Are Local Governments Managing Money Well?

Findings from Recent Audit Reports

Why this Leaflet?
The Government is currently implementing the Local Government Reform Programme, which aims to reduce poverty by improving service delivery and strengthening governance at the district level. This program puts more power (and money) in the hands of Local Government Authorities (LGAs).

LGAs are funded by grants received from the central government, as well as local revenue (taxes paid by people living in the district). This money is meant to pay for services administered at the local level, such as basic education. The Controller and Auditor General (CAG) inspects the accounts of all Government offices on a yearly basis and records instances where the accounts do not give satisfactory explanation of how the money has been spent. The CAG compiles a report for each of the LGAs. These reports are then tabled in the Local Authorities Accounts Committee (LAAC) for deliberation and scrutiny. The LAAC issues recommendations for follow up. This report is then meant to be discussed in open sessions of Parliament and forwarded to the Prime Minister’s Office – Regional Administration and Local Government for further action.

Implementation of this process has been somewhat weak. Audit reports have not been fully debated in Parliament. Significantly there appears to have been little action taken on the audit findings. This may now be changing. Soon after his election, President Kikwete announced that the CAG would be given legal powers to follow up on negative findings. He has also said that public servants found guilty of embezzlement should be handed over to the police to be prosecuted rather than go before administrative tribunals that impose more lenient “disciplinary measures.”

This leaflet presents the findings of CAG Annual Reports for LGAs for the three most recent financial years for which data is publicly available (2002/03, 2003/04, and 2004/05). It highlights recent key findings, and compares the findings of the different districts. The purpose is to make this information more broadly available to the public so as to promote understanding, debate and public action.

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1 All data is available for download on REPOA’s Tanzania Governance Noticeboard, which can be accessed at www.repoa.or.tz/ign/index.php. Care has been taken to ensure the accuracy of this data, but the producers of this leaflet are not responsible for typographical or other errors at source. Information herein should be treated with caution and checked against the original reports. For more information and explanation readers should consult the CAG office, P.O. Box 9080, Dar es Salaam, or via e-mail at ocag@nao.or.tz.
Understanding the Data
The table overleaf presents three indicators from the CAG reports:

- First, the table shows the sum of selected items of questioned expenditure\(^2\) for each LGA for the most recent year. The LGAs are ranked from best to worst performer by this indicator.

- Next, the table also shows questioned expenditure as a percentage of the discretionary budget\(^3\), which helps us compare LGAs with budgets of different sizes.

- Finally, the table shows the auditor’s opinion of each LGA. The auditor’s opinion is a summary evaluation that takes into account all factors considered in the audit report. The auditor’s opinions can fall into one of the following three categories: “Clean,” “Qualified,” or “Adverse.” (See box)

For an LGA to be considered fully accountable for the money it spends, it should have low to zero questioned expenditure, and a “Clean” auditor’s opinion.

Where Did Fifteen Billion Shillings Go?
In 2004/05, the LGAs were unable to account for nearly 15 billion shillings, or 10 percent of their discretionary budgets. Almost one quarter of that money was due to the questioned expenditure of just one LGA, Njombe (which had questioned expenditure of Tsh 3.9 billion in 2004/05). This included a payment of over Tsh 2.2 billion to Tanesco, which the LGA was not able to account for.

In addition, several other LGAs had significant amounts of questioned expenditure. Table 1 shows the five LGAs with the highest amount of questioned expenditure in 2004/05.

The total amount of questioned expenditure in 2004/05 increased from about Tsh 12 billion in the previous two years. However, total LGA budgets also increased significantly, so the proportion of questioned expenditure decreased. Still, the overall figure is too high.

Only 9 LGAs out of 115 examined reported zero questioned expenditure for 2004/05, five of which in Mbeya region. On the other hand, 31 LGAs had questioned expenditure of over Tsh 100 million each.

