**THE UNITED REPUBLIC OF TANZANIA**
**NATIONAL AUDIT OFFICE**

**PERFORMANCE AUDIT REPORT ON THE MANAGEMENT OF REVENUE COLLECTION FROM TELECOMMUNICATION SERVICE PROVIDERS**

**AS IMPLEMENTED BY**

**TANZANIA COMMUNICATION REGULATORY AUTHORITY, THE TANZANIA REVENUE AUTHORITY, AND THE MINISTRY OF WORKS, TRANSPORTATION AND COMMUNICATIONS**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL OF THE UNITED REPUBLIC OF TANZANIA**

**March 2020**

# THE UNITED REPUBLIC OF TANZANIA
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# ABBREVIATION AND ACRONYMS

| | |
|---|---|
| CLF | Converged Licensing Framework |
| CoICT | College of Information and Communication Technologies |
| DIT | Dar es Salaam Institute of Technology |
| DTT | Digital Terrestrial Television |
| EPOCA | The Electronic and Postal communications Act |
| eRCS | Electronic Revenue Collection System |
| ICT | Information Communication Technology |
| LGAs | Local Government Authorities |
| LTD | Large Taxpayers Department |
| MDAs | Ministries, Departments and Agencies |
| MNO | Mobile Network Operators |
| MWTC | Ministry of Works, Transport and Communications |
| NICTBB | National Information and Communication Technologies Broadband Backbone |
| OTT | Over The Top |
| Tbps | Terabyte per second |
| TCRA | Tanzania Telecommunications Regulatory Authority |
| TRA | Tanzania revenue Authority |
| TRAS | Telecommunications Revenue Assurance System |
| TSP | Telecommunication Service provider |
| TTCL | Tanzania Telecommunications Corporations Limited |
| TTMS | Tele-traffic Monitoring System |
| TZS | Tanzania Shillings |

## DEFINITION OF TERMS

| Key Term | Definition | Source of Definition |
|---|---|---|
| Revenue | Means taxes, duties, fees, fines or other monies imposed by or collected under the laws or the specified provisions of the laws set out in the First Schedule; | The Tanzania Revenue Authority Act Revised Edition 2006 (section 3) |
| Telecommunications services | These are services for electronic transmission, conveyance, or routing of voice, data, audio, video, or any other information or signals to a point, or between or among points. | The Value Added Tax Act, 2014 section 2(1) |
| Telecommunications Service Provider | Means a person licensed by the Tanzania Communications Regulatory Authority (TCRA) or an equivalent foreign body to provide telecommunication services; | The Value Added Tax Act, 2014 section 2(1) |
| Over The Top Applications (OTT) | Means services that ride on top of an Internet connection but have no relationship with the provider of the Internet connection | TCRA Strategic Plan 2016/17 – 2020/21 |
| Revenue assurance | means systems and processes in place to ensure that revenues for licensed service providers are declared with accuracy, completeness, and integrity; | Electronic and Postal Communications (Tele-Traffic) Regulations, 2018 |
| Telecommunications traffic | means a profile of signs, signals, | Electronic and Postal Communications (Tele-Traffic) Regulation, 2018 |
| international incoming tele- traffic | means all successful and billed international incoming | Electronic and Postal |

| Key Term | Definition | Source of Definition |
|---|---|---|
| | tele-traffic originating outside Tanzania and terminating in national fixed and mobile telecommunications networks in Tanzania; | Communications (Tele-Traffic) Regulation, 2018 |

*Source: Analysis of Criteria from Legislations and Regulation Policies, Guidelines, Manuals, Plans and Best Practices sources.*

Section 28 of the Public Audit Act No. 11 of 2008, authorizes the Controller and Auditor General to carry out Performance Audit (Value-for-Money Audit) for the purposes of establishing economy, efficiency and effectiveness of any expenditure or use of resources in Ministries, Independent Departments and Executive Agencies (MDAs), Local Government Authorities (LGAs) and Public Authorities and other Bodies which involves enquiring, examining, investigating and reporting, as deemed necessary under the circumstances.

I have the honour to submit the Performance Audit Report on the Management of Revenue Collection from Telecommunication Service Providers in Tanzania to His Excellency, the President of the United Republic of Tanzania, Dr. John Pombe Joseph Magufuli and through him to the Parliament of the United Republic of Tanzania.

The report contains findings of the audit, conclusions and recommendations that have focused mainly on assessing the adequacy of Management of Revenues Collection from Telecommunication Service Providers. It has, also, covered the legal and regulatory framework as well as monitoring the performance of TCRA by the Ministry of Works, Transport and Communications.

Management of TCRA, TRA and MWTC were given the opportunity to scrutinize the factual contents of the report and provided comments. I wish to acknowledge that the discussions with the audited entities have been very useful and constructive in achieving the objectives of the audit.

My office intends to carry out a follow-up at an appropriate time regarding actions taken by the audited entities in relation to the recommendations in this report.

In completion of the assignment, the office subjected the report to the critical reviews of Prof. Henry Mgombelo from University of Dar es salaam and Mr. Allais Mwasha (individual consultant) who came up with useful inputs on improving the output of this report.

The report was prepared by Mr. Frank Mwalupale (Team leader) and Mr. Andrew Kazembe (Team member) under the supervision of Mr. Michael Malabeja (Chief External Auditor), Eng. James Pilly (Assistant Auditor General – Specialized Audits) and Mr. Benjamin Mashauri (Deputy Auditor General – Performance and Specialized Audits).

I would like to thank my staff for their valuable inputs in the preparation of this report. My thanks should, also, be extended to the audited entities for their cooperation during the audit and their fruitful comments on the draft report.

Charles E. Kichere,
**Controller and Auditor General,**
**United Republic of Tanzania.**
**March, 2020.**

Telecommunication sector has shown significantly growth in Tanzania over time. The sector has also contributed to the growth in other sectors. This has been contributed by expansion of mobile phone services, an increase in airtime sales and expansion of broadcasting and internet services. All these services attract revenue collection. Efficient and effective performance by TRA, TCRA and MWTC are required to ensure adequate revenue collection from telecommunication services achieved every year.

The main audited entities were Tanzania Communications Regulatory Authority (TCRA), Tanzania Revenue Authority (TRA) and Ministry of Works, Transport and Communications. TCRA is responsible for, among other roles providing telecommunication infrastructures for revenue collection. TRA is responsible for Tax revenue collection. The Ministry of Works, Transportation and Communications is the overseer of the communication sector in the country. Also, it is responsible for the management of National ICT Broadband Backbone.

The main objective of the audit was to determine whether the revenues from Telecommunication Service Providers are being collected in an efficient and effective manner. The audit covered a period of four (4) financial years i.e. 2015/16, 2016/17, 2017/18 and 2018/19.

**Audit Findings**

**Revenue Collection by TRA**

- **Inadequate planning and implementation of Tax audit plans**

The audit noted that, TRA tax audit plans did not cover all 6 telecommunication service providers in every financial year. Even in those years in which TSP was included in the plan for audit, the plan was not implemented as approved. The effects of the tax audit are very positive, in one of the conducted tax audits, to one

TSP, TRA was able to identify about TZS 208 billion as a variance between VAT returns submitted and actual taxes paid.

- **Inadequate use of electronic revenue collection system (eRCS)**

TRA did not effectively use eRCS to verify the tax. In the financial year 2018/2019 there was no confirmation that TZs. 681.33 billion was verified through eRCS.

- **Contradiction between the data produced from eRCS and TRAS**

The audit team noted that there was a contradiction of information between the two electronic systems used to verify the correctness of tax returns submitted by TSPs. The information provided by eRCS differed with that from TRAS contrary to the expectation of their establishment. Because of the aforesaid situation, the process of verifying tax return submitted by TSPs was difficult to identify true information. Up to the time of writing this audit report there was no reconciliation after comparing the two systems.

- **Inadequate usage of information from TRAS**

There had been inadequate usage of Telecommunication Revenue Assurance System (TRAS) by TRA to verify the completeness of revenue and tax from telecommunication service providers. Whenever TRAS was not used, revenue amounts from telecommunication service providers were not objectively verified.

**Facilitation of revenue collection by TCRA**

- **TCRA Lacked compliance trend records**

It was noted that TCRA did not adequately manage the compliance trend records of the TSPs. The team noted that, there was no

analysis of the compliance status of each licensee and therefore it was impossible to ascertain the level of compliance for each licensee.

- **Monitoring of OTT Services by TCRA**

The audit team noted that the TCRA was unable to monitor the revenue generated from Over the Top (OTT) Services. This was because the existing Telecommunications Traffic Monitoring System (TTMS) did not have a module for, specifically, monitoring the OTT services.

- **Coordination between TRA and TCRA**

There had been inadequate coordination between TRA and TCRA in sharing information affecting taxation of telecommunication Service Providers. The two parties have not adequately implemented the agreed aspects as laid down in the Memorandum of Understanding. On the other hand, the audit team noted that TRA being an administrator of revenue collection did not spearhead to ensure it gets the benefits from the MoU entered with TCRA.

- **Monitoring the Performance of TCRA by MWTC**

The Ministry of Works, Transportation and Communications (MWTC) has not adequately monitored the performance of TCRA in regulating the telecommunication sector to enhance revenue collection from Telecommunication service providers. The available Monitoring plan has no key performance indicators for measuring the performance of TCRA.

- **Regulating National ICT Broadband Backbone**

It was noted that, MWTC oversees the implementation of NICTBB. However, TCRA does not play role in regulating the National ICT Broadband Backbone, despite the fact that NICTBB is one of the

electronic communication infrastructures and it, therefore, qualifies to be regulated by TCRA. This infrastructure is under MWTC and operated by TTCL through its unit, named National ICT Broadband Backbone (NICTBB).

**Overall Audit Conclusion**

Despite Government efforts through TRA toward improving revenue collection from Telecommunication Service Providers, more interventions were needed for further improvement.

The findings presented in this report endorse that, there were still some loopholes that would lead to loss of government revenue from the existing Telecommunication service providers. Both the Tanzania Revenues Authority and Tanzania Communications Regulatory Authority have not adequately worked together to ensure that revenues from Telecommunication Service Providers are effectively being collected.

Meanwhile, the observations of this report summarize that, TRA had downplayed its role of tax collection from TSPs. TRA did not sufficiently implement its responsibility of ensuring that tax audit was conducted to all TSPs. TRA's plan for tax audit did not cover all 6 TSP. Also, it did not effectively use the electronic revenue collection system (eRCS) and TRAS as reliable sources of information to verify the correctness of tax returns submitted by TSPs.

It was further observed that, minimum effort has been applied to deal with the problems associated with OTT. If the OTT challenges are not addressed, they will ultimately contribute to a risk of loss of government revenue.

**Audit Recommendations:**

**Recommendations to Tanzania Revenues Authority (TRA):**

To ensure effective collection of tax revenues from all Telecommunication Service Providers TRA should:

1. Improve its risk-based approach to ensure risky large taxpayers including Telecommunication Service Providers (TSP) are included in the plan for Tax Audit;

2. Allocate its resources (budget, human resource, time and required equipment) for tax audit to all Telecommunication Service Providers each year;

3. Verify and reconcile all submitted tax returns by using reliable established systems such as the Electronic Revenue Collection System (eRCS) and Telecommunications Revenue Assurance Systems (TRAS);

4. Ensure that the Commissioner General has full access to the Electronic Revenue Collection System (eRCS) as required by the Tax Administration (Electronic Revenue Collection System Regulations) of 2017.

5. Document a list of communication services and products as well as their respective formats that need to be subjected to tax audit scrutiny;

6. Ensure that it expands its server storage capacity and network (bandwidth) to be able to connect and store large files including those for revenue from Telecommunication Service Providers;

7. Carry-out a thorough analysis of the skills gap among its staff who are responsible for using Telecommunication Revenue Assurance Systems (TRAS) for tax revenue

verification and enhance their knowledge through regular training;

8. Ensure it fully adheres and effectively implements the terms agreed in the Memorandum of Understanding with TCRA and utilize the available information for collection of sufficient revenue.

**Recommendations to Tanzania Communications Regulatory Authority (TCRA):**

To ensure that Tax revenues are effectively collected from Telecommunication Service Providers, TCRA should:

1. Establish a compliance level for all telecommunication service providers.

2. Ensure it identifies possible opportunities for revenue collection from over-the-top (OTT) applications and services;

3. Carry out regular studies in order to come up with the best mechanism for dealing with over-the -top (OTT) applications with a view to enhance revenue collection; and

4. Strengthen collaboration with TRA by ensuring that there are regular reconciliation meetings in order to help TRA collect all rightful revenues from Telecommunication Service Providers.

