

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC99543

<b>Project Name</b>	Mainland and Zanzibar National Audit Offices Capacity Building Project
<b>Region</b>	AFRICA
<b>Country</b>	Tanzania
<b>Lending Instrument</b>	IPF
<b>Project ID</b>	P162538
<b>Borrower Name</b>	Doto James
<b>Implementing Agency</b>	National Audit Office- Tanzania Mainland, Office of the Controller and Auditor General- Zanzibar
<b>Environment Category</b>	C - Not Required
<b>Date PID Prepared</b>	22-Nov-2016
<b>Estimated Date of Approval</b>	04-Jan-2017
<b>Initiation Note Review Decision</b>	The review did authorize the preparation to continue

**I. Introduction and Context**  
**Country Context**

For over two decades, Tanzania has witnessed strong and stable economic growth that has marginally translated into poverty reduction. After a long period of stagnation, poverty has declined to 28.2 percent in 2011/12 from 34.3 percent in 2007, while extreme poverty has declined to 9.8 percent, two percentage points lower than 2007. The inequality gap between urban and rural population is widening mostly due to poor access to services and progress towards Millennium Development Goals (MDGs) has been slow, service delivery outcomes are unsatisfactory, and Tanzania was unable to meet four out of seven of the MDGs by 2015. The country falls short of universal completion of primary school, and maternal mortality and access to safe water are lower now than they were in 1990. The decline in key service delivery indicators and citizen dissatisfaction with public services reflect the growing frustration with limited progress, while trust in public institutions seems to be eroding. As a result, there has been growing pressure from citizens on Government to improve efficiency in the use of public resources and accountability.

On the other hand, the country's abundant natural resources have led to a growth in mining activities making Tanzania one of the top gold producers in Africa and recent discoveries of natural gas place it as a potential major exporter in the coming years. The mining sector currently accounts for about 5 percent of Tanzania's gross domestic product and a third of exports and gold accounts for more than 90 percent of the total mineral export revenues. The mining sector in Tanzania, is prone to corruption. Most corruption investigations by the Prevention and Combating of Corruption Bureau (PCCB) have been into government involvement in the mining and energy sectors. Many cases of corruption were filed in the past and corruption scandal rocked the Tanzanian government in 2014. The lack of effective oversight mechanisms has been as a major concern. Improve

oversight of extractive sector activities through better collaboration between NAOT and PCCB is therefore critical to augment supply of services and increase impact of the extractive industry revenues on the Citizens. While the Supreme Audit Institutions are being considered as a key player in the oversight framework, they generally lack the capacity to fulfil such mandate.

The new Government administration that was elected in October 2015 has undertaken a major drive to improve public revenues and control expenditure at the same time enhancing discipline in the use of public resources and fighting corruption. Its determination to address weaknesses in performance and accountability in the public service requires strong institutions of accountability. The administration's effort will demand an increased role of oversight institutions including SAIs to address these shortfalls in governance and to meet the citizens' expectations for improved accountability.

## **Sectoral and Institutional Context**

### **Public Financial Management Context**

With support from Development Partners, the Government has implemented the Public Financial Management Reform Program (PFMRP) for the past two decades that has enabled significant progress in strengthening PFM systems largely on the mainland with limited progress in Zanzibar (that has been supported under PFMRP III and IV). Nevertheless, the 2013 Public Expenditure and Financial Accountability report (PEFA) highlights two major weaknesses of Tanzania's PFM system, one of which is the weakness in non-salary internal control systems that lead to a build-up of payment arrears that eventually have to be paid off at the expense of other public service provision. The other relates to fiscal risk to the budget posed by some public enterprises, which goes beyond the scope of the PFMRP. In addition to the weaknesses identified in the PEFA, there is weak predictability in the availability of funds to spending units for commitment of expenditure. The NAOs have been at the forefront in identifying these weaknesses as published in the annual audit reports, but detailed follow-up from Government has been weak.