Fewer Adverse Opinions
Despite the fact that the LGAs have continued to register significant amounts of questioned expenditure, they are doing better in terms of auditors’ opinions. As shown in Figure 1, over half of the LGAs (61 out of 115) received “Clean” opinions in 2004/05, while 50 received “Qualified” opinions and just four received “Adverse” opinions. This is a significant improvement from the previous years.

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\(^2\) “Questioned expenditure” refers to expenditure about which the auditor is not satisfied that the correct procedures have been followed, or for which there is insufficient or missing documentation to document that the money has been spent for the correct purpose and that the goods or services have been delivered. The items of questioned expenditure that have been included are “unauthorised expenditure”, “unvouched expenditure”, “improperly vouched expenditure”, and “irregular payments”.

\(^3\) The discretionary budget is defined here to mean the non-salary budget. It is the sum of total recurrent and development expenditure plus own source revenue minus personnel emoluments (salaries). The discretionary budget gives a better sense of how much money each LGA actually has control over.
In recent years there is more sensitivity around “Adverse” opinions, since these affect eligibility for the Local Government Capital Development Grant.

There does not appear to be a significant correlation between auditor’s opinions and questioned expenditure. For instance, in 2004/05, Mkuranga D.C. (Pwani) had questioned expenditure of Tsh 275 million, or over one-third of its discretionary budget, but still received a “Clean” report. On the other hand, Mtwara T.C. (Mtwara) had much lower questioned expenditure of Tsh 72 million, or 7 percent of its discretionary budget, but received an “Adverse” opinion.

There is wide variation across the LGAs, with some of them registering improvements in terms of financial accountability, others showing declines, and yet others remaining stagnant. For instance, Njombe (Iringa) had questioned expenditure jump from Tsh 69 million to Tsh 3.9 billion between 2003/04 and 2004/05. The auditor’s opinion of this LGA also changed, from “Clean” to “Qualified.” On the other hand, Ileje (Mbeya) had questioned expenditure drop from Tsh 21 million to zero, and its auditor’s opinion changed from “Adverse” to “Clean.” Table 2 shows the districts that received clean reports in all three years. Mtwara D.C. (Mtwara), on the other hand, had a significant amount of questioned expenditure in each of the three years examined and received an “Adverse” opinion in all three years.

**Urban vs. Rural LGAs**

Urban districts generally performed better in terms of questioned expenditure, though not necessarily in terms of auditor’s opinions. Urban LGAs reported questioned expenditure of 4 percent for 2004/05, whereas rural LGAs reported 12 percent. These trends were similar in prior years.

Figures 2 and 3 show the breakdown of auditor’s opinions for rural and urban LGAs. In 2002/03 and 2003/04 urban LGAs tended to receive more favorable auditor’s opinions than did rural LGAs. However in 2004/05, the distribution of auditor’s opinions changed significantly. Many more rural LGAs received “Clean” opinions, whereas relatively fewer urban LGAs did.
**Excerpts from the 2004/05 Reports for LGAs**

<table>
<thead>
<tr>
<th>District</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Njombe D.C. (Iringa)</td>
<td>Tsh 3.2 billion worth of “fixed assets,” including Tsh 3.0 billion for buildings, and Tsh 47 million for a “heavy machine,” and Tsh 172 million for “motor vehicles,” implying that this “could indicate non-existence of the assets and laxity in control over recording of Council’s assets.”</td>
</tr>
<tr>
<td>In Nzega D.C. (Tabora)</td>
<td>Tsh 225 million was paid for development projects that could not be supported by contract documents, implying that the “work executed and cost thereof could not be authenticated.”</td>
</tr>
<tr>
<td>Musoma D.C. (Mara)</td>
<td>Could not account for Tsh 3.3 million in unclaimed salaries, implying that “the salaries might be misappropriated, and hence loss of Public funds.”</td>
</tr>
<tr>
<td>In Mtwara D.C. (Mtwara)</td>
<td>The transactions of procuring fumigation service, hire of motor vehicle, purchase of receipt books and purchase of hospital equipments did not comply with procurement regulations.</td>
</tr>
<tr>
<td>Mtwara</td>
<td>Was also unable to produce delivery notes from the Cashewnut Board of Tanzania to account for the purchase of Tsh 49.7 million worth of cashewnuts (or 1,663 Tonnes worth of nuts).</td>
</tr>
<tr>
<td>Kigoma D.C. (Kigoma)</td>
<td>Purchased equipment worth Tsh 41.6 million for construction of water scheme at Kazuramimba but “no progress report was produced to substantiate implementation of the project.”</td>
</tr>
</tbody>
</table>