**Recommendations to Ministry of Works Transport and Communications (MWTC):**

To ensure that MWTC effectively monitors the performance of TCRA in regulating telecommunication sector towards enhancing revenue collections, MWTC should;

1. Develop monitoring and evaluation indicators for regulating the performance of TCRA in regulating the telecommunication sector;

2. Ensure that TCRA adheres and effectively implements all the agreed terms in the Memorandum of Understanding between itself and TRA to facilitate effective collection of tax revenue.

3. Ensure there is an institutional setup for the establishment of NICTBB as an autonomous separate entity to facilitate its regulation and eliminate conflicts of interest;

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

The fortunes of Tanzania's telecommunication market were set to increase as the sector recorded estimated revenue generated to be USD 1.3 billion in 2015, with mobile voice services as the major revenue contributor totalling USD 845 million or 67% of the sector's total revenue in the same period. The telecommunication sector's overall revenue was expected to reach USD 1.6 billion (equivalent to TZS 2.8 trillion) by the end of 2020 growing at a steady compound annual growth rate of 4.5% per annum[1].

Information and communication activity including telecommunication services recorded a growth rate of 9.1 per-cent in 2018 compared to 6.2 per-cent in 2017. The growth was largely on account of the expansion of mobile phone services, an increase in airtime sales and expansion of broadcasting and internet services. The share of Information and Communication services to GDP remained at 1.5 in 2018, as it was in 2017[2].

The country had 47.7 million subscribers in mobile and fixed telecommunications by December 2019[3]. This subscriber base has risen from 2.96 million in 2005[4] which is mostly contributed by the mobile industry growth. The report of TCRA indicates that the mobile money value of transactions reached TZS 8.31 Trillion in June 2019, growing from TZS 7.44 Trillion (May 2019)[5]. This drew the attention of potential revenue from Telecommunication Service Providers. Statistics from TCRA showed that internet users for fixed and wireless connection raised from 9.3 million in 2013 to 23.1 million users in 2018. Mobile network operators were key

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[1] Report called "Tanzania: Revenue Growth to be underpinned by Mobile Network Expansion into Rural Areas". Read more at:
https://www.tanzaniainvest.com/telecoms/tanzania-telecom-revenues-growth-forecast-to-reach-usd-1-6-billion-by-2020
[2] Tanzania Economic Survey 2018
[3] www.tcra.go.tz
[4] National ICT policy (2016)
[5] TCRA (2019) Quarterly communication statistics released in June, 2019

players in Internet service provision with their extensive national coverage following the introduction of mobile data and broadband services such as data security and mobile money transactions.

## 1.2 Motivation for the audit

National Five Year Development Plan 2016/17 – 2020/21 sights Telecommunication as one the important sectors in the contribution to GDP. Similarly, in responding to Government Policies of increasing domestic revenue, the government through TRA's Forth Corporate Plan 2013/14 - 2017/18 aimed at improving efficiency in tax administration and widening the tax net in order to collect more revenue especially from the telecommunication sector.

This audit has been motivated by the following issues

- Inadequate contribution of the sector to GDP. The contribution of information and telecommunication to GDP was at 2%[6] in the year 2014, 2015, and 2016 and it dropped to 1.5%[7] in 2017 and 2018 despite reported growth in sector in 2018.

- Mobile money value of transactions rose sharply to 8 Trillion TZS per quarter as of June 2019, calling for need of understanding the extent to which the government effectively collects revenue from the aforesaid sector.

Therefore, the National Audit Office saw the importance and sensitivity of auditing this area to assess how well the government through Tanzania Revenue Authority (TRA) and Tanzania Telecommunications Regulatory Authority (TCRA) has effectively and efficiently managed revenue collection from Telecommunication Service Providers. It was expected that through this audit the causes and effects of the problems

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[6] Tanzania Economic Survey (2017)
[7] Tanzania Economic Survey (2019)

identified would be addressed. At the same time the audit would help to improve the existing systems and processes for revenue collection from the telecommunication sector.

## 1.3 Design of the Audit

This section describes the methodological approach used in conducting this audit. Specifically, it explains the main audit objective, specific audit objectives, scope of the audit, methods for data collection and analysis and the assessment criteria.

### 1.3.1 Audit objective

The main objective of the audit was to determine whether the revenue from Telecommunication Service Providers was being effectively collected.

Specific objectives were:

to determine whether:

1. TRA ensured eligible and correct amount of Tax Revenues from all Telecommunication Service Providers are collected timely;

2. TCRA facilitated Tax Revenues from all Telecommunication Service Providers are collected;

3. TCRA and TRA coordination functions ensured Tax Revenues are collected from all Telecommunication Service Providers; and

4. MWTC adequately monitored the performance of TCRA in regulating the telecommunication sector in enhancing revenue collection.

### 1.3.2 Scope of the Audit

The audit examined the effectiveness of TRA and TCRA in revenue collection from Telecommunication Service Providers.

The main audited entities were TCRA and TRA. This is because TCRA was responsible for, among other roles, providing telecommunication infrastructure for revenue collection. TCRA was also responsible for regulating and collecting Non-Tax revenues from telecommunication service providers, TRA is responsible for Tax revenue collection.

The Ministry of Works, Transportation and Communication was audited as it was the parent ministry for ICT issues in the country, responsible for management and collection of revenue from NICT backbone.

The audit focused on the highest sources of revenue streams shown in Table 1.1.

**Table 1.1: Revenue collection stream from telecommunication sector considered in this audit**

| Source of Revenue | Type of revenue | Responsible entities for collecting revenue |
|---|---|---|
| Network services providers[8] | Tax revenue | TRA |
| | Non tax revenue | TCRA |
| National ICT Broadband Backbone (NICTBB) and National Internet Data Centre (NIDC) | Revenue generation and Revenue collection | MWTC/ TTCL |

*Source: Auditors' selection*

The audit team visited TCRA Headquarters as well as Eastern Zone (Dar es Salaam), Lake zone (Mwanza). Similarly, the audit team visited Large Taxpayers Department at TRA Headquarter.

The reason for the visit was to establish the performance of the Zones in revenue collection from Telecom Service Providers within

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[8] Over the Top applications, Mobile money, Data, Voices and SMS

their areas of jurisdiction. Furthermore, the team compared performances amongst the zones to establish the reason for differences in revenue collection. The aim was to provide an overall country picture with regard to revenue collection from Telecommunication service providers. Moreover, meetings were held with both management and operational staff of both public (TTCL) and private (Vodacom, MIC Tanzania Limited (Tigo) and Airtel) Service Providers.

Likewise, the audit covered four (4) financial years i.e. 2015/16, 2016/17, 2017/18 and 2018/19. The reasons for selecting the four years period were (a) to establish a trend of performance of revenue collection from Telecommunication Service Providers by TCRA and TRA, (b) Accessing all the relevant information regarding revenue collection from TCRA and TRA within the duration of four years to provide a thorough analysis of the performance over the period under review.

### 1.3.3 Assessment Criteria

The assessment criteria used in this audit were derived from the Tanzania Communications Regulatory Authority Act NO.12 of 2003, Tanzania Revenue Authority (TRA) Act, and Cap.399 of 1995, Tax Admiration (Electronic Revenue collection System) regulation 2017, Memorandum of Understanding (MoU) between TRA and TCRA, Fourth Corporate Plan 2013/14 - 2017/18. The generic description of the criteria used for each question is as shown in the Table 1.2

**Table 1.2: The generic description of the criteria used for each question**

| Item covered | Assessment Criteria | Source |
|---|---|---|
| 1. Tax revenues collection by TRA from Telecommunication Service Providers | • TRA was required to monitor, oversee, coordinate revenue collection activities and ensure the fair, efficient and effective administration of revenue laws by revenue departments to enhance | o The Tanzania Revenue Authority Act revised version of 2006, Section 5-1(b) |

| Item covered | Assessment Criteria | Source |
|---|---|---|
| | revenue collection from service providers including telecom service providers. | |
| | • In response to Government Policies of increasing domestic revenue, TRA aimed at increasing domestic revenue contribution to 70% by 2018. This was to be achieved through improving efficiency in tax administration and widening the tax net in order to collect more revenue especially from specialized sectors of mining, oil and gas, telecommunication, tourism, construction, real estate, financial sector, High Net-Worth Individuals (HNWI) and incomes from the informal sector | o TRA-Fourth Corporate Plan2013/14 - 2017/18 Pg. 11 (clause 3.4). |
| 2. Non-tax Revenues collection by TCRA from the Telecommuni cation Service providers | TCRA was required to: <br> • Maintain and keep records and information from research or survey reports, inspections results, reported incidents and complaints or any information that could cause the risk of non-compliance to rise. <br><br> • Ensure effective collection of revenues from telecommunication sector. <br><br> • Carry out a research and surveys on Tele traffic related issues such as the impact of the over-the-top (OTT) applications and services in relation to international incoming | • Electronic and Postal Communications Act No. 3 (2010) <br><br> • Tanzania Communications (Interconnection Rates Determination No 3 of 2013) Notice (2013). <br><br> • Regulation 4(2)(b)-(d) of the Electronic and Postal Communication (Telecommunicati ons Traffic Monitoring Regulations, 2018 |

| Item covered | Assessment Criteria | Source |
|---|---|---|
| | telecommunication traffic. | • Strategic Plan 2016/17 – 2020/21(Annex I: Sub Activities-1.11.15), |
| 3. Coordination function between TCRA & TRA to ensure all Tax Revenue is collected from all Telecommuni cation Service Providers. | TCRA is required to:<br>• Strengthen relationship and interactions with TRA to enhance identification and revenue collection from telecommunication service providers.<br><br>• Enhance revenue collection by working together through cooperation in data exchange, experience sharing and capacity building for proper taxation of business in the said sector<br>• Establish an adequate legal and institutional framework for the monitoring of telecommunication infrastructures and Data Centre to ensure its sustainability. | • Section 4(1) and 4(4C) of the Tax Admiration (Electronic Revenue collection System) regulation 2017<br><br>• Strategic Plan (2016/17 – 2020/21)<br><br>• Memorandum of Understanding (MoU) between TRA and TCRA (clause 4(1,2,3 &4)<br><br>• clause 3.2.1.1 of ICT Policy (2016). |
| 4. Monitoring and evaluation by MWTC | The MWTC through the Communication sector is expected to Monitor and Evaluate legal matters pertaining to communication, ICT, science, technology and Innovation | Objective 5.1 of ICT Policy (2016) |

*Source: Legislations and Regulation Policies, Guidelines, Manuals, Plans and Best Practices sources, MoU*

### 1.3.4 Methods used for Data Collection

The audit team used three types of methods for data collection namely interviews, document reviews and observation.

### i. Interviews

To be able to respond to the audit questions and provide conclusions against the audit objective, interviews were used to collect information. The audit team interviewed operational staff at headquarters of TCRA and TRA, TCRA Zonal Offices, MWTC and telecommunication service providers in both the public and private sector. The interviews were carried out to confirm matters that arose, and clarification of the issues identified during document review. The List of officials interviewed and the reason for interviewing them is provided in *Appendix 1*.

### ii. Documents Review

Various documents were reviewed to obtain appropriate and sufficient information to enable the audit team to come up with clear findings which were supported by collaborative evidences. The aforesaid documents were from; TCRA, TRA and MWTC. The reviewed documents were within the period under audit i.e. 2015/16 up to 2018/19.

Documents were reviewed in order to get comprehensive, relevant and reliable picture of the performance of TRA, TCRA and MWTC in as far as the management of revenues collection from telecommunication service providers was concerned. The List of documents and reasons for reviewing them is provided *in Appendix 2*.

### iii. Physical Observations

The audit team visited TTMS infrastructure at TCRA headquarters to ascertain its function toward providing revenue assurance from telecommunication service providers.

### 1.3.5 Methods used for Data Analysis

Quantitative data were collected through interviews and document reviews were analyzed using excel spread sheet by organizing, summarizing and compiling them different statistical methods for data computations. The analyzed data was then presented in frequency, tables and graphs. Moreover, simple pie-charts and graphs were used to describe and compare the proportion of each main themes identified.

Likewise, qualitative responses to assess the adequacy of the management of revenue collection from telecommunication service providers were categorized and coded based on the predetermined main themes identified under each audit question.

### 1.4 Standard used for the Audit

The audit was conducted in accordance with Performance Auditing Guidelines issued by the International Organization of Supreme Audit Institutions (INTOSAI) and the Performance Audit Manual of the National Audit Office of Tanzania. The INTOSAI general auditing standards states that the audit and the Supreme Audit Institutions must be independent, possess required competence and exercise due care to provide a guide on execution and reporting of audit findings.

These standards guided the team to obtain sufficient and appropriate evidence to provide a reasonable basis for the findings and conclusions in line with the audit objectives.