Given the country's context highlighted above, the SAIs need to strengthen capacity in their oversight role to improve transparency and accountability. More specifically by:

- (i) Ensuring appropriate reporting and accounting by Government entities of extractive industry revenues, that invariably involve complex transactions with multinational companies;
- (ii) Strengthening capacity to carry out specialized audits.
- (iii) Improving communication and greater collaboration with Citizens.

In addition, because of recent rampant corruption cases in the government institutions, and discoveries of gas and oil reserves, there is increasing pressure on auditors to undertake complex audits such as value for money audits, social audits, and forensic audits. The NAOs have limited skills capacity in these areas. The project will finance activities aiming at developing professional relationship of the NAOTs with PCCB as well the media and Citizens. In addition the project will provide some equipment and software to integrate the data analytics capabilities into a comprehensive risk assessment and audit management, and various training to the auditors in order to perform these audits in accordance with the highest standards.

### **Supreme Audit Institutional (SAI) Context**

NAOT and OCAGZ are independently established offices led by Controller and Auditor Generals. The Controller and Auditor Generals are assisted by Deputy Auditor Generals and Assistant Auditor Generals in each office. NAOT is the Supreme Audit Institution in Tanzania established under Article 143 of the Constitution of the United Republic of Tanzania. The powers and mandate of CAG are stipulated in the Public Audit Act, 2008. As for OCAGZ, its mandate is enshrined in Article 112 of the Constitution of Zanzibar of 1984 (10th amendment of 2010). Both offices have independent mandate to carry both financial and performance audits in the Government and its agencies as well as for donor funded projects. The current PFMRP IV program implemented in parallel with long term support from Sweden ( s National Audit Office has supported the mainland National Audit Office of Tanzania (NAOT) to undergo an extensive transformation process enabling it to progress from level 1 to 3 (out of 4) in the African Organization of English Speaking Supreme Audit Institutions (AFROSAI-E) Capacity Building Framework and in addition become a member of the prestigious UN Board of Auditors. The Swedish support ended in December 2015, while the PFMRP IV support is continuing. The latter is focused on five key result areas with senior leads indicated in bracket; Revenue Management (Commissioner for Policy Analysis), Planning and Budgeting (Commissioner for Budget), Budget execution, transparency and accountability (Accountant General), Budget Control and Oversight (Internal Auditor General), Cross cutting issues including change management and program management (Director for Planning Division). Refer to Key priority areas as per Pages 38 to 45 of PFMRP IV document)

NAOT has prepared new strategic plans for the year 2016/2017 - 2020/2021 which is about to be approved. On the other hand OCAGZ has on ongoing strategic plan for the period 2014-2017. Under both strategic plans there has been strong emphasis to modernize audit techniques, skills on more focused and specialized areas such as extractive industries, social audits, forensic audits, performance audits and tools through use of information technology including e-audit software. NAOs aims to adopt IT based business plans that go beyond traditional audit planning and should align the need with the country ( s overall digitalization program ongoing in accounting & reporting, payroll management and budgeting among other government operations.

With increase in discovery of natural resources in the country, there is urgent demand for capacity development in key areas such as financial compliance, performance audit, and governance set up of the industry, legal framework, contract and agreements, complex tax systems, royalties, valuation of natural resources and assessing environmental risks. NAOs lack all these skills. NAOs will need urgent support to develop such skills and expertise in the extractive industry field and the proposed grant will help build the capacity of NAO to enhance EITI.

NAOs are one of the key institutions engaged in the evaluation of public performance, greater collaboration between NAO and other stakeholders both inside and outside the public oversight system is paramount in enhancing government accountability and governance systems. NAOs can strengthen the impact of audit reports by building ongoing relationships with other key stakeholders like the media, CSOs, citizens, public accounts committees (of parliament and house of representatives) , internal audit office and PCCB who can support the SAI ( s work including monitoring implementation of auditor ( s recommendations. SAIs can directly benefit from cooperation with the stakeholders to improve the impact of their own work and the overall quality of institutional oversight, thereby also empowering them-selves. The project will also support development of a communication tool and framework that will enhance greater collaboration with

some key stakeholders mentioned above.

Overall the proposed project aims at contributing to the effective functioning of the two Tanzania National Audit Offices and the strengthening of relationships between the SAIs and their stakeholders.