**What You Can Do**

You have the information. Now it is up to you to make a difference. Use of public funds will improve when people take interest and follow up. Here is a short list of actions you can take.

- Read this leaflet and share it with others. Discuss and debate.
- Put up this poster in a public place
- Learn more! You can download the full audit reports for each district from the Tanzania Governance Notice board (www.repoa.or.tz/tgn/index.php)
- Advocate for audit reports to be posted on district and ward notice boards
- Attend the next full council meeting in your district, and ask your councillor to talk about recent audit findings
- Write a letter to the editor
- Send your comments to the Government website for the wananchi at www.maoni.org

**Tanzania Governance Noticeboard at REPOA**

The information in this leaflet is taken from the Tanzania Governance Noticeboard (TGN) database on the REPOA website. The TGN is a USAID supported project, implemented by REPOA that collates and presents information that is useful for the strengthening of accountability, transparency and integrity in Tanzania. The source of the audit data is the reports of the Controller and Auditor General. Research on Poverty Alleviation (REPOA) is an independent, non-profit making, Tanzanian NGO, with the mandate to undertake and facilitate research in the area of poverty and related policy issues.
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<table>
<thead>
<tr>
<th>District</th>
<th>Region</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
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</thead>
<tbody>
<tr>
<td>Nairobi C.C.</td>
<td>Nairobi</td>
<td>7,650</td>
<td>7,350</td>
<td>7,120</td>
<td>7,050</td>
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<td>Nakuru C.C.</td>
<td>Nakuru</td>
<td>7,850</td>
<td>7,850</td>
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<tr>
<td>Mombasa C.C.</td>
<td>Mombasa</td>
<td>7,900</td>
<td>7,900</td>
<td>7,900</td>
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<tr>
<td>Kisumu</td>
<td>Kisumu</td>
<td>7,950</td>
<td>7,950</td>
<td>7,950</td>
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</tr>
<tr>
<td>Eldoret</td>
<td>Eldoret</td>
<td>7,950</td>
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</tr>
</tbody>
</table>

**Questioned Expenditure as percentage of Discretionary Budget, 2004/05**

CAG has arranged the mode of audit certification (auditor's opinions) into three categories:

- **Adverse:** The accounts do not give a true picture of the actual situation.
- **Qualified:** There is a problem with some parts of the accounts.
- **Clean:** Accounts are fully satisfactory.

**Guide to the Auditor's Opinions**

The Auditor's Opinion by district, 2004/05:

- **Adverse:**
  - Nairobi C.C.
  - Nakuru C.C.
  - Mombasa C.C.
  - Kisumu
  - Eldoret
- **Qualified:**
  - Nairobi C.C.
  - Nakuru C.C.
  - Mombasa C.C.
  - Kisumu
  - Eldoret
- **Clean:**
  - Nairobi C.C.
  - Nakuru C.C.
  - Mombasa C.C.
  - Kisumu
  - Eldoret

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  - Nakuru C.C.
  - Mombasa C.C.
  - Kisumu
  - Eldoret
- **Qualified:**
  - Nairobi C.C.
  - Nakuru C.C.
  - Mombasa C.C.
  - Kisumu
  - Eldoret
- **Clean:**
  - Nairobi C.C.
  - Nakuru C.C.
  - Mombasa C.C.
  - Kisumu
  - Eldoret