act 1982 (amended in 2002)	Section 48 mentions that the external auditor for a Town 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 Korogwe TC shows that in essence it is in the nature of financial audit but includes a detailed review of internal control systems and observations of the CAG on the control weaknesses which is furnished to the Council separately through a Management letter. Based on our discussions with the NAOT, we understand that a risk based approach is adopted and the specifics of the approach and methodology are 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 Korogwe TC it was noted that there has not been any Special Audits for all the years under assessment. 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) adoption of audit sampling in line with ISSAI auditing standards. Our discussions with the NAOT revealed that on an 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 Korogwe TC for 2013-14 that the audit was on a sample basis and therefore findings are confined to the evidence made available in course of his audit.

Section 18 of the Public Audit Act prescribes that the CAG shall determine which auditing standards should apply and may issue auditing standards and code of ethics as applicable. NAOT is a member of the International 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 (9) months or such longer time as the National Assembly may permit from the date of closing of the financial year. Section 34(2) further mentions that such a report has to be tabled by the Minister in the Assembly within 7 days of the next sitting counting from the day he received the report.

Although the Annual General Report on the financial statements of all LGAs for the year 2012-13 was submitted by the CAG to the President on 28th of March 2014, the CAG's audit report for Korogwe TC was received by the CAG for audit on 15th October 2014. The Council received the audit report by 5th June 2014, was tabled to the Full Council on 13th August 2015 after discussion by the Finance Committee on 6th August 2015. The dates for submission of the LGA Reports to the National Assembly for the last few years were as follows:

Table 66: Receipt of LGA reports by National Assembly

Financial years	Dates of receipt by National Assembly
2009-10	30th of March, 2011
2010-11	31st of March, 2012

2011-12	10th of April, 2013
2012-13	7th of May, 2014
2013-14	19th of May 2015

The dimension requires the time taken between the date on which last financial statements are received by the CAG and the date on which the reports are submitted to the Legislature at the local level. In case of Korogwe TC, the financial statement was submitted on 15th October 2014 and the audited financial statement was submitted to the local legislature on 13-August-2015, i.e. within twelve 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 Korogwe TC 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 Management Letter for FY 2013-2014 indicated that in Korogwe TC there was absence of adequate mechanism to implement auditor's recommendations regularly. The Report also indicated that although Korogwe TC has established an Audit Committee there was no evidence that it held meetings and reviewed the adequacy of internal controls management has put in place, understood and assessed the overall risks the entity was facing; it reviewed the entity's compliance with relevant regulations, or discussed any concerns about the entity with the external auditor. The Committee also did not review the design and implementation of internal control procedures of the entity; neither prepared nor submitted its annual report. Hence, the Audit Committee had not advised the Council on any significant accounting and auditing issues identified by the external auditors contrary to requirements for the advice provided in Order 12(5)(d) of LGFM 2009. In addition, our enquiries show that for 13-14, there were no improvements and no meetings of the Audit Committee were held for the current financial year till the time of our visit.

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 Korogwe TC, out of the 44 recommendations reported by the CAG as brought forward for FY 2012-2013, 24 related to FY2011-2012, 15 related to 2010-2011, four (4) related to 2009-2010 and one (1) related to FY 2008-2009. Furthermore, the CAG reported that 19 (43 percent) of the recommendations were fully implemented; 14 (32 percent) were under implementation; and 11 (25 percent) were not implemented. This confirms the persistence of old comments which were being

carried over to subsequent financial years. 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 67: Summary rating for PI-26

Indicator	Rating	Brief Explanation
PI-26 Scope, nature and follow-up of external audit	C+	
(i) Scope/nature of audit performed (including adherence to auditing standards)	B	The essence is the financial audit of the year end accounting statements but it also focusses on a risk based approach and significant as well as systemic issues. Audit also adheres to INTOSAI auditing standards. Performance audit per se is yet to start on a noticeable basis.
(ii) Timeliness of submission of audit reports to legislature	C	The financial statement for the financial year 2013-14 was received by the CAG on 15 th October 2014 and the audited financial statements was submitted to the Finance Committee of the Council on 06 th August 2015 and to the Full Council on 13 th August 2015, i.e. nearly 10 months.
(iii) Evidence of follow up on audit recommendations	C	Responses to management letters are made but evidence of systematic follow up is absent as evidenced by opinions provided by the CAG Management Letter for FY 2013/2014. Repeated failure of the Audit Committee to meet and the qualifications highlighting serious control issues that need to be remedied are pointers to absence of committed structures for follow up on audit findings.

PI-27 Legislative scrutiny of the annual budget law

As clarified by the supplementary guidelines for the application of the PEFA framework to sub-national governments, references to legislature in this indicator implies the LGA Full Council and not the national parliament.

(i) Scope of the Full Council's scrutiny

Korogwe Town is governed by a Town Council established under the Local Government (District Authorities) Act 1982 and the Full Council is responsible to take all decisions relating to the LGA. There is a Finance, Administration and Planning Committee that deliberates on the budget proposals and takes inputs from the District and Regional Consultative Committees. The final proposals are then forwarded to the Full Council for approval. Feedback received in course of our discussions and

from the minutes of the approval meeting shows that the nature of the discussions relates to estimates of expenditure and revenue. The assessment team was also informed that the Full Council reviews both, the budget as well as the quarterly financial reports and annual financial statements. Our review of the minutes of the Full Council's meetings revealed that the Full Council deliberates on the following issues relating to budgets:

- Budget proposals including distribution of funds by source of revenue, salary expenses, other expenses to be incurred and development programme. Discussion on budgets and its allocation are in relation to three stakeholders: the Central Government; District Council; and citizens of the council.
- Details of the revenues by different sources;
- Details on the expenses, by PE and OC;
- Details on the costs of implementation of development programmes
- Recommendations for Local Government Capacity Building Grant.