### **Relationship to CAS/CPS/CPF**

The Tanzania Country Partnership Strategy 2011-2015 comes to an end in June 2016. Consultations are underway for a new Country Partnership Strategy (CPS) and a Strategic Country Diagnostic (SCD) draft paper has been prepared for approval by the Board. The SCD proposes three building blocks for identifying and analysing constraints to poverty reduction and shared prosperity, namely: (i) inclusive policies that incorporate economic empowerment of the poor; (ii) growth policies that will accelerate economic growth; and (iii) institution building policies that aim to establish effective and efficient public and private institutions. All the three building blocks are mutually reinforcing. Support to the SAIs is well aligned to the third building block of the SCD in terms of strengthening oversight institutions that promote improved efficiency and accountability of the Government in the use of public resources. The proposed project is also backed with a formal request from NAOs to the World Bank received in October 2015. The request seeks support to implement action plans in key strategic areas namely: Public Audit Services improved by Tanzania National Audit Offices, training a cadre of NAOs staff in specialized areas and capacity to carry out operations improved and strengthen communication with stakeholders such as the parliamentarians, the PCCB, civil societies and the citizens.

## **II. Project Development Objective(s)**

### **Proposed Development Objective(s)**

The Project Development Objective (PDO) is to improve the quality and efficiency of public sector audit in line with the standards endorsed by the International Organization of Supreme Audit Institutions (INTOSAI), thereby strengthening oversight over the management of public resources in Tanzania.

### **Key Results**

Key outputs are:

- (i) Core team of Mainland and Zanzibar auditors trained in specialized audit including extractive industry revenues mobilization and management.
- (ii) Reports on specialized audits carried out by each NAO especially extractive industries audit and performance audit.
- (iii) Bi-annual reports on the collaboration between NAOs and key stakeholders such as the PCCB and the Citizens
- (iv) Report on the first year implementation of the communication strategy aiming to strengthen the relationship of the SAIs, the civil society, media, PCCB, citizens and parliament (SAI PFM indicator 21 and 22 on relations with external stakeholders).

The outcomes of the projects are:

- (i) Increased capacity of NAOs auditors to carry out and deliver timely specialized audit such as value for money, extractive industries audit, forensic audit; etc.
- (ii) Improved collaboration between the SAIs and the key stakeholders including citizens, media, PCCB, and civil society organizations;

The key indicators related to the results above are outlined below;

- (i) The percentage of NAO staff with adequate training and knowledge to carry out specialized audits is increased by National Audit Office
- (ii) The percentage of Audits that meet INTOSAI Standards in terms of Performance Audit Results (SAI PFM Indicator 3) and Performance Audit Procedures (SAI PFM 13) is increased by NAO by 10%.
- (iii) Improved communication and collaboration between NAO with the PAC, media, PCCB, the citizens and the Civil Societies (CSOs) - SAI PFM 22. This will be measured by increased interactions/dealings between NAOs and its stakeholders via survey, timeliness and the extent of communication of audit results to the public using various means such as media, website, publications, notice boards, and increased number of Public Financial Management Forums. It is expected with time that the collaboration with the Citizens will result in an improved risk assessment and execution of audit engagement.

### III. Preliminary Description

#### Concept Description

#### IV. Safeguard Policies that Might Apply

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>	<b>TBD</b>
Environmental Assessment OP/BP 4.01		<b>x</b>	
Natural Habitats OP/BP 4.04		<b>x</b>	
Forests OP/BP 4.36		<b>x</b>	
Pest Management OP 4.09		<b>x</b>	
Physical Cultural Resources OP/BP 4.11		<b>x</b>	
Indigenous Peoples OP/BP 4.10		<b>x</b>	
Involuntary Resettlement OP/BP 4.12		<b>x</b>	
Safety of Dams OP/BP 4.37		<b>x</b>	

Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

## V. Financing (in USD Million)

Total Project Cost:	0.6	Total Bank Financing:	0
Financing Gap:	0		
<b>Financing Source</b>			<b>Amount</b>
Swiss State Secretariat for Economic Affairs			0.6

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