### 1.5 Data Validation Process

TCRA, TRA and MWTC who were the audited entities were given the opportunity to go through the draft report and commented on the presented figures and information. Moreover, responses from TCRA, TRA and MWTC on their comments and actions to be taken on the recommendations given are appended to this report (Appendices 1 and 2).

Furthermore, the information was crosschecked and discussed with experts in the field of revenue collection from telecommunication service providers to ensure the validation of the information obtained.

**1.6 Structure of the Report**

The remaining parts of the report cover the following:
Chapter two provides systems description of the audit area which includes legal and institution framework and description of the processes involved in revenue collection from telecommunication service providers.

Chapters three, four and five present the audit findings in line with the five specific audit objectives. Chapter six provides conclusions and Chapter seven, presents recommendations.

# CHAPTER TWO

## SYSTEM FOR MANAGING REVENUE COLLECTION FROM TELECOMMUNICATION SERVICE PROVIDERS

### 2.1 Introduction

Management of revenue collection from telecommunication service providers in Tanzania is done by two main stakeholders namely: TCRA and TRA. This section explains the legal framework governing the revenue collection activities, responsibilities of each, the relationship and coordination between TCRA and TRA, monitoring the activities of revenue collection.

### 2.2 Legislation

This part explains the main legislations that drive decisions and operations with regard to revenue collection from Telecommunication Service Providers in Tanzania. These legislations are shown below.

### 2.2.1 The Tanzania Communications Regulatory Authority Act (2003) and Electronic and Postal Communications act No.3 of 2010

Both the acts stipulate the functions of the Tanzania Communication Regulatory Authority (TCRA) in ensuring the collection of Non-tax revenues from telecommunication service providers. The laws give the mandate to the Authority to issue license and enforce the license conditions set for Telecommunication Service Providers to comply with.

### 2.2.2 The Tanzania Revenue Authority Act 2006 (amended)

This act stipulates the functions of the Tanzania Revenue Authority (TRA) in ensuring the collection of Tax revenues from Telecommunication Service Providers.

### 2.2.3 The Electronic and Postal communications (Tele-traffic) Regulations, 2018 of the Electronic and Postal Communications Act

The Act ensures and enhances Tele-Traffic Revenue Assurance and analysis of the anti-fraud test calls terminated in the country. Monitor licensees' mobile money gateways and transactions to capture transaction information from the network licensees.

### 2.3 Plans and strategies

### 2.3.1 National Five Year Development Plan 2016/17 – 2020/21

The main objective of the government is to develop a framework for taxing mobile money payments for revenue collection from telecommunication service providers to enhance revenue collection in the country.

### 2.3.2 TCRA's Strategies

To improve efficiency in revenue collection from telecommunication service providers. The Authority will adopt innovative revenue collection mechanisms to establish comprehensive and interactive license database, online license application and fee payment.

### 2.3.3 TRA's Strategies 2013/14 - 2017/18

In response to Government Policies of increasing domestic revenue, focused on increasing domestic revenue contribution to 70% by 2018. This will be achieved through improving efficiency in tax administration and widening the tax net in order to collect more revenue especially from specialised sectors including telecommunication.

### 2.3.4 Communication Sector Strategic Plan (2016/17-2020/21)

This plan articulates Strategic Objectives showing identified strategies, targets, deliverables, key performance indicators, covering five years period from 2016/17 to 2020/21. It shows activities for the Communication Sector that need to be carried out in order to achieve the planned objectives for the Ministry of Works, Transport and Communication (Communication Sector) as spelt out in Government Notice No. 144 of 22nd April, 2016. The Plan maps out the strategic direction for enhancing sector responsibility in implementing Communication Sector Policies.

### 2.4 Key Stakeholders and their Responsibilities

This part outlines roles and responsibilities of key players in managing revenue collection from Telecommunication Service Providers.

### 2.4.1 Tanzania Communications Regulatory Authority (TCRA)

The function of TCRA according to its establishing Act No. 12 of 2003 and the TCRA Act CAP .172 R.E. 2017 include among others the following:

- To collect fees from telecommunications service providers;
- To regulate rates and charges;
- To consult with other regulatory authorities or bodies or institutions discharging functions similar to those of the Authority in the United Republic of Tanzania and elsewhere;
- To impose sanctions set by regulations for the violation by any licensed operator of any law or under the terms of its license.

In exercising its duties, TCRA operations has been down streamed to zone levels. These zones are North, Lake, Central Western highland as well as Zanzibar Office. Management of TCRA is presented in the organization structure shown in *Appendix 3*.

### 2.4.2 Tanzania Revenue Authority

TRA operates under TRA Act cap 399 and its main functions are:

- Identification of taxpayers;
- Collecting tax revenues from telecommunications Service Providers;
- conducting tax audit to taxpayers;
- conducting transfer pricing audit;
- Monitoring, overseeing, coordinating activities and ensuring the fair, efficient and effective administration of revenue laws by revenue departments in the jurisdiction of the Union Government

### 2.4.3 Ministry of Work, Transportation and Communication

The roles of the Ministry through Communication sector are policy formulation, monitoring and evaluation, regulatory and legal matters pertaining to communication, ICT, science, technology and innovation.

### 2.5 Telecommunication Service Providers

The following is the summary of roles and responsibilities of Telecommunication Service Providers:

- Application for telecommunication service provision license;
- Pay license fees to TCRA;
- Pay tax to TRA;
- Submit audited financial statement to TCRA and TRA;
- Submit tax returns to TCRA and TRA; and
- Provide information on retail tariff for bundled and out of bundle services (Voice, SMS and Data).

### 2.6 Relationship between Various Actors

In order to ensure efficiency and effective collection of revenues from telecommunication service providers, key stakeholders need to complement their relationships. **Figure 2.1** provides the relationship between the above mentioned actors:
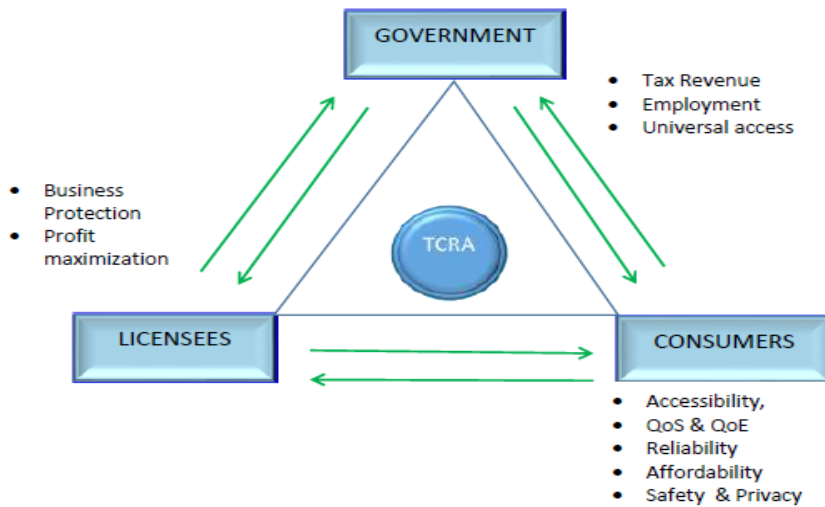
Figure 2.1 Inter-linkage between key players

## 2.7 Management of Revenues Collection

A summary of the process for managing revenues Collection is shown in **Figure 2.2** and its detailed Information in Section 2.6.1 below.
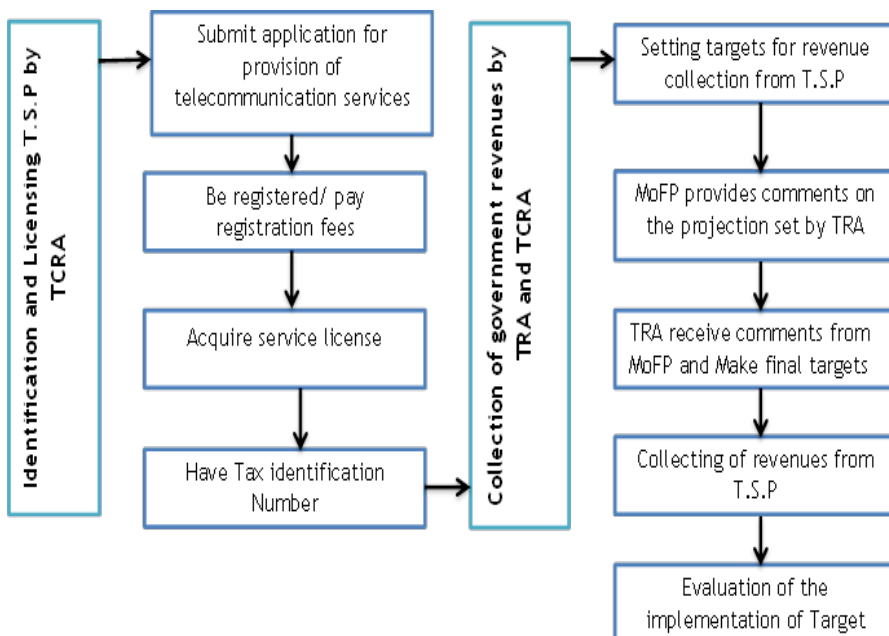


Figure 2.2 Process for managing revenues

### 2.7.1 Identification and Licensing Service Providers

Hereunder is the process of applications and licensing of Telecommunications Service Provider:

i.   Submit application for telecommunication service provision to TCRA by filling a special application form, present in TCRA website and paying the relevant application fee.
ii.  TCRA advertises and seeks opinions of the General Public on the application
iii. The applications deliberated by the Board of TCRA
iv.  Be registered as telecommunications service providers.
v.   Have a service license.
vi.  Have Tax Identification Number (TIN).

The telecommunication service providers submit their applications to TCRA for consideration. The applications are discussed by TCRA Board of Directors which is required to meet on quarterly basis. Based on the board's recommendations, licensing directorate issues licenses to applicants provided that they have paid the relevant fees. Payment of relevant fees is done through the dealer who to deposit the fees into TCRA bank account.

### 2.7.2 Collection of Government Revenues

From the identified and licensed telecommunication service providers the government gets revenues from two broad categories of revenue sources namely:

i.   Revenue from fees and penalties; and
ii.  Revenue from taxes.

### 2.7.3 Collection of Fees by TCRA

TCRA administers revenue from fees as mandated by Telecommunications Regulatory Authority Act (2003).

Different kinds of regulatory fees have been imposed on TSPs by TCRA. Fees differ in a number of material respects, including

purposes, how they are calculated, on whom or on which services they are imposed, and whether they are recurring or paid on a one-time basis. This is shown in the Regulation Schedule. (see the Table 2.1).

**Table 2.1 Regulatory Fees**

| S/N | License Categories | Fee Types |
|---|---|---|
| 1 | Network Facility | Application Fee (US$10,000)<br>Initial License Fee (US$ 200,000)<br>Renewal License Fee (US$ 300,000)<br>Royalty Fee (1% of Gross Annual Turnover) |
| 2 | Network Services (Electronic communications network operations for network access code and interconnection) | **International**<br>Application Fee (US$10,000)<br>Initial License Fee (US$300,000)<br>Renewal License Fee (US$400,000)<br>Royalty Fee (1% Gross Annual Turnover) |
|  |  | **National**<br>Application Fee (US$5,000)<br>Initial License Fee (US$600,000)<br>Renewal License Fee (US$750,000)<br>Royalty Fee (1% Gross Annual Turnover) |
| 3 | Application services based on sub-categories:<br>A: With Network Facilities and Network Services Licenses<br>B: Without Network Facilities and Network Service Licenses<br>C: Application Service License with Numbers Only | **International**<br>Application Fee (US$5,000)<br>Initial License Fee (US$100,000)<br>Renewal License Fee (US$120,000)<br>Annual Fee (US$ 1% Royalty Fee (Gross Annual Turnover) |
|  |  | **International**<br>Application Fee (US$ 1,000)<br>Initial License Fee (US$ 10,000)<br>Renewal License Fee (US$ 13,500)<br>Annual Fee (US$ 1% Gross Annual Turnover) |

*Source: Electronic and Postal Communications (Licensing) Regulations (2018) of Electronic and Postal Communications Act (2010)*

## 2.7.4 Revenues collected by TRA

Tanzania Revenue Authority (TRA) administers tax revenue as mandated by Tanzania Revenue Authority Act (2006). Tax revenues collected from telecommunication service providers were from the following sources:

i.   Corporate tax;
ii.  Excise duty;
iii. Value Added Tax;
iv.  Payee Tax; and
v.   Royalties.

- **Corporate tax**

The tax rate on total income of the telecommunication service providers was 30% of the profit made by the service provider.

- **Excise Duty**

Means the duty of excise imposed under section 124 of excise (management and tariff) act (2008) requiring charge, levy and collection of duty, in respect of goods specified in the schedules of this act.