(ii) Extent to which the Full Council's 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 (i) consideration of the recurrent and development estimates of all committees, as well as (ii) presenting them to the Full Council for approval.

In Korogwe TC, 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. We note that though Section 74 of the Local Government (District Authorities) Act (LGDA) mentions six distinct Committees, Korogwe TC has combined the functions of these into 3 operating ones. The overall proceedings of meetings are conducted in line with the provisions of Part IV of LGDA. The Council has issued standing orders (dated October 2012) 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.

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

In relation to the last completed financial year 2013-14 it was noted that the budget preparation cycle had been revised and the LGAs were required to submit their MTEF proposals to MoF by February 2013 to enable completion of scrutiny by March 2013.

Clause 19(2) requires the accounting officer of the Town Council to ensure that members of the Full Council receive budget documents within seven days before the date of the meeting. It was noted that for the budget for Korogwe TC relating to the financial year 2013-14, the papers were submitted and approved by the Finance Committee on the same day.

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

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

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

The assessment team was informed that in Korogwe TC, virements are done after approval by the Finance Committee and Full Council and inputs of such virements are provided to PMO-RALG. Details of the virements carried out in the last completed financial year, i.e. 2013-14 were provided to the assessment team. Although these adjustments were between the budget lines and were not exceeding the original budget and hence as per Para 18(3) of the LGFM, Full Council approval was not required, they were tabled on 23 December 2013 and were authorised by the Full Council as evidenced by the minutes signed by the Chairman and Secretary on 24 January 2014. These minutes were later forwarded to PMORALG in Dodoma on 28 January 2014 for entry into the EPICOR system and were endorsed and entered on 11 February 2014.

Table 68: 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. For the budget year 2013-14, minutes of meetings held by the Committees for reviewing budget proposals were recorded and duly

		documented. However, the procedures do not include aspects of negotiations/modalities for deliberations and hence are not comprehensive. Also due to the operating realities of budget ceilings and unpredictability in transfers, procedures often can only be partly respected. .
iii.	Adequacy of time for the Council to provide a response to budget proposals	D As per feedback available, the budget is approved by the finance committee significantly less than one month while the Full Council approves the budget within a day. This is clearly insufficient for a meaningful debate. It is worth noting that lack of time for budget debate and hence the rating is due to rules made by the Central government level.
iv.	Rules for in year amendments to the budget without ex ante approval by Council	B Clear rules governing virements, as laid down in LAFM, are broad in nature permitting extensive administrative reallocation across spending departments of the Town Council. From the review of details on authorisation of virements carried out in 2013-14, adherence to these rules was high as the submitted adjustments for Full Council’s approval even for re-allocation between the existing budget lines and within the original budget.

PI-28 Legislative scrutiny of external audit reports

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

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

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

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

The scrutiny of the LGA accounts is therefore at two levels: at the local level by the Councils; and at the country level through the Annual Report of LGAs by the National Assembly. By the recent amendment to the Public Audit Act in 2012, the Full Council is mandated not to consider audit observations without having responses from the executive. The assessment team obtained and reviewed the minutes of the Full Council that reviewed the CAG's report for 2012-13. In the absence of minutes for review of CAG's report for years 2010-11 and 2011-12, the assessment team could not determine timeliness of audit reports by Full Council for reports received in the last three years of assessment.

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 69: Various dates for LGA reports

	2010-11	2011-12	2012-13
Month in which audit report was submitted to the Council	March 2012	June 2013	June 2014
Date of approval of audit report by Full Council	16 June 2012	26 July 2013	13 August 2014

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

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

The CAG's Management Letter for financial year 2013-14 indicates that the external audit team could not access the files and related documents for the Audit Committee for that financial year. However, the CAG's Management Letter indicated that there were still outstanding recommendations from the 2012-13 audit that were not yet responded. Because Audit Committee papers could not be examined by the auditors we are quoting from both 12-13 and 13-14. The CAG's Management Letter for financial year 2012-13 identifies ineffective performance of the audit committee as one of the significant weaknesses in Korogwe TC. The Letter specifies that the audit committee had been inactive during the financial year and it failed to execute its terms of reference. The committee, consequently, did not (i) review the external auditors' management letter, (ii) review and approve the implementation of the internal auditor plan, and (iii) prepare adequate annual report and submit to oversight bodies. The non-functioning of the audit committee creates adverse implications for the control framework, governance process and control environment within the Council. The result of all this points to "no in-depth hearings on key findings undertaken by the Full Council. CAG's Management Letter for 2012-13 states the cause of non-performance of the audit committee was due to laxity of the audit committee members in carrying out their responsibilities.