- **Value Added Tax**

Means the tax imposed on taxable supplies or taxable imports, and includes an interest, fine, or penalty payable in accordance with the provision of Value Added Tax Act (2014).

## 2.7.5 Tax audit by TRA

TRA caries tax audit in order to test and enhance tax compliance together with provision of tax education on areas where the taxpayers find necessary. The procedures for carrying out tax audit are elaborated below:

- Desk work: This is the stage when tax auditors make thorough familiarization on the issues to be examined during tax auditing.
- Notification of the entity to be audited: TRA sends an engagement letter to notify the taxpayer about the planned audit. It provides time frame for the audit, elaborates the kind of tax audit e.g. V.A.T, Withholdings, employment etc. depending on the risk identified from that entity (administrative expenses, assets, revenue, transfer prices);
- TRA develops its annual business plan: The business plan presents all the activities for the year and highlights companies that will be audited in a year.

### 2.7.6 Revenues from NICTBB

This is the revenue emanating from data management. In Tanzania this involves revenues from the Data Centre project. The project originated from Optic Fiber project where Tanzania Telecommunication Corporation (TTCL) and the Ministry of Works, Transport and Communication (previously Ministry of Science and Technology) invested. In this project it was intended for government and private institutions to use it to store their data for assured protection commercial basis.

## 2.7.7 Rate of International incoming traffics

Table 2.2 below indicates the minimum Rate for International Inbound Traffic.

**Table 2.2 Minimum Rate for International Inbound Traffic**

| No. | Subject Matter | Rate Per Minute (US Cents) | Percentage Rate (%) |
|-----|----------------|----------------------------|---------------------|
| 1 | Minimum Rate for termination in Tanzania all international inbound(incoming) telecommunications traffic | 25 | 100 |
| 2 | The licensees' share of per minute of incoming call. | 13 | 52 |
| 3 | Revenue to be collected by TCRA and payable to the Treasury | 7 | 28 |
| 4 | TCRA's service fees including payment for managing and operating the system. | 5 | 20 |

*Source: Rates for International Inbound Traffic as per Electronic and Postal Communications (Tele-Traffic) Regulations (2018) of Electronic and Postal Communications Act (2010)*

Table 2.2 above shows that, the minimum rate of 25 US cents (equivalent to 100 percent) per minute for termination in Tanzania for all international inbound (incoming) telecommunications traffic was detected through TTMS. Out of 25, the regulation requires 7 US cents (equivalent to 28 percent) was the revenue to be collected by TCRA and payable to the Treasury, while 5 US cents (equivalent to 7 percent) was the TCRA's service fees including payment for managing and operating the system.

Henceforth, Table 2.2 indicates that the government is expected to gain a total of 12 US cents (equivalent to 48 percent) for each international call.

### 2.7.8 Telecommunication Revenue Assurance System (TRAS)

Telecommunication Revenue Assurance System (TRAS) was an infrastructure in Tele-Traffic Monitoring System (TTMS) aimed at providing revenue assurance services.

The implementation of TRAS was organized into two phases. Phase I included Vodacom, Airtel and MIC (T). Phase II comprised of TTC, Zantel, Viettel, Smart, Smile and SimbaNET.

Phase I implementation was finalized and service usages and revenues for the three operators were visible in the dashboard application from January 2018. The visibility of revenue statistics for Vodacom, Airtel and MIC (Tigo) include prepaid, recharges/top up, roaming, post-paid and value added services (VAS).

Implementation for Phase II started on 4th June 2018 for Viettel, Zantel, TTCL, Smile, SimbaNET and Smart. Ongoing activities include verification of business rules and data structures.

### 2.7.6 Organization and Coordination

Sustainable management of revenue collection from Telecommunication Service Providers requires an effective collaboration and coordination between TRA and TCRA. These two entities must share information to enhance revenue collection from Telecommunication Service Providers.

The need to collaborate between TCRA and TRA is critical. This is because, TRA is an expert on the financial aspects of revenue collection whereas TCRA has better understanding in facilitating technology on tele-traffic revenue collection assurance. In that regard, information from TCRA is essential for TRA when planning and executing revenue collection from Telecommunication Service Providers.

TRA and TCRA signed a Memorandum of Understanding (MoU) to enhance efficiency and effectiveness in the collection of revenues

from TSPs. The agreement enabled TRA to get important inputs from TCRA regarding taxation of the communication sector as TCRA was responsible for regulating the telecommunication sector in the country. The information obtained may facilitate improvement in the accuracy of TRA towards collecting revenue from TSPs.

## 2.8 Monitoring by MWTC

This specific section presents the findings on the extent to which the Ministry monitored the progress of regulating telecommunication sector in the country. The section is divided into three sub-sections namely: monitoring the performance of TCRA (section 2.8.1); monitoring the performances of the national NICT backbone by MWTC (section 2.8.2) and monitoring the performances of the National ICT backbone by MWTC (section 2.8.3)

## 2.8.1 Monitoring the performance of TCRA by MWTC

The Ministry is mandated to develop, monitor, evaluate implementation and review of policies and policy instruments for proper regulation and monitoring of the activities pertaining regulation of telecommunication sector in the country[9].The Ministry was required to assess whether the Authority achieved planned results and whether corrective actions were taken.

## 2.8.2 Key Performance Indicators

Performance of an organization was evaluated using performance indicators. Performance indicators were measures of efficiency and effectiveness of the delivery of services.

Communication Sector Strategic Plan (CSSP) July 2016 – June 2021 required MWTC to develop key performance indicators to monitor the performance of the TCRA towards achieving their objectives for regulation of telecommunication sector. This was so, in order

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[9] http://mwtc.go.tz/pages/mission-and-vision

to assess the degree to which telecommunication sector were regulated.

## 2.8.3 Monitoring the Performances of the National ICT Backbone by the MWTC

The Government invested in a five phase National ICT Broadband Backbone (NICTBB) and an Internet Data Centre (NIDC) project in 2005. The project started in 2009. In this project, the Government intended to develop ICT towards enhancing economic activities in the country and making the country a regional ICT hub. The backbone was being managed by the Ministry (MWTC) and TTCL was given the responsibility to maintain it because of its capability and experience.

The Government has already spent US$ 263.77 million, through a loan from Exim Bank of China in construction of 7560 km of backbone Phase I, II and III as shown in NICTBB Business Plan. The government also, completed establishment of the NIDC in mid-2016. In this phased project the Government was required to generate revenue to repay the loan and gain some return on investment. In fiber optic, the government primarily focused on providing connectivity to licensed telecommunications network operators in wholesale for them to sale in retail. For NIDC, the Government has planned to generate revenue by utilizing 25 percent of Data Centre capacity by public entities, and 75 percent by private.

# CHAPTER THREE

## TAX REVENUES COLLECTION BY TRA

### 3.0 Preamble

This chapter presents findings on Performance of TRA in the collection of tax revenues from Telecommunication Service Providers. The findings cover planning and implementation of tax audit, use of electronic revenue collection system (eRCS), data integrity and usage of information from Tax Revenue Assurance System (TRAS).

### 3.1 TRA's tax audit plans did not adequately cover audits of Telecommunications Service Providers

According to Section 13(1) (b) of the Tax Administration Act, 2015 (Act No.10), TRA was required to prioritize tax audit to large taxpayers that had significant impact in the revenue collections. Similarly, according to ISO 9001: 2015 (Clause 4.1 and 6.1.1) TRA's tax audit plans are required to be a risk-based which takes on board relevant tax issues to its purposes and its strategic direction to achieve the Authority's intended result(s).

However, the review of TRA records of Large Taxpayers Department as well as Business Plans from 2015/16 to 2018/19 revealed that, TRA's tax audit plans did not cover all the 6 telecommunication service providers in every financial year despite being categorized as high risk in terms of revenue collection from them. Table 3.1 presents the number of TSPs which were included in the plans for tax audits in the last four years.

**Table 3. 1 Telecommunication Service Providers in TRA business plan for tax audit**

| Financial year | Number of TSP | Number of TSP Included in the tax audit plan | Percentage coverage |
|---|---|---|---|
| 2015/16 | 6 | 4 | 66 |
| 2016/17 | 6 | 3 | 50 |
| 2017/18 | 6 | 0 | 0 |
| 2018/19 | 6 | 2 | 30 |
| % average | | | 36 |

*Source: Source: Extract from TRA's database and Large Taxpayers Department business plan, 2015/16-2018/19*

Based on Table 3.1, in total, for the past four years, only 36 percent of the TSPs were included in the Tax Audit Plans. No TSP was included in the tax audit plan in the financial year 2017/18. The highest recorded coverage was 66 per cent. This was reached in the financial year 2016/17. However, the trends declined to 30 per cent in the financial year 2018/19.

According to the interview with TRA officials, the selection of Large Taxpayers applied by TRA was risk-based. However, the auditors were not availed with the documents showing how TRA applied risk based in selecting large tax payer to be audited in the considered financial years. Failure to provide the aforesaid documents was a concern as to whether the selection of large taxpayers were not adhered to the criteria set by TRA in selecting large taxpayer to be audited.

A review of Tax Audit Report for the years 2014 and 2015 revealed that, there was a variance of TZS 208 Billion between VAT return submitted by MIC (Tigo) and the calculation that was done by TRA. Table 3.2 provides details of the variances for the two years. For example, **Table 3.2** below present cases of variations occurred between the tax return submitted by the company and the tax amount calculated by TRA.

**Table 3.2**: Variations between tax reconciliation amounts between TRA and TSP

| Year | TRA' reconciliation TZS (Billion) | MIC' reconciliation TZS (Billion) | Variances TZS (Billion) | % |
|------|-----------------------------------|-----------------------------------|-------------------------|-----|
| 2015 | 97 | 0.3 | 97 | 99 |
| 2014 | 112 | 0.2 | 111 | 99 |
| Total | 209 | 0.5 | 208 | |

**Source:** Analysis of data extracted from Tax audit report, 2014 and 2015

Table 3.2 above indicates that the audit reconciliation conducted by TRA for the sales was 97 billion while the return submitted by MIC is 0.3 billion. This implies that the return submitted by MIC is 96.7 billion less than that calculated by TRA. According to the tax audit report of 2015 this amount (96.7 billion shillings) was subjected to the reconciliation in which MIC was asked to re-calculate and adjust the previous figure submitted to TRA. From this fact the audit team is of the view that once TSP remained unaudited there is a risk of losing potential tax revenue payable..

Based on the result of the Tax Audit, TRA come up with a variance of TZS 208 billion between VAT returns submitted and actual taxes paid. This suggests the importance of conducting tax audit to other TSPs which were not audited.

## 3.2 Inadequate adherence to the tax audit business plan

Based on the review of the Business Plans and Tax Audit Reports for the period from 2015/16 to 2018/19, there was a variation between the planned and the actual tax audits conducted. TRA conducted only 2 tax audits to TSPs out of the planned 9 in the four years under the review (Table 3.3). Therefore, it is further noted that, TRA conducted only 2 out of 24 potential audits to TSPs in the four years. This represents 6 per cent of potential tax audits. Table 3.3 indicates several planned against actual Tax Audit conducted.

**Table 3. 3 Planned Audits in comparison with implemented Audits (2015/16-2018/19)**

| Financial year | Potential tax audit | TSPs planned to be audited | TSPs audited |
|---|---|---|---|
| 2015/16 | 6 | 4 | 1 |
| 2016/17 | 6 | 3 | 0 |
| 2017/18 | 6 | 0 | 1 |
| 2018/19 | 6 | 2 | 0 |
| Total | 24 | 9 | 2 |

*Source*: *Analysis of data extracted from TRA's business plan and Tax Audit Report*

Based on the data presented in Table 3.3 it is observed that in the year of 2016/17 and 2018/19 there was no TSP that was audited. The two reported tax audits were conducted in 2015/16 and 2017/16, one in each year.

The audit team conducted further inquiry with TRA officials responsible for tax audit to determine the reason for inadequate implementation of their tax audit plans. During the interview, TRA officials explained that, this was due to existence of special audits done in ad-hoc resulting to inadequate adherence to business plan.

## 3.3 Inadequate use of electronic revenue collection system (eRCS)

According to the Tax Administration (Electronic Revenue Collection System) regulation (2017) number 3, the Commissioner-General of TRA was supposed to use the information provided from the electronic Revenue Collection System. This system was expected to determine the potential amount of tax revenue to be collected and taxes not collected by the electronic revenue collection system. The eRCS was developed to help TRA verify and ensure all information concerning electronic revenue and tax were collected and documented.

According to interviews with TRA officials, TRA did not adequately use the information from Electronic Revenue Collection System.

Based on the interviews, the eRCS only operated for one year, from 2017 to 2018. The stoppage was for maintenance and, also, to update the system to enable it to collect tax information from Zanzibar for the Zanzibar Revenue Board. For one the year when eRCS was not in operation TRA did not verify taxes remitted by Telecommunication Service Providers. Based on tax audit reviewed, about TZS 681.31 billion were paid as VAT and Excise Duty, all of which was not verified. Table 3.4 presents the unverified taxes from different TSPs.

**Table 3.4 Unverified VAT and excise duty paid by TSP
(July 2018-June 2019)**

| S/N | Taxpayers | Amount (Billion shillings) |
|---|---|---|
| 1 | Airtel Tanzania Public Limited Company | 114.07 |
| 2 | MIC Tanzania Public Limited Company | 215.77 |
| 3 | Tanzania Telecommunications Corporation | 27.79 |
| 4 | Viettel Tanzania Public Limited Company | 24.95 |
| 5 | Vodacom Tanzania Public Limited Company | 298.73 |
| | **Total** | **681.31** |

*Sources: TRA tax audit report for Telecommunication Service Providers (2019)*

Table 3.4 above shows that a total amount of TZS 681.33 billion paid by Telecommunication Service Providers was not verified by eRCS. The audit noted that TRA did not have a reliable alternative system to verify the submitted taxes at the time the ECRs was not operational.

In addition, further interviews showed that eRCS was not commissioned to the Commissioner-General of TRA. Thus, TRA did not have full mandate to access eRCS. According to interview with TRA officials, eRCS was under the custodianship of the developer of the system and there was restricted access. Because of restricted access to the eRCS system, TRA was limited to only some revenue information and had a limited time to access it. This hindered the capacity of TRA to verify the collected revenue online.

## 3.4 Contradiction between the data produced from eRCS and TRAS

In ensuring that the government collects the right amount of revenues from telecommunication sector, TRA was expected to effectively use electronic Revenue Collection System (eRCS) and Tax Revenues Assurance System (TRAS) from TCRA. This would help TRA to determine the correctness of the tax amount declared by the Telecommunication Service Providers. This was aimed at fulfilling the requirements of Section 47 (2) of the Tax Administration Act (2015). The section requires the Commissioner-General to use the best judgment and available information in making tax assessment[10]. The required information was expected to be available in TRAS and eRCS after being uploaded by Mobile Network Operators.

However, there were five telecommunication service providers at the time of the audit. TRA conducted tax reconciliation to only one firm which was MIC Inc (Tigo). Review of the revenue information from both eRCS and TRAS, revealed that, the tax amount reported by eRCS differed from the tax amount recorded by the TRAS. The two electronic systems were supposed to provide the same results of the tax amount to be paid by TSPs, because they all receive the same information from TSPs.

The result showed that between January and August 2017 the sales figures were higher by TZS 6.6 Billion. Table 3.5 below presents the tax revenue figure captured by TRAS and eRCS respectively.

**Table 3. 5 Revenue amount from eRCS and TRAS (2018)**

| Month | Total Revenue from eRCS (Billion TZS) | Total Revenue from TRAS (Billion TZS) | Difference (Billion TZS) |
|---|---|---|---|
| January | 93.7 | 92.9 | 0.8 |
| February | 83.8 | 83 | 0.8 |
| March | 94.9 | 93.5 | 1.4 |

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[10] An assessment of an alleged tax deficiency levied under law when TRA believes that delay may jeopardize the collection of the claim.

| Month | Total Revenue from eRCS (Billion TZS) | Total Revenue from TRAS (Billion TZS) | Difference (Billion TZS) |
|---|---|---|---|
| April | 85.2 | 84.5 | 0.7 |
| May | 90.5 | 89.8 | 0.7 |
| June | 94.8 | 94.8 | 0 |
| July | 93.4 | 94 | 0.6 |
| August | 96.1 | 94.5 | 1.6 |
| **TOTAL** | **732.4** | **727** | **6.6** |

*Source: 2019 TRA Reconciliation extracts*

Based on Table 3.5 the discrepancy in sales figures reported in the eRCS was higher by TZS 6.6 Billion. TRA had to reconcile with MIC (Tigo) to ensure that the right amount of tax was paid. The noted questionable integrity of revenue data in terms of inaccurate data between the two systems used by TRA, has affected TRAs capacity to determine the correct revenue amount that was supposed to be taxed.

## 3.5 Inadequate usage of information from TRAS

Based on Section 4 (5) of the signed MoU between TRA and TCRA, both parties were required to furnish one another reports, records of evidence or certified copies of documents giving all available information on transactions, completed or planned which are considered to be useful for the computation of taxes. TRAS was developed by TCRA for the purpose of helping TRA get assurance on the tax return submitted by TSPs. TRAS was relevant to TRA because it could be used to verify the authenticity and assurance of the exact amount of tax to be paid by TSPs.

Based on the interview with TRA officials, TRA was not effectively using the information from TRAS to ensure correctness the tax returns from TSPs. Upon further enquiries, the audit team noted that, one of the reasons was that, TRA did not meet all the technical and technological qualifications to smoothly access and run TRAS window which was based at TCRA. Specifically, TRA did not have enough bandwidth and server storage capacity to allow them to be able to pull large files from the system in a short time.

In addition, slow internet at TRA increased the chances for the system to operate below its designed capacity.

# CHAPTER FOUR

## ENHANCEMENT OF TAX REVENUES COLLECTION BY TCRA

This chapter presents findings on the performance of TCRA to support TRA to enhance tax revenue collection from Telecommunication Service Providers. The findings cover weaknesses in the area of; compliance trend records for TSPs, monitor the revenues from OTT Services, measuring the economic impacts of OTT by TCRA and regulating Country's Main Optical Fiber (NICTBB).

## 4.1 Compliance trend records are not managed well

According to the Electronic and Postal Communications Act No. 3 of 2010, and Quality Management Standards (ISO 9001:2015). TCRA was expected to document the trends of performance of TSPs' compliance with regard to licenses requirement achievement such as quality of services rendered to subscribers, payments of fees and penalties issued by TCRA. This information of TSPs' performance could originate from research or survey reports, inspections results, reported incidents and complaints or any information that could cause the risk of non-compliance to rise.

Based on reviewed inspection reports, it was noted that the compliance levels among the service providers varied among the service providers. Compliance level for Mobile Network Operators (MNOs) in fee payments was relatively higher than the compliance level of Internet Service Providers (ISP).

However, it was difficult for the Audit team to ascertain the frequency and trends of the compliance of each TSPs. The records of the performance of TSPs were not based on the listed parameters in the inspection checklists. As a result, the assessment of the effectiveness of the enforcement was made difficult. Based on the interviews, it was revealed that, TCRA

assesses the effectiveness of enforcement by checking the improvement of the service rendered by service providers[11].

## 4.2 TCRA set up a system of sanctions for enforcement of the license

The sanction for defaulters of the license conditions covered various steps. The audit noted that, TCRA issues both soft penalties and hard penalties. Table 4.1 presents the frequency and type of action taken to non-compliant TSPs. It can be noted that, violations of laws and license conditions were common. Examples of different non-compliance cases including, the failure to comply with quality of service provision as required as well as delay or non-submission of the service compliance parameter reports. Table 4.1 below depicts action which was applied by TCRA to defaulters.

### Table 4. 1 Applied sanctions according to TCRA

| Type of action | | Frequently | Rarely | Never |
|---|---|---|---|---|
| Warnings | Verbal Criticism | | V | |
| | Written Warnings | V | | |
| Arbitration at the fair competition tribunal | | | V[12] | |
| Penalties and fines for non-compliance | | V | | |
| Termination of license | | | V | |
| Round table dialogue | | | | V |
| Legal actions | | | V[13] | |
| TCRA acting as mediation between licensee and customer | | V | | |

*Source: TCRA – studies of compliance documents and Interview by auditors*

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[11] *But improvement could the contributed by many other factors*
[12] *6 Cases (2015-2019) rendered poor quality of services to customers*
[13] *2 cases (2015-2019): rendered poor quality of services to customers*

Table 4.1 shows that, TCRA frequently applied written warnings against service providers who failed to meet license conditions. TCRA had never terminated a TSP license. According to an interview with officials from TCRA, during the second quarter (2019/2020 FY) about 145 letters were sent to operators to remind them to comply with various license requirements. However, the audit team did not find any evidence of written reminders.

Based on the interview with TCRA officials, there was no analysis of the compliance trend of each licensee. One of the causes of the lack of such analysis is because there were no guidelines to determine the performance trend. Consequently, this makes TCRA unable to assess the effectiveness of the enforcement measures.

According to an interview with TCRA officials, TCRA was developing a new enforcement guideline at the time of this audit. This draft guideline, Key Performance Indicators had also been developed. However, the guideline was yet to be approved and operationalized. This guideline was expected to minimize the risk of the generalized model of conducting and reporting the compliance level.

The review of the established key inspection performance indicators for enforcement found to be vague as it only requires production of inspection reports for each quarter. The achievements was therefore pegged on the number of reports generated rather than the content of the reports. The established Key Performance Indicators (KPI) therefore they do not reflect the performance in terms of compliance.

## 4.3 Deterrent penalties were not adequately applied

Based on an interview with TCRA officials; penalties are instituted based on the existing regulations. In enforcing compliance with the license conditions, it was noted that some operators did not pay penalties on time. For example, TTCL was penalized to pay TZS 50 million for the delay of paying the penalties. This penalty was because TTCL did not meet the requirement and obligation of the

license. On the other hand, in 2019/2020 TCRA fined six mobile companies for noncompliance with the license conditions. Table 4.1 presents different amounts of charges paid. Based on interviews, most of the TSPs were able to pay the issued penalties.

**Table 4. 2 Action taken by TCRA for non- compliant**

| S/No | Name of TSP | Penalties **(TZS Billion)** |
|------|-------------|----------------------------|
| 1 | Airtel | 1.60 |
| 2 | TTCL | 1.60 |
| 3 | Halotel | 0.90 |
| 4 | Zantel | 0.85 |
| 5 | Tigo | 0.50 |
| 6 | Vodacom | 0.45 |
| **Total** | | **5.90** |

*Source: Press release statement issued to the media on January 3rd 2020 for the 1st quarter of financial year 2019/20*

## 4.4 TCRA did not monitor revenues generated from OTT Services

In response to technology changes, TCRA annual performance report of the financial year of 2017/18 (Clause 1.2) indicated that, there was a rapid growth of mobile broadband technologies. These changes had been coupled with the increase penetration of smartphones. This resulted to the raise of Over the top (OTT) services such as text messages and internet telephony services. It was evident that OTT services continue to affect voice and SMS revenues of traditional networks.

In response to these technology changes, TCRA is required to make rules for carrying out the purposes and provisions as per Section 6 (1) b (v) of Tanzania Communications Regulatory Authority Act (2003) being its establishment Act for sector legislation.

Because of the above situation, through its 2017/18 annual performance report, TCRA recommended two options on how OTT services could be charged. One is for TSPs to introduce specific bundles and tariff plans for charging OTT services and the second

option was to deploy a specific module in TTMS for monitoring OTT traffic services and introduce surcharges on OTT services.

Up to the time of this audit, only one TSP introduced surcharges on OTT services while the remaining TSPs did not introduce surcharges on OTT services. Based on the interviewed TCRA officials, the module for monitoring OTT was relatively expensive, therefore before embarking on applying it, TCRA needed to conduct a cost benefit analysis of it and the method of operation without discouraging the business of the TSPs. In addition, the audit noted that TCRA initiated the introduction of the Electronic and Postal Communications (Online Content) Regulations (2018), taking corrective measures for objectionable or prohibited content among other obligations. However, TCRA did not track revenues influenced by OTT.

In addition, TCRA statistics indicated that there was an increase in internet users over years from 14 million in year 2014 to 23 million users in 2018. These internet users also use data for applications and services, which are accessible over the Internet and ride on operators' networks (OTT). Thus, the declining demand for traditional voice and text messaging services could be counterbalanced by increasing demand for data. However, TCRA did not establish a trend to see the relationship between voice and text messaging revenue loss due to OTT services and growth of data revenue due to proliferation of popular OTT services.

The OTT applications include applications for media (YouTube), real-time communication (Skype, Viber, WhatsApp), cloud computing/storage (Dropbox), social media (Facebook), e-commerce (eBay) and online gaming. Because of lack of effective regulation of OTT, there was a risk of potential revenue loss due to uncontrolled OTT.