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 required frequency of the LAAC meetings to discuss the CAG audit reports has not been made available. Related to Korogwe TC, the assessment team confirmed that LAAC sessions sat on 25th January 2012 and 21st August 2013 and provided directives to the Korogwe TC management on CAG findings for years 2010-11 and 2011-12, respectively. In addition, the LAAC team made a visit to Tanga Region in general, and Korogwe TC specifically on 27 November 2013. Available feedback based on secondary studies on functioning of Parliamentary Committees in Tanzania, the post audit processes of submission to the national assembly and the results of LAAC deliberations as available through its observations and recommendations on the LGA reports shows the basic institutional structures for review do exist. However, the functioning of the Committee may be constrained by time and resources (common to many of the other Committees) and also the delays in information submission and responses²¹.

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

At the LGA level, queries and recommended actions from the CAG and the LAAC are required to be responded to by the Executive Director in terms of Para7 (f) of the 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. Furthermore, under Section 38(3) of the amendment, the CAG’s report cannot be tabled unless the responses to the report are also available at the same time. It is also noted that there is no legal timeline within which responses are to be submitted by the PMG. The relative lack of a regulatory time frame for submission of comments on findings to CAG reports, completion of discussion by the LAAC and issue of their instructions/recommendations tends to prolong the activities related to actions on audit reports.

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

- Generally there was lack of council management’s commitment to implement audit recommendations
- Recommendations are being made by the LAAC based on their review of the audited accounts
- Some matters arising from previous audit were partly attended and others were not attended at all. The CAG’s Management Letter for FY2012-13 specified that 8.3% of directives issued in the last LAAC session up to August 2013 were fully implemented while 50% were still under implementation and the remaining 41.7% remained unimplemented.

Table 70: Summary rating for PI-28

Indicator	Rating	Brief Explanation
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²¹ Parliamentary Centres’ Report on the Role of Parliamentary Committees on Budget Oversight in Tanzania, 2012.

Indicator	Rating	Brief Explanation
PI-28 Legislative scrutiny of external audit reports	B+	
(i) Timeliness of examination of audit reports by the Full Council (for reports received within the last three years)	A	Council approves the audit reports within 3 months from receipt of the reports.
(ii) Extent of hearings on key findings undertaken by the Full Council	C	The council carries out an in-depth analysis on the findings, with responsible officers as addressed in the audit opinion and emphasized on the unresolved issues. However, this dimension has been assessed with a low rating based on the severity of weaknesses observed by the CAG in the functioning of audit committee in the LGA.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	B	With 50% of recommendations under implementation and with another 8.3% already implemented, the operating environment reflects affirmative action for majority of recommendations. Hence, rated B.

5.6. 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 Korogwe TC, it is understood that there are no direct donor funding. Hence, these three indicators are not applicable to Korogwe TC.

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 governance²². 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

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

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

As part of the first three phases of PFMRP, GoT also established a number of regulatory bodies to provide oversight functions for effective implementation of PFM policies and guidelines. These included - the Tanzania Revenue Authority; the National Audit Office headed by the Controller and Auditor General; the Internal Auditor General’s Department; the National Debt Management Committee; the Public Procurement Regulatory Authority; the Public Procurement Appeals Authority; the Public Procurement Policy Unit; the Oversight Body for Parastatal and Public Enterprises; the Commission of External Finance; the Enhanced Public Accounts Committee; and the Reform Coordination Unit²³.

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

²³ The United Republic of Tanzania, President’s Office - State House, Reform Tanzania’s Public Sector, An Assessment and Future Direction, Annex I – Performance of Cross Cutting Reforms, November 2013

financial accountability. Key activities included under PFMRP IV for LGAs, inter alia, include: (i) development and installation of electronic funds transfer and information systems and i-Tax system; (ii) development of templates for enabling Regional Secretariats to monitor resource flows from LGAs to LLGs; (iii) development of web portal on PMO-RALG website for monitoring fiscal transfers from MoF to LGAs; (iv) enhanced use of IFMS at Regional Secretariats and LGA level; (v) training LGA officers on budgeting, projects coding/classification in PlanRep, IFMS, SBAS harmonised internal financial reports, auditing, report writing and PPA 2013.

6.2. Institutional Factors Supporting Reform Planning and Implementation

Government leadership and ownership

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

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

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

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

The overall responsibility for the programme management lies with the Permanent Secretary Treasury. The Deputy Permanent Secretary PFM is responsible for managing the programme on behalf of the Permanent Secretary. The Director of Planning Division, a designated Program Manager, is responsible for ensuring smooth implementation of the programme on the daily basis. The PFMRP Secretariat, headed by the Programme Coordinator, supports the Programme Manager in coordination of PFMRP IV implementation. The Secretariat, among others provides technical

support, quality assurance, ensuring linkages between PFMRP and other reform programmes; liaising and sharing information with various stakeholders; and supporting monitoring and evaluation activities.

The Joint Supervision Mission 2015²⁴ 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 manner²⁵. 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.

²⁴ Joint Supervision Mission 2015, Aide Memoire (Report)

²⁵ The United Republic of Tanzania, Ministry of Finance, Mid-Term Review for the Public Finance Management Reform Programme Phase Four, Final Report, INNOVEX, September 2015.

- *Continued dependency of grants from the Central Government:* A specific challenge faced by LGAs and LLGs in the country is their continued inability to raise adequate own source revenue resulting in their near complete dependency on grants from the Central Government. This severely limits their ability to plan development spending and undertake effective cash management during the fiscal year.
- *Delay in counterpart disbursements from Government of Tanzania for PFMRP:* The Report of the Joint Supervision Mission 2015 for PFMRP under during September – October 2015 found that partial disbursements of programme funds in 2013-14 by the Government impacted completion of programme activities. In comparison to the 64% counterpart funding released by the Government, 93% of the foreign component was disbursed to implementing components. To reinforce its commitment to reforms to the development partners as well as to the implementing agencies, GoT needs to commit and disburse funds in a timely manner so that planned activities can be implemented within the agreed time schedule.

Annexure.1 Data issues

The indicators, PI-1 and PI-2, analyze overall budgetary performance (Budget vs Actual expenditure). While PI-1 assesses it in total, PI-2 assesses it broken into the various components of expenditure.

The HLG-1 indicator analyses the planned and actual transfer of funds to LGAs and therefore supplements the analysis of the other 2 indicators by assessing how much of the budgetary performance has been impacted by deviations and timeliness of fund transfers from the Central Government to the LGAs.

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

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

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

Our conclusions based on further investigations are:

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

Annexure.2 Mapping of Key Weaknesses

SI	Topic	Key Weaknesses	Details	Key Stakeholder Responsible		
				LGA	PMO-RALG	MoF/GoT
1	Central Fund transfers	Predictability of fund transfers from the GoT is low	Uncertainties in the availability of quantum of funds, their composition and timing			
		Distortions in the formula based transfers to LLGs	Though rule based transfers exist in concept, their application gets distorted in practice due to uncertainty in fund flows			
2	Quality of Budgeting	Delay in issue of ceilings for budgeting	Delayed issue of ceilings negates the orderliness of the budgeting calendar			
		Weak linkages between budgets and forward estimates	Figures of the next 2 years are extrapolated and there are no visible linkages between such forward estimates with budgeting which is based on previous year's ceilings.			
		Absence of robustness in revenue estimation for own sources	Unrealistic revenue estimates distort cash flow expectations from own source collections			
3	Predictability & Controls in Execution	Commitment control systems are in disarray	Commitment controls affected by multiple factors as shown below:			
			a. Uncertainty in fund flows and weak revenue estimation			
			b. Cash rationing resulting in distortions in rule based transfers			
			c. Lack of reliable forecasting through MTEF			
			d. Poor publicity of information on tax liabilities and administrative procedures			
			e. Lack of clear monitoring system for tax arrears causing loss of revenue			
f. Raising of manual LPOs outside the IFMS						

SI	Topic	Key Weaknesses	Details	Key Stakeholder Responsible		
				LGA	PMO-RALG	MoF/GoT
		Limited institutional capacity	Budget execution capabilities of LGA affected by:			
			a. Vacancies in key positions			
			b. Lack of the day to day operations guide to the LGA staff			
			c. 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 consolidation of expenditure by the LLGs in annual financial statements			
			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. Delays in salary payments due to changes to personnel records not being reflected in the payroll records timely.			
			e. Weak controls in procurement processes.			
			f. Lack of timely follow up of LAAC and audit recommendations			

Annexure.3 Disclosure of the Quality Assurance Mechanism

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

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

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

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

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

2. Review of draft report

Draft report for Kasulu TC was submitted for review at different dates to the following reviewers:

- i) Viviana Klein – KfW on 26th June 2015
- ii) Vivek Misra – DFID on 26th June 2015
- iii) Denis Biseko – WB on 26th June 2015
- iv) PEFA Secretariat, Washington on 29th June 2015
- v) Government of United Republic of Tanzania on 26th June 2015

3. Review of final draft report

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

- i) Viviana Klein – KfW on 30 May 2016
- ii) Vivek Misra – DFID on 30 May 2016
- iii) Denis Biseko – World Bank on 30 May 2016
- iv) PEFA Secretariat, Washington on 30 May 2016
- v) Government of United Republic of Tanzania on 30 May 2016

4. Additional information

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

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

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



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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

Annexure.4 Scoring Methodology under the PEFA Assessment Framework

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

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

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

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

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

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

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

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

The scoring methodology across performance indicators is given in Table 71.

Table 71: 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 72.

Table 72: 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%.
(ii)	Annual variance between actual and estimated transfers of earmarked grants	Variance in provision of earmarked grants did not exceed 5 percentage points in any of the last three years
(iii)	In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within of month of start of the SN fiscal year)	A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading ⁴) in all of the last three years.

A. PFM Out-Turns: Budget Credibility

PI-1	Aggregate expenditure 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	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.

PI	Description	Criteria for “A” Rating
	three years	
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).
(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

PI	Description	Criteria for “A” Rating
		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	
(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.

PI	Description	Criteria for “A” Rating
(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 beginning of a fiscal year (average of the last two fiscal years)	The average debt collection ratio in the two most recent fiscal years was 90% or above OR the total amount of tax arrears is insignificant (i.e. less than 2% of total annual collections).
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.
(iii)	Frequency of complete accounts reconciliation between tax assessments	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes

PI	Description	Criteria for "A" Rating
	collections, arrears records and receipts by Treasury	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 for small purchases (percentage of the number of contract awards that are above the	The legal framework meets all six of the listed requirements.

PI	Description	Criteria for “A” Rating
	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 and primary health clinics across the country. The

PI	Description	Criteria for “A” Rating
		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.

PI	Description	Criteria for “A” Rating
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.
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.

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

Figure 4: Organizational Structure for MoF

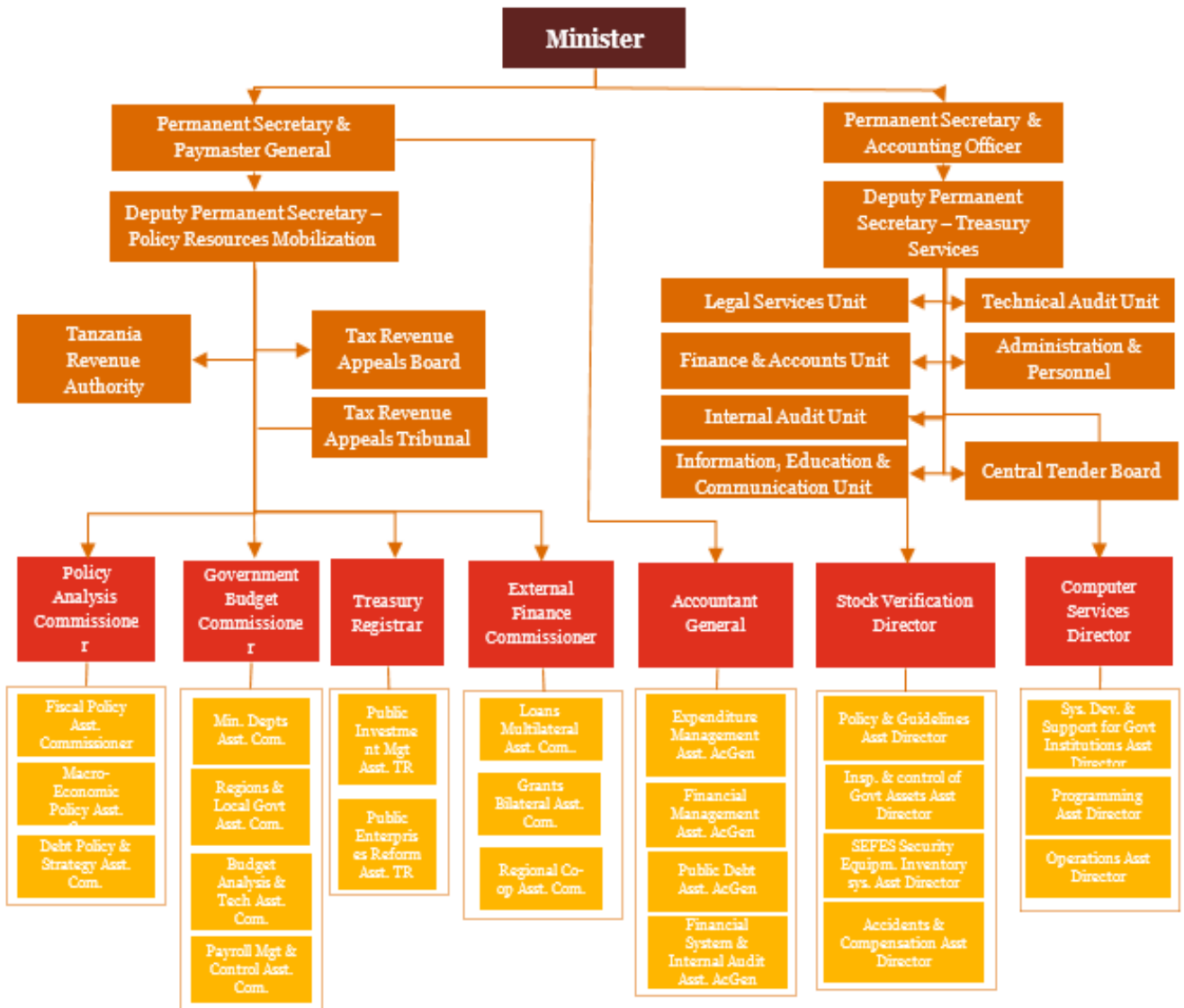
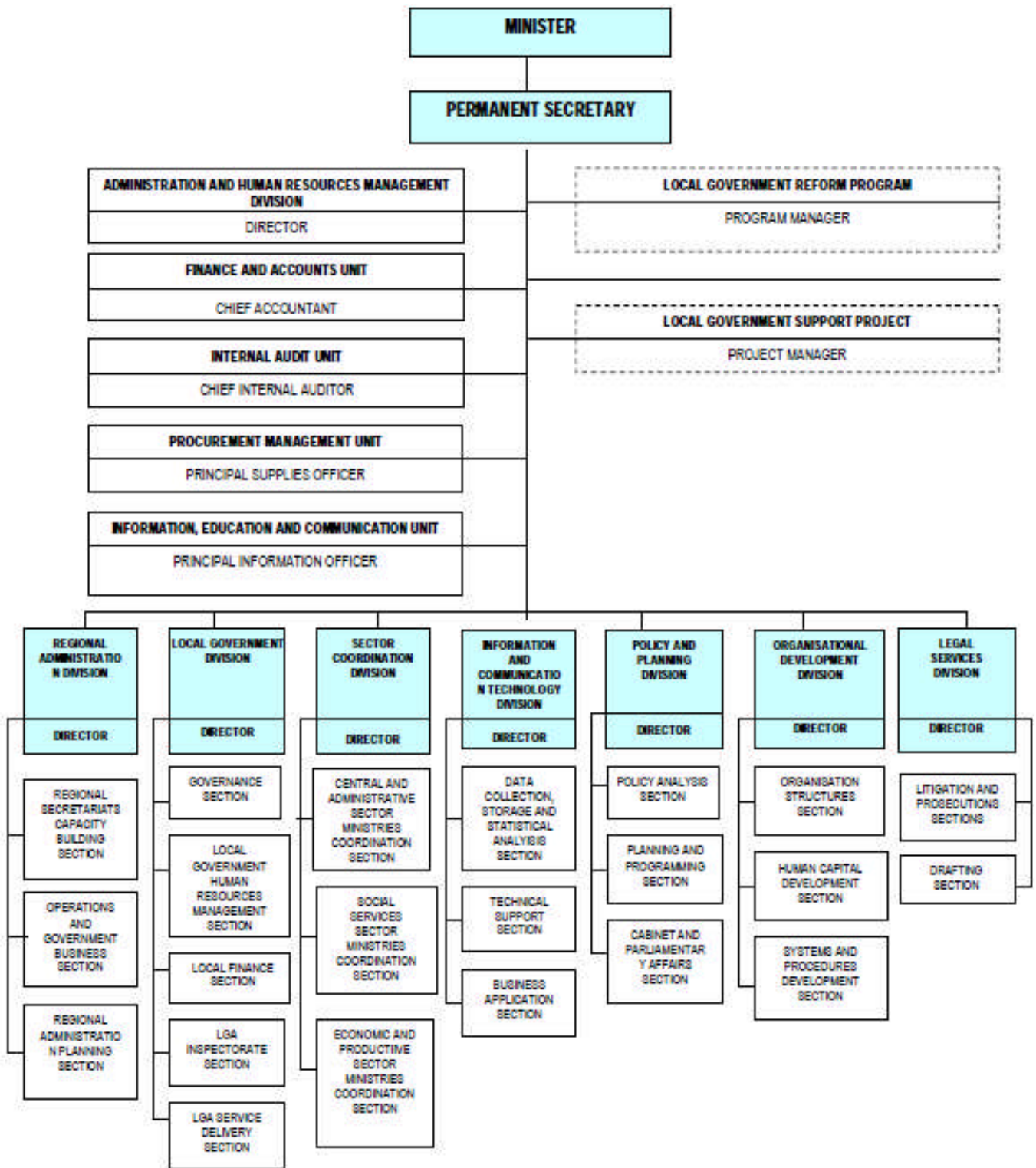


Figure 5: Organizational Structure for PMO-RALG



Annexure.6 Revenue and Expenditure Calculations

In this annexure, the process of calculation of total expenditure and revenue of the Council is provided. The “Statement of Comparison of Budget and Actual Amount - By Nature” of the Annual Financial Statement of Korogwe Town 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 departments.

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 73 and Table 74 shows example of adjustment made for the financial year 2013-14 for total expenditure and total revenue respectively.

Table 73: Adjustment for Total Expenditure²⁶, TZS million

	2011-12		2012-13		2013-14		Source	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total Expenditure as per AFS	11766	7295	11056	10210	16099	11570	Statement of comparison of budget and actual amount by nature	
<i>Deduct (-): Depreciation</i>	139	225	239	241	2654	189	Statement of comparison of budget and actual amount by nature	
<i>Add(+): Capital Expenditure</i>	2299	451	1876	708	3102	2141	Notes to Financial Statement: Capital Expenditure and Its Financing	
Adjusted Total Expenditure	13925	7520	12692	10677	16548	13523		

Table 74: Adjustment for Total Revenue, TZS million

Item	2011-12		2012-13		2013-14		Source	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total Revenue as per AFS	11852	7467	11058	10086	16099	13159	Statement of comparison of budget and actual amount by nature	
<i>Deduct(-): Recurrent Grants</i>	10780	6651	9726	9318	12480	9665	Statement of comparison of budget and actual amount by nature	
<i>Deduct(-): Amortization of capital grants</i>	221	221	240	237	2654	1643	Statement of comparison of budget and actual amount by nature	
<i>Add(+): Actual Receipts of Recurrent Grants</i>	10780	6972	9726	9005	12480	9665	Sheet "BudVsActN"	Note 10 to the Financial Statement
<i>Add(+): Actual Receipts of Capital Grants</i>	2299	523	1876	712	2801	1791	Notes to Financial Statement: Capital Expenditure and Its Financing	
Adjusted Total Revenues	13929	8090	12694	10248	16246	13307		

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

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

7.1. Screenshots for PI-1 and PI-2

In TZS 000

Table 2

Data for year = 2011

administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Administration	2,286,877.2	1,168,934	1,235,036.9	-66,103.4	66,103.4	5%
Human resource management and development	24,674.3	193,602	13,325.4	180,276.2	180,276.2	1353%
Finance	849,067.1	166,719	458,541.9	-291,822.7	291,822.7	64%
Trade and economic affairs	685,933.1	68,976	370,440.8	-301,464.8	301,464.8	81%
Livestock	201,811.3	178,486	108,989.0	69,497.3	69,497.3	64%
Agriculture	790,758.5	138,914	427,052.2	-288,138.6	288,138.6	67%
Education	6,252,034.5	3,296,820	3,376,435.4	-79,615.3	79,615.3	2%
Primary health services	1,095,986.8	675,900	591,891.9	84,008.2	84,008.2	14%
Water	156,841.5	313,114	84,702.9	228,411.5	228,411.5	270%
Works	533,007.7	849,261	287,852.9	561,408.2	561,408.2	195%
Lands	118,915.9	210,700	64,221.0	146,479.3	146,479.3	228%
Natural resources	5,400.0	-	2,916.3	-2,916.3	2,916.3	100%
Community development, gender and child	147,744.5	71,816	79,790.0	-7,974.0	7,974.0	10%
Town Planning	776,046.6	187,061				
allocated expenditure	13,925,098.9	7,520,303.5	7,101,197	232,046	2,308,116	
contingency						
total expenditure	13925098.92	7520303.503				
overall (PI-1) variance						46%
composition (PI-2) variance						33%
contingency share of budget						0%

Table 3 (in '000')

Data for year = 2012

administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Administration	1,643,193.8	1,412,935	1,382,333.5	30,601.2	30,601.2	2%
Human resource management and development	26,975.3	584,351	22,692.9	561,657.7	561,657.7	2475%
Finance	22,754.3	67,239	19,142.0	48,097.2	48,097.2	251%
Trade and economic affairs	11,910.0	43,276	10,019.3	33,256.8	33,256.8	332%
Livestock	201,811.3	191,894	169,773.3	22,120.9	22,120.9	13%
Agriculture	825,739.3	274,374	694,651.6	-420,277.3	420,277.3	61%
Education	6,120,104.4	5,567,378	5,148,525.9	418,851.9	418,851.9	8%
Primary health services	1,240,254.2	898,024	1,043,361.4	-145,337.4	145,337.4	14%
Water	1,492,176.7	453,476	1,255,290.7	-801,814.9	801,814.9	64%
Works	767,998.0	821,056	646,076.8	174,979.2	174,979.2	27%
Lands	85,808.3	142,263	72,186.1	70,077.4	70,077.4	97%
Natural resources	5,400.0	119	4,542.7	-4,423.5	4,423.5	97%
Community development, gender and child	50,098.8	124,752	42,145.5	82,606.3	82,606.3	196%
Town Planning	197,766.6	95,975				
allocated expenditure	12,691,990.8	10,677,112.4	10,510,741.7	70,395.6	2,814,101.7	
contingency						
total expenditure	12691990.84	10677112.45				
overall (PI-1) variance						16%
composition (PI-2) variance						27%
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	956,714.5	1,968,012	781817.219	1,186,194.8	1,186,194.8	152%
Human resource management and development	58,499.4	34,460	47805.11857	-13,345.1	13,345.1	28%
Finance	73,746.9	50,304	60265.2012	-9,961.6	9,961.6	17%
Trade and economic affairs	377,303.0	161,900	308328.1313	-146,427.6	146,427.6	47%
Livestock	436,174.7	110,351	356437.4502	-246,086.2	246,086.2	69%
Agriculture	825,095.1	458,025	674259.238	-216,234.0	216,234.0	32%
Education	9,547,454.0	5,546,356	7802081.233	-2,255,725.5	2,255,725.5	29%
Primary health services	1,107,775.1	778,390	905262.4334	-126,872.3	126,872.3	14%
Water	1,929,998.5	2,147,798	1577174.905	570,622.8	570,622.8	36%
Works	994,505.2	611,700	812699.4163	-200,999.9	200,999.9	25%
Lands	85,585.9	1,511,756	69939.95594	1,441,816.1	1,441,816.1	2062%
Natural resources	41,063.9	8,415	33557.0088	-25,142.4	25,142.4	75%
Community development, gender and child	113,975.6	135,300	93139.66635	42,160.8	42,160.8	45%
Town Planning	0.0	-				
allocated expenditure	16,547,891.7	13,522,767.0	13,522,767	0	6,481,589	
contingency						
total expenditure	16547891.74	13522766.98				
overall (PI-1) variance						18%
composition (PI-2) variance						48%
contingency share of budget						0%

Table 5 - Results Matrix

year	for PI-1 total exp. deviation	for PI-2 (i) composition variance	for PI-2 (ii) contingency share
2011	46.0%	32.5%	
2012	15.9%	26.8%	0.0%
2013	18.3%	47.9%	

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

D
 D
 A
 D+

Annexure.8 Performance indicators summary

Table 75: PEFA performance indicators summary

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

Performance Indicators	Description	PEFA 2015 rating
PI-7	Extent of unreported government operations	A
(i)	The level of extra budgetary expenditure (other than donor funded projects) which is reported	A
(ii)	Income/expenditure information on donor-funded projects which is included in fiscal reports	NA
PI-8	Transparency of inter-governmental fiscal relations	D
(i)	Transparent and rules -based systems in horizontal allocation among lower level governments of unconditional and conditional transfers (both budgeted and actual allocations)	D
(ii)	Timeliness of reliable information to lower level governments on their allocations for the coming year	D
(iii)	Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sector categories	D
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D
(i)	Extent of monitoring public enterprises	NA
(ii)	Extent of Central Government monitoring of sub-national governments' fiscal position	D
PI-10	Public access to key fiscal information	C
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

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

Performance Indicators	Description	PEFA 2015 rating
PI-17	Recording and management of cash balances, debt and guarantees	D
(i)	Quality of debt recording and reporting	NA
(ii)	Consolidation of government's cash balances	D
(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	D+
(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	D
PI-21	Effectiveness of internal audit	C+

Performance Indicators	Description	PEFA 2015 rating
(i)	Coverage and quality of the internal audit function	B
(ii)	Frequency and distribution of reports	B
(iii)	Extent of management response to internal findings	C
(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	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	B
(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	C
(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

Performance Indicators	Description	PEFA 2015 rating
(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	B+
(i)	Timeliness of examination of audit reports by the legislature	A
(ii)	Extent of hearings on key findings undertaken by the legislature	C
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	B
D. Donor Practices		
D-1	Predictability of Direct Budget Support	NA
(i)	Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)	NA
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	NA
(i)	Completeness and timeliness of budget estimates by donors for project support	NA
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project management	NA
D-3	Proportion of aid that is managed by use of national procedures	NA

Annexure.9 List of people met

Table 76: List of people met

S. No.	Name	Designation	Organisation
<i>At the central level</i>			
1.	Charles Mwamwaja	Deputy Commissioner for Budgets Responsible for RASs and LGAs	Ministry of Finance
2.	Jumanne A. Sagini	Permanent Secretary	PMO-RALG
3.	Awadh Sulho	Acting Director	Capacity Building & Advisory Services, PPRA
4.	Onesmo France	Procurement expert	PPRA
5.	Juma S Maguru	Acting Director	Planning Department, Ministry of Finance
6.	Mohammed A. 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.	Isaac Jeremah	Assistant Director	PMO-RALG
22.	Dennis Bandisa	Assistant Director, Governance and Service Delivery Section	PMO-RALG
23.	Linus Kakwesigambo	Financial Expert	Public Financial Management Reform Programme
24.	Aleyande Lweikila	Communication Specialist	Ministry of Finance
25.	E Macha	Financial Management Officer	Ministry of Finance
26.	Johnson Nyingi	Local Government Reform Programme II	PMO-RALG
27.	Steven Benedict	Chief Internal Auditor	RS Lindi
28.	Munguatosha Macha	Financial Management Officer, and PEFA counterpart	RS Geita
29.	Fulgence Luyagaza	Accountant	Kinondoni Municipal
30.	Waziri Ally	Accountant	PMO-RALG
<i>At the town level</i>			
31.	Marietha Kasongo	Town Executive Director	Korogwe Town Council
32.	Ndaro Samson	Town Planning Officer	Korogwe Town Council
33.	Andrew Kiyungu	Town Treasurer	Korogwe Town Council
34.	Nicao Ligombi	Economist	Korogwe Town Council
35.	Prosper Luasha	Town Internal Auditor	Korogwe Town Council
36.	Rehema Mdoe	Head of Human Resource	Korogwe Town Council
37.	Edwin Itamba	Education Officer - Primary	Korogwe Town Council
38.	Benjamin Siperto	Education Officer - Secondary	Korogwe Town Council

39.	Sosthenes Kulwa	Town Health Officer	Korogwe Town Council
40.	Andrew Enock Ndaki	Head of Procurement Management Unit	Korogwe Town Council
<i>PEFA Counterpart Team</i>			
41.	Steven Benedict	PEFA Counter Part	Lindi Regional Office
42.	Daria Bujilu	PEFA Counter Part	PMO RALG
43.	Fulgence Luyagaza	PEFA Counter Part	Kinondoni Municipal Council
44.	Ally Waziri	PEFA Counter Part	Bagamoyo District Council
45.	Munguatosha Macha	PEFA Counter Part	Geita Region
46.	Chausiku Nyanda	PEFA Counter Part	PMO RALG

Annexure.10 List of Documents Referred

1. Public Financial Management Reform Programme IV Strategy Document
2. Memorandum of Understanding between DFID (acting on behalf of Government of the United Kingdom of Great Britain and Northern Ireland) and The United Republic of Tanzania for Public Financial Management Reform Programme Grants
3. Terms of Reference for Public Expenditure and Financial Accountability Assessment of 12 LGAs in Tanzania
4. Local Government Financial Memorandum
5. Local Government Accounting Manual
6. Local Government Finance Act
7. Local Government (Town Authorities) Act 2002
8. Local Government (Urban Authorities Act) 2002
9. Tanzania at a glance, 2012, National Bureau of Statistics, Tanzania
10. The Constitution of United Republic of Tanzania
11. Public Procurement Act, 2011
12. Local Government Authorities Tender Board (Establishment & Proceedings) Regulations (2014)
13. Public Procurement Regulations (2013)
14. Government Loans, Grants and Guarantees Act (1974)
15. Public Finance Act (2001)
16. Guidelines For The Preparation Of Annual Plan And Budget For 2014/15 In The Implementation Of The Five Year Development Plan 2011/12-2015/16 (Including Annexure 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 Korogwe TC for 2012-13
23. MTEF of Korogwe TC for 2014-17
24. Quarterly Internal Audit Reports for Korogwe TC, 2013-14 and 2014-15
25. Budget guidelines issued by Ministry of Finance for 2014-15

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

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