The audit reviewed a trend of international calls between last quarters of the year 2016 and 2019. The result indicated a notable decrease in international traffic for calls and short message

services (SMS) between year 2016 and the year 2019 as shown in Figures 4.1.
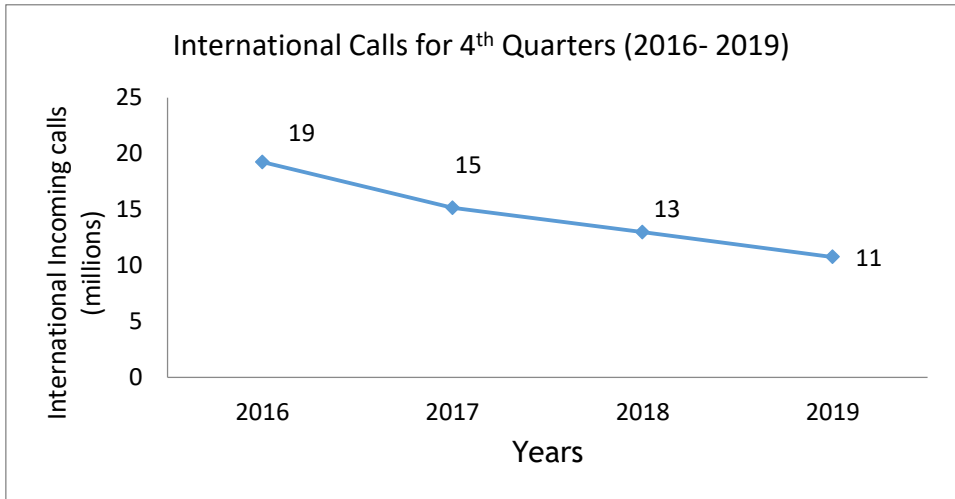


Figure 4.1 Decrease in traditional International Calls
*Source: Auditor analysis of data from TCRA's Quarterly Communications Statistics (2015/16-2018/19)*

Figure 4.1 Indicates that from 2016 to 2019 the trend of traditional International Calls has significantly decreased. For example, in the last quarter of 2016 international calls were 19 million which was dropped to 11 Million calls in the last quarter of 2019 (a decreased of 42%). These calls comprised of calls terminated in Tanzania and on-transit calls through Tanzania.

The results from the research[14] done by TCRA, showed that decrease of on international calls was partly contributed by the growth of OTT applications. Callers opted to use OTT applications to make international calls instead of voice calls.

The aforesaid decrease in international calls will eventually lead to a risk of loss of government potential revenues from calls. The officials stated that with the existing tools TCRA was unable to compute the monetary value from these calls. An option to use

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[14] Research report (2018 )on Tele traffic related issues Impact of the over-the-top (OTT) applications

OTT to make international calls enabled the revenue generation from data instead of calls.

## 4.5 Efforts made by TCRA on dealing with economic impact of the OTT

The audit visited TCRA to determine the extent to which TCRA had implemented the framework that ensured monitoring of International incoming Traffic. It was found that TCRA implemented TELETRAFFIC Monitoring System (TTMS) in accordance with Tanzania Communications (Interconnection Rates Determination No. 3 of 2013) Notice (2013). This was followed by the Electronic and Postal Communications (TELETRAFFIC) Regulations (2018). Also, according to International Telecommunication Union (ITU), emerging technology brought applications and services that influence new economy over-the-internet. This resulted into existence of applications and services which were accessible over the Internet and ride on operators' network. These are also termed as "Over-the-Top" (OTT) including OTT services that generate traffic on fixed and mobile networks in different categories as long as there is internet. These OTT categories were Communication (Skype, WhatsApp), real-time entertainment (Netflix, YouTube) and social networking (Facebook, Twitter, LinkedIn, Instagram). Others OTT categories were marketplaces for downloads (Apple iTunes, Google, Amazon) and storage (Dropbox, Google, Apple). These OTT were offered using the existing infrastructure of traditional telecommunications service providers, causing challenges in the traditional internet ecosystem.

Following the growth of OTT applications, there has been a global concern over the impact of OTT services on the revenues of network operators as stated by International Telecommunication Union (ITU)[15]. This was due to the reason that these OTT tend to substitute or supplement traditional telecommunication services.

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[15] International Telecommunications Union, ICT Regulation Toolkit (2017)

This results to existence of regulatory imbalance as there was lack of direct and clear regulation on OTT.

During the interview with TCRA officials, it was stated that several initiatives were made by TCRA to understand the impact of OTT. One of these initiatives was a research conducted on TELETRAFFIC issues affected by OTT in relation to international incoming telecommunications traffic.

The audit team acknowledges that in 2018 TCRA carried out this research and identified some effects of OTT to the economy, and particularly on revenue. TCRA officials stated that other effects of OTT on traffic include declining demand for traditional voice and text messaging services and increasing traffic load. Review of this research noted that the research conducted didn't capture the information on actual effects of OTT voice termination. It was stated by TCRA officials that TCRA planned to conduct another research in financial year 2020/21 so as to get the actual effects of OTT termination in networks of regulated TSPs so as to improve TTMS as these issues were not covered in the previous research.

# CHAPTER FIVE

# COORDINATION AND MONITORING OF TELECOMMUNICATION SERVICES

## 5.1 Introduction

This chapter presents findings on the Coordination and Monitoring of Telecommunication Services. It also describes the extent the MWTC monitored performance of TCRA in regulating telecommunication service providers to help revenues collection from Telecommunication Service Providers. Below are the details of the findings:

## 5.2 Coordination

This section presents findings on the coordination between TRA and TCRA. The findings cover: sharing of revenue information; data exchange; experience sharing; and capacity building on the issues that may have an impact on the collection of revenues from telecommunication service providers.

### 5.2.1 Coordination for sharing Revenue information was not managed well

It was expected both parties to have a certain arrangement or a common platform for meeting and sharing information.

Interviews with TCRA officials indicated that there were no planned formal meetings. However, the information was shared on ad-hoc basis and when TRA encounters problems.

According to TCRA officials it was the role of TRA to spearhead the coordination leadership because it is TRA who are more in need of tax data, whereas TCRA would focus on the regulatory role for TSPs and collects revenue information. The audit further noted that, since the MoU was not legally binding, it remained at a low level of compliance.

### 5.2.2 The existing Memorandum of Understanding was not updated timely

Para 13 of the MoU between TCRA and TRA required the MoU to be amended regularly to accommodate new developments. This includes new services and products provided by TSPs. However, the review of MoU as well as the interview with officials from TRA and TCRA revealed that the MoU has never been reviewed since its establishment on January 5, 2015.

The audit noted that, the changes in regulations in 2018 (Telecommunications Traffic Monitoring Regulations (2018) would automatically necessitate updating the MoU to accommodate the changes which are directly related to revenue collection from TSPs. Since there were no formalized sessions to assess the status of information sharing agreement, it was easy to overlook important issues of the MoU.

### 5.2.3 Ineffective implementation of the Memorandum of Understanding

According to interviews with officials from both TCRA and TRA, the audit team found out that, the terms and conditions of the MoU were not implemented adequately. Such terms include the requirement of data exchange, experience sharing, and capacity building. The weaknesses are as explained below:

i. **Data exchange**

It was a requirement of the MoU that, the two parties should furnish each other of communication services, products or arrangements which were likely to affect taxation of revenues from the telecommunication sector. However, interviews with officials from TCRA and TRA revealed that neither TRA nor TCRA documented lists of aspects of communications services, products or arrangements that were likely to be the subject of abuse that could affect taxation. Lack of formalized communication by the

two parties weakened the understanding of risk identification between TRA and TCRA.

## ii. Inadequate experience sharing and capacity building

The MoU requires sharing of information on work procedures for the purpose of advancing skills and understanding of each other's procedures and techniques within limits of their enabling laws.

The audit noted that TRA staff did not have adequate skills to operate TRAS. It was noted that basic training conducted to TRA staff, was done by TCRA in 2018 where 10 TRA staff were trained when TRAS was installed for the first time. However, the other training was conducted to TRA staff to advance their knowledge in using TRAS.

According to TRA official, continued transfer of staff within TRA also affected the performance and operation of TRAS. Most of the IT staff who were trained by TCRA were reallocated or shifted to other departments. This shifting was not properly done, because no training was made to the new members.

Further enquiries revealed that slow internet connection also contributed to ineffective use of TRAS at TRA. The interviewed TRA officials, admitted that, they were discouraged to use TRAS window because of frequent internet disconnections. As an alternative, TRA staff would physically go to TCRA with an external hard disk or flash disc to download the tax data. Consequently, TRA did not frequently use TRAS for the assurance of the tax returns submitted by TSPs.

## 5.3 Monitoring by MWTC

Communication Sector Strategic Plan (CSSP) July 2016 – June 2021 required MWTC to develop key performance indicators to monitor the performance of the TCRA towards achieving their objectives for regulation of telecommunication sector. This is so, in order to assess the degree to which telecommunication sector is regulated.

This specific section presents the findings on the extent to which the MWTC monitored the performance of TCRA in the regulation of telecommunication sector in the country. The section is sub-divided into three sub-sections namely, strategies for monitoring the performance of TCRA (5.3.1); key performance indicator for monitoring the performance of TCRA (5.3.2) and monitoring of country's main optical fiber (NICTBB)( 5.3.3).

## 5.3.1 Lack of strategies for monitoring the performance of TCRA

MWTC did not have strategies for monitoring the performance of TCRA in the regulation of telecommunication sector. This was acknowledged by its Communication Sector Strategic Plan (CSSP) of July 2016–June 2021 which showed the need to develop Monitoring and Evaluation System. Non-existence of this system inhibited the Ministry to monitor activities of the Ministry as well as entities under this Ministry such as TCRA. Review of CSSP indicated that the Ministry was planning to design and operationalize its Monitoring and Evaluation System by June 2021.

## 5.3.2 Lack of key performance indicator for monitoring the performance of TCRA

Performance of an organization was evaluated using performance indicators. Performance indicators were measures of efficiency and effectiveness of the delivery of services. The best practice required MWTC to develop key performance indicators to monitor the performance of the TCRA towards achieving their objectives for regulation of telecommunication sector. This was so, in order to assess the degree to which telecommunication sector is regulated.

However, the review of the monitoring plans of the MWTC the audit team noted that the Ministry, despite being the overall overseer of implementation of regulating telecommunication sector, has not developed performance indicators which could have been used as guidelines for monitoring the performance of TCRA, specifically in the telecommunication sector.

The impact of not monitoring TCRA's performance specifically in regulating the telecommunication sector, was that MWTC lacked well analyzed information to enable them to take proper actions or decision. MWTC was also not able to assess the systems for actual performance of TCRA based on actual input of resources injected in the activities for regulating of telecommunication sector activities against the actual output resulting from TCRA's regulating activities.

Also, because of the aforesaid situation above has made the Ministry to regularly consult TCRA when in need of any performance information to report to stakeholders who seek TCRA information from the Ministry.

### 5.3.3 Conflicting Institutional Framework in monitoring of Country's Main Optical Fiber (NICTBB)

According to Section 6(1) (c) of Tanzania Communications Regulatory Act (2003), TCRA is responsible for regulating the communication sector. This includes the Main Optical Fiber. According to Section 6(1)(c), regulation covered monitoring the performance of the actors within the telecommunication sector.

The review of the National ICT Backbone Business Plan (2017/18-2022/23) showed that the government managed Main Optical Fiber through MWTC. The Ministry delegated operational management of the Main Optical Fiber to TTCL, which established National ICT Broadband Backbone (NICTBB) as its unit. The main objective of NICTBB was to provide infrastructure connection to telecommunications services in the country, including TTCL.

However, the audit noted that, this institutional setup had conflicts as reflected in the following scenarios: firstly, TCRA being responsible for regulating telecommunication sector, cannot evaluate the performance of its parent Ministry; and secondly, TTCL, being a service provider in the telecommunication sector, is

not expected to fairly compete with other TSPs that receive data services from TTCL through the Optical Fiber.

**CHAPTER SIX**

**CONCLUSION**

This chapter provides the General conclusion and specific conclusions. The conclusions are based on findings outlined in chapters 3, 4 and 5. The focus areas for conclusion are tax collection by TRA, enhancement of tax collection by TCRA, coordination between TRA and TCRA's functions as well as monitoring by MWTC.

**6.1 General Conclusion**

The telecommunication industry is crucial as it affected other sectors. The technologies that enhance this sector are changing at a high speed of innovations (everything is happening at a much faster pace). The findings presented in this report endorse that, there are loopholes that would lead to loss of government revenues from the Telecommunication Service Providers (TSP). Both the Tanzania Revenues Authority and Tanzania Communications Regulatory Authority were not adequately ensured that, revenues from TSP are effectively collected. The audit identified several aspects requiring attention and improvements to enhance revenue collection from TSP.

We noted that TRA has downplayed its role of tax collection from TSPs. TRA responsibility of ensuring that tax audit is conducted to all TSPs was exercised at a minimal level. TRA's plans for tax audit for the year 2017/18 excluded the audit of TSPs. As such no TSP was audited in the years 2016/17 and 2018/18. TRA is uncertain about the amount of tax collected from TSP. This is because TRA does not effectively use the electronic Revenue Collection System (eRCS) and Telecommunications Revenue Assurance System (TRAS) as reliable sources of information to reconcile the submitted tax data from TSPs.

On the other hand, based on presented findings, TCRA and TRA have not effectively worked together to enhance collection of tax

revenue from all TSPs using TRAS. Much effort is needed by stakeholders in dealing with challenges associated with Over the Top applications (OTT). If the OTT problems are not solved immediately, this is likely, to a large extent, contribute to possible loss of government revenue.

## 6.2 Specific conclusions

### 6.2.1 Revenue Collection by TRA

- **Planning and implementation of Tax audit plans**

Tax audit is a crucial exercise required to be done by TRA to ensure the certainty of the tax to be collected from TSPs. However, TRA is not very active in conducting regular tax audits to TSPs. During the four years under review, TRA audit plans to a greater extent did not include all the TSPs. Even in those years in which TSPs were included in the plans, the plans were not implemented as approved, since half of the TSPs in the plan were not audited. The impact of tax audit can be very positive. In one of the conducted tax audits, to a TSP, TRA established an amount of TZS 208 billion as a variance between tax return submitted by a TSP and TRA tax audit figure.

- **Use of electronic revenue collection system (eRCS)**

The electronic revenue collection system (eRCS) is one of the best reliable sources of interconnection for TRA to verify the amount of tax to be paid. However, TRA did not effectively use the eRCS to verify the payable taxes. In the financial year of 2018/ 2019 about TZs. 681.31 billion which was part of VAT and Excise Duty paid by TSP was not verified through eRCS.

- **Inconsistency between data produced from eRCS and TRAS**

We noted a variation in sales information from electronic Revenue Collection System (eRCS) and Telecommunication Revenue Assurance System (TRAS). This resulted into like-hood of losing

potential revenue from TSPs or failure to get revenues on time due to delay of reaching agreement on the actual amount to be paid by TSP.

- **Usage of information from TRAS**

TRA does not always use TRAS to verify the amount of revenue from TSP. This implies that the verified amounts are likely to be unrealistic.

## 6.2.2 Enhancing Revenue Collection

- **TCRA Lacked compliance trend records**

TCRA has good practice to document compliance of TSPs. However, it was difficult to assess the effectiveness of the enforcement. This was partly because there is no simplified analysis of the compliance status of each licensee; as a result, it is not easy to ascertain the level of compliance for each licensee.

- **TCRA does not have a module to monitor OTT Services**

The suggested TCRA recommendations on how to charge OTT services were not implemented. Only one TSP introduced specific bundles and tariff plans for OTT services and there is no specific module for monitoring OTT traffic services that has been deployed. In addition, the increasing number of internet users and the noted significant decreasing trend of both traditional International calls and SMS may pose a significant risk in terms of revenue generation if not adequately monitored.

- **Regulating National ICT Broadband Backbone**

The country's National ICT Broadband Backbone is being managed by the Ministry of Works, Transport and Communications. TTCL has been given this backbone to implement and maintain it. MWTC being the main overseer of the telecommunication sector, makes it difficult for the Ministry to be regulated by TCRA. Since TCRA does

not regulate NICTBB, it has affected business competition among telecommunication service providers and consequently revenue generated in the National ICT Broadband Backbone.

Administration of NICTBB is not done fairly to all TSPs. In the current administration setup, TTCL is a recipient of services from NICTBB, and it is also the service provider to other TSPs.

### 6.2.3 Coordination between TRA and TCRA

Coordination between TRA and TCRA in sharing information that are likely to be the subject of abuse that affects taxations from TSP was not adequate. To some extent, this was because of lack of leadership to coordinate information sharing between TRA and TCRA.

### 6.2.4 Monitoring the Performance of TCRA by MWTC

The Ministry of Works, Transportation and Communication (MWTC) did not adequately monitor the performance of TCRA in regulating telecommunication sector to enhance revenues collection from TSPs. The available monitoring plan has no key performance indicators for measuring the performance of TCRA.

# CHAPTER SEVEN

# AUDIT RECOMMENDATIONS

## 7.1 Introduction

The National Audit Office considers that the recommendations provided in this report need to be fully implemented in order to improve revenue collection from Telecommunication Service Providers. The recommendations are directed to TRA, TCRA and MWTC.

## 7.2 Recommendations to Tanzania Revenues Authority (TRA):

To ensure effective collection of tax revenues from all Telecommunication Service Providers, TRA should;

1. Improve its risk-based audit approach to ensure all risky large taxpayers audit plans and consequent audits include Telecommunication Service Providers (TSP);

2. Allocate its resources (budget, human resource, time and required equipment) for tax audit for auditing all Telecommunication Service Providers each year.

3. Verify and reconcile all submitted tax returns by using reliable established systems such as the Electronic Revenue Collection System (eRCS) and Telecommunications Revenue Assurance Systems (TRAS).

4. Ensure that the Commissioner General has full access to the Electronic Revenue Collection System (eRCS) as required by the Tax Administration (Electronic Revenue Collection System Regulations) of 2017.

5. Document information, communication services and that are likely to be the subject of abuse of tax revenue;

6. Ensure that it expands its server storage capacity and network (bandwidth) to be able to connect and store large files of revenues from Telecommunication Service Providers;

7. Carry-out a thorough analysis of the skills gap among its staff who are responsible for using Telecommunication Revenue Assurance Systems (TRAS) for tax revenue verifications and enhance their knowledge through regular training;

8. Ensure it fully adheres and effectively implements all the agreed terms in the Memorandum of Understanding between itself and TCRA and utilize the available information for collection of sufficient revenue.

## 7.3 Recommendations to Tanzania Communications Regulatory Authority (TCRA):

To ensure that Tax revenues are effectively collected from Telecommunication Service Providers, TCRA should:

1. Establish a compliance level for all telecommunication service providers.

2. Ensure it identifies possible opportunities for revenue collection from over-the-top (OTT) applications and services;

3. Carry out regular studies in order to come up with the best mechanism for dealing with over-the -top (OTT) applications with a view to enhance revenue collection; and

4. Strengthen collaboration with TRA by ensuring there are regular reconciliation meetings in order to help TRA collect all rightful revenues from Telecommunication Service Providers.

## 7.4 Recommendations to Ministry of Works Transport and Communications (MWTC):

To ensure that MWTC effectively monitors the performance of TCRA in regulating telecommunication sector towards enhancing revenue collections, MWTC should;

1. Develop monitoring and evaluation indicators for regulating the performance of TCRA in regulating the telecommunication sector;

2. Ensure that TCRA adheres and effectively implements all the agreed terms in the Memorandum of Understanding between itself and TRA to facilitate effective collection of tax revenue.

3. Ensure there is an institutional setup for legal establishment of NICTBB as an autonomous separate entity to facilitate its regulation and eliminate conflicts of interest;

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9. URT (2016) National ICT Policy
10. URT (2016) National ICT Policy Implementation Strategy
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14. URT (2016/17) TCRA Quarterly Reports - April - June 2017 and 2016
15. URT (2017) Annual Action Plan & Cash Flow for MWTC, 2017
16. URT (2017) MoF and Planning budget speeches
17. URT (2017) Parliament Budget Speeches and Hansards on Tax issues
18. URT (2017) TCRA Action Plan and Budget 2017/18
19. URT (2018) Annual Action Plan & Cash Flow for MWTC
20. URT (2018) TCRA Action Plan and Budget 2018/19
21. URT (2018) TCRA Annual Performance Report for Financial Year 2017-18
22. URT (2018) TCRA Monitoring of Implementation of Strategic Plan 2018/19
23. www.tcra.go.tz

# APPENDICES

**Appendix 1: List of interviewed officials and reasons for interview**

| S/N | Organizations | Person to be interviewed | Reasons |
|---|---|---|---|
| 1 | Ministry of Works, Transportation and Communication | Director of Policy and Planning Director of ICT | To get information on the extent at which the MWC monitor performance of TRA on issues relating to controls in revenue collections |
| 2 | TRA | Commissioner and Deputy Commissioner of Large Taxpayer Department | To get general understanding of controls for revenue collection available the respective departments and their associated challenges |
| | | Officials from Large Taxpayers Department. | To get general understanding of application of procedures in revenue collection from telecommunication service providers and their associated challenges |
| | | • Managers of Tax audit, International Taxation and Return and Data Processing of Large Taxpayers Department<br>• Director of Research<br>• Director of ICT | To get information on the extent to which tax auditing and assessment was effective in controlling revenue collection<br>Challenges facing Tax investigators |
| | | Staff from Internal Audit Department | The get their views on the effectiveness of controls in revenue collection from telecom service providers<br>To get their relating to controls on revenue collection that they have identified in their routine audits. |
| 3 | TCRA | Director of Industrial analysis | Understanding the role of TCRA in monitoring revenue collection from |

| S/N | Organizations | Person to be interviewed | Reasons |
|---|---|---|---|
| | | | Telecommunication Service Providers (TSPs) |
| | | Head of Enforcement | To get the information about enforcing the compliance to ensure effective revenue collection from TSPs |
| | | Head of Consumers complaints | To understand the nature of compliant brought to TCRA |
| | | Director of Licensing | Understanding implementation of licensing procedures |

**Appendix 2: List of reviewed documents and reasons for the reviews**

| Name of the Document | Reason for reviewing the document |
|---|---|
| Documents From TRA | |
| Annual business plan of sections from DRD department, LTD department at TRA | To get information on target in relation to revenue collection from telecommunication service providers. |
| Strategic plans for the period of 2015/2016 – 2019/2020 for TRA | To Identify strategies set to enhance revenue collection from telecommunication service providers. |
| Strategic plans for the period of 2016/17 – 2020/21 | To get information on target in relation to non-tax-revenue collection from telecommunication service providers. |
| | To Identify strategies set to enhance non-tax revenue collection from telecommunication service providers. |
| Filed Audit Business Plan | To understand the extent the tax audit for Large tax payers covers telecommunication Service Providers |
| Tax audit report | To identify number of Telecommunications Service providers that have been audited in a given Financial year |
| TRA's Performance reports | To obtain information on performance of revenue collection from telecommunication service providers control process. |
| TRA's Performance reports | To obtain information on performance of revenue collection from telecommunication service providers control process. |
| MWTC monitoring reports of TCRA activities | To get information on how often MWTC monitors revenue collection in the country to various revenue collection entities. |

# Appendix 3: TCRA Organization Structure

```
                        ┌─────────────────────┐
                        │ BOARD OF DIRECTORS  │
                        └──────────┬──────────┘
                        ┌──────────┴──────────┐
                        │  DIRECTOR GENERAL   │
                        └──────────┬──────────┘
```

| LEGAL SERVICES UNIT | PROCUREMENT MANAGEMENT UNIT |
|---|---|
| DIRECTOR | HEAD OF UNIT |

| INTERNAL AUDIT UNIT | CORPORATE COMMUNICATION UNIT |
|---|---|
| HEAD OF UNIT | HEAD OF UNIT |

| RISK MANAGEMENT UNIT | QUALITY MANAGEMENT  UNIT |
|---|---|
| HEAD OF UNIT | HEAD OF UNIT |

| DIRECTORATE OF LICENCING & ENFORCEMENT | DIRECTORATE OF INDUSTRY AFFAIRS | DIRECTORATE OF ICT APPLICATION SERVICES | DIRECTORATE OF CORPORATE RESOURCE MANAGEMENT |
|---|---|---|---|
| DIRECTOR | DIRECTOR | DIRECTOR | DIRECTOR |
| LICENSING SECTION | TELETRAFFIC MANAGEMENT SECTION | STANDARDS & TECHNICAL SPECIFICATION SECTION | ADMIN & HRM SECTION |
| HEAD OF SECTION | HEAD OF SECTION | HEAD OF SECTION | HEAD OF SECTION |
| ENFORCEMENT & COMPLIANCE SECTION | INDUSTRY INDICATORS & STATISTICS SECTION | CYBER SECURITY COORDINATION SECTION | FINANCE & ACCOUNTS SECTION |
| HEAD OF SECTION | HEAD OF SECTION | HEAD OF SECTION | HEAD OF SECTION |
| CUSTOMER & CONSUMER AFFAIRS | | CORPORATE ICT SECTION | PLANNING, MONITORING & EVALAUTION  SECTION |
| HEAD OF SECTION | | HEAD OF SECTION | HEAD OF SECTION |
| ZANZIBAR OFFICE & ZONE OFFICES | | | |
| HEAD OF ZONE | | | |

## Appendix 4: Detailed Main audit questions with sub-questions

| Number | Question |
|---|---|
| **Audit Question 1** | **To what extent does TRA collect all tax revenue from Telecom Service Providers?** |
| Sub Audit Question 1.1 | To what extent the tax audit done by TRA is planned based on risk assessment? |
| Sub Audit Question 1.2 | Does TRA effectively use the Telecommunication Revenue Assurance System (TRAS) for monitoring tax amount to be paid by telecom service providers? |
| Sub Audit Question 1.3 | Does TRA ensure that revenue captured by TRAS tallies with revenue reported submitted financial statements by telecommunication service providers? |
| Sub Audit Question 1.4 | Does TRA use data from TRAS for establishing tax base and setting target for tax collection? |
| Sub Audit Question 1.5 | Does TRA operational staff have capacity (ICT knowledge, infrastructure, and financial) to operate TRAS? |
| Sub Audit Question 1.6 | Does TRA conduct the inventory of Telecom Service Providers to establish a projection of revenue collection? |
| Sub Audit Question 1.7 | Do TRA monitoring and evaluation plans provide information on performance of revenue collection from Telecom Service providers? |
| Sub Audit Question 1.8 | Does TRA reach its revenue collection targets from Telecom service providers? |
| Sub Audit Question 1.9 | Does TRA taken required actions to improve efficiency and effectiveness of revenue collection from Telecommunication service Providers? |
| **Audit Question 2** | **To what extent does TCRA collect all non-tax revenue (fees and penalties) from Telecom Service Providers?** |
| Sub Audit Question 2.1 | Does TCRA planning tools track payment of fees and penalties to be paid by telecom service providers? |
| Sub Audit Question 2.2 | Does TCRA monitoring tools capable to capture an over the top (OTT) application services? |

| Number | Question |
|---|---|
| Sub Audit Question 2.3 | Does TCRA apply penalties and other deterrent actions against Telecom-service providers' offences to enhance revenue collection? |
| Sub Audit Question 2.4 | Do TCRA monitoring and evaluation plans provide information on performance of revenue collection from telecom Service providers? |
| Sub Audit Question 2.5 | Does TCRA take required actions to improve efficiency and effectiveness of revenue collection from Telecommunication service Providers? |
| Sub Audit Question 2.6 | Does TCRA have information it needs from Billing verification system regarding potential revenue from telecom for bills charges? |
| Sub Audit Question 2.7 | Does TCRA conduct the inventory of telecom service providers to establish a projection of revenue collection? |
| Sub Audit Question 2.8 | Does TCRA access **Billing verification system** whenever it needs to audit charges changes from telecom service providers? |
| Sub Audit Question 2.9 | Does TCRA conduct the inventory of telecom service providers? |
| Sub Audit Question 2.10 | To what extent does TCRA fee payers inventory enables it to estimate revenue collection from telecom service providers? |
| Sub Audit Question 2.11 | To what extent does TCRA monitor performance of monitoring and tools (TTMS, etc..) |
| Sub Audit Question 2.12 | To what extent does TCRA reach its revenue collection targets from fee payments by Telecom service providers? |
| Audit Question 3 | **Are there an effective coordination between TCRA and TRA to ensure that all controls for revenue collection from Telecommunication service providers functioning well?** |

| Number | Question |
|--------|----------|
| Sub Audit Question 3.1 | Does the existing information sharing framework between TCRA and TRA functioning well for easy collection of revenue from telecommunication service providers? |
| Sub Audit Question 3.2 | To what extent does the Memorandum of Understanding between TRA and TCRA cover all aspects need for enhancing revenue collection from Telecommunication service providers? |
| Sub Audit Question 3.3 | Do TCRA and TRA ensure that the memorandum of understanding between them is effectively implemented? |
| Audit Question 4 | **Does MWTC conduct a close monitoring to the performance of TCRA to ensure that all revenue from telecom service providers is collected?.** |
| Sub Audit Question 4.1 | Does the MWTC ensure the existing coordination arrangements between TRA and TCRA support the collection of all revenue from Telecom service providers? |
| Sub Audit Question 4.2 | Does the MWTC ensure that the roles and responsibilities assigned to TCRA and TRA trough MoU are adhered to?, (are there any indication of issues of duplication and overlapping responsibilities between TCRA and TRA? |
| Sub Audit Question 4.3 | To what extent does the existing legal and institutional framework ensure enhanced revenue collection from telecom infrastructure, data and services? |

# Appendix 5: Organization Structure for Ministry of Works, Transport and Communication
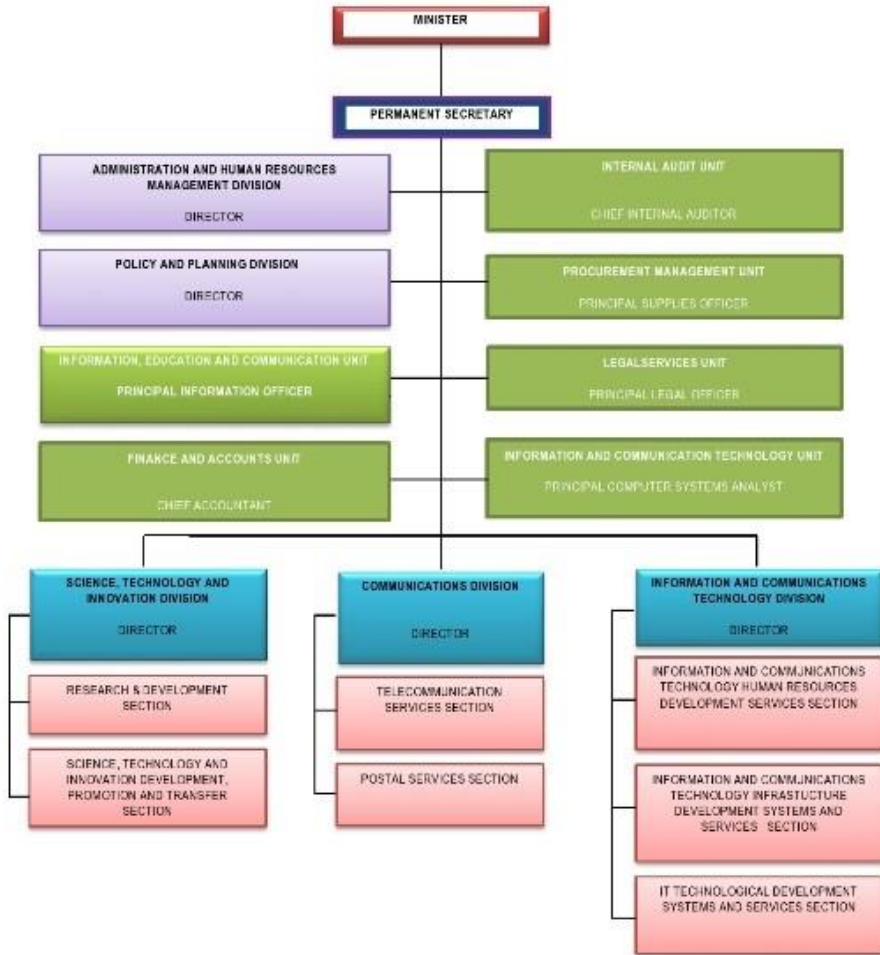
# Appendix 6- The electronic and postal communications (quality of service) regulations, 2018

A. Quality of service parameters for public switched telephone network (PSTN) services

1. Billing, customer services & satisfaction measures
2. Customer satisfaction attributes
3. Quality of service parameters for mobile telephone services
4. Service quality attributes for voice over lte (volte) services
5. Billing, customer service & satisfaction measures

B. Quality of service parameters for customer satisfaction attributes
C. International telephone  services,
D. Internet services
E. Postal services
F. Content services
G. Quality of service parameters for mobile telephone services

| S/N | Parameter |
|-----|-----------|
| 1 | Network availability |
| 2 | Point of interconnect (poi) congestion < 0.5 % |
| 3 | Call connection failure rate < 2 % |
| 4 | Call drop rate < 2 % |
| 5 | Call setup time < 10 sec maximum time taken for voice service connection |
| 6 | Service coverage |
| 7 | Voice quality (mean opinion score- mos) |
| 8 | Call success rate (csr) ≥ 95 % |
| 9 | Handover success rate ≥ 98 % |
| 10 | Average data rate for packet data >= 4 mbps |
| 11 | Ping round trip time < 400 ms (data) |
| 12 | Attach failure ratio < 2 % |
| 13 | Attach setup time ≤ 5 sec |
| 14 | SMS service accessibility |
| 15 | SMS access delay ≤ 2 sec |
| 16 | SMS completion failure ratio ≤ 2 % |
| 17 | SMS end to- end delivery time |

| S/N | Parameter |
|-----|-----------|
| 18 | Registration success rate >= 99% rate of successful registration attempts in the Volte service. |
| 19 | Service availability >= 98% end to end service availability in terms of capacity to establish calls from, and to, a volte customer. |
| 20 | Post dialing delay (PDD) |

## Appendix 7: Responses from the Audited Entities

## Appendix 7(a): Responses from the TRA

## Overall Comments (s)

| None |
|------|

## Specific Responses from Tanzania Revenues Authority (TRA):

| S N | RECOMMENDATIONS | COMMENT(S) | ACTIONS TO BE TAKEN | TIMELINE |
|-----|-----------------|------------|---------------------|----------|
| 1 | Improve its risk-based audit approach to ensure all risky large taxpayers audit plans and consequent audits include Telecommunication Service Providers (TSP); | Noted for implementation. Telecommunication companies under large taxpayers are always included in the Tax Audit Plan. When a Telecom company was not included in the audit plan, the taxpayer was either under investigation by Investigation Department or Special Team. | To continue including Telecommunication companies in the annual audit plan and make sure the audit starts at the beginning of the fiscal year to minimize scenarios of overlapping to other fiscal year. | Next Annual Business Plan (ABP) in June 2020. |

| S N | RECOMMENDATIONS | COMMENT(S) | ACTIONS TO BE TAKEN | TIMELINE |
|---|---|---|---|---|
| 2 | Allocate its resources (budget, human resource, time and required equipment) for tax audit for auditing all Telecommunication Service Providers each year. | Noted for implementation. Financial resources are allocated based on an Activity Based Budget (ABB) for each year. In terms of human capital resources, there is still a requirement of sufficient number and skilled staff to audit the sector from time to time and more time and equipment will be allocated to audit the sector. | To embrace "mock" auditing of telecom taxpayers so as to maintain consistency in application of tax laws and impart knowledge to staff as part of mentoring and coaching to build capacity. | On going |
| 3 | Verify and reconcile all submitted tax returns by using reliable established systems such as the Electronic Revenue Collection System (eRCS) and Telecommunications Revenue Assurance Systems (TRAS). | Noted for implementation. For the period when e-RCS was in use the amount of sales reported on VAT returns (TRA & ZRB) is as per sales recorded by Electronic Revenue Collection System (e-RCS). The ICT team under e-RCS does monthly reconciliation before payment of VAT & | To continue using e-RCS and TRAS in the monthly exercise of vetting returns. | Monthly |

| S N | RECOMMENDATIONS | COMMENT(S) | ACTIONS TO BE TAKEN | TIMELINE |
|---|---|---|---|---|
| | | E/Duty. Furthermore, the amount of taxes computed and paid is generated by e-RCS without human intervention. | | |
| 4 | Ensure that the e-RCS Developers are handling over to the Commissioner General the Electronic Revenue Collection System (eRCS) as required by the Tax Administration (Electronic Revenue Collection System Regulations) of 2017. | Recommendation has been noted for implementation. | To liaise with system developers to handle over the system to our ICT Directorate after fixing all challenges. | Within 2020/21 |
| 5 | Document information, communication services and that are likely to be the subject of abuse affects taxations; | Noted for implementation. List of Telecommunication services subject to tax are clearly provided for under the laws of VAT and Excise Duty. This will be shared with TCRA from time to time. However, we are of the views that improvement of bandwidth and internet connectivity may | To share with TCRA a list of Telecommunication service which are subject to tax and a format of submitting them when are requested.<br><br>However, the best optimal solution is to increase bandwidth and internet connectivity for accessing them | 30<sup>TH</sup> June 2020<br><br><br><br><br>Within 2020/21 |

| S N | RECOMMENDATIONS | COMMENT(S) | ACTIONS TO BE TAKEN | TIMELINE |
|---|---|---|---|---|
| | | facilitate us to access the needed information and do away with manual requests of data, | and related data directly. | |
| 6 | Ensure that it expands its server storage capacity and network (bandwidth) to be able to connect and store large files of revenues from Telecommunication Service Providers; | Recommendation has been noted for implementation. | To include the required resources in the next budget. | Within 2020/21 |
| 7 | Carry-out a thorough analysis of the skills gap among its staff who are responsible for using Telecommunication Revenue Assurance System (TRAS) for tax revenues verifications and enhance their knowledge through conducting regular training session. | Noted for implementation. Trainings are always conducted and is a continual process. Hence, more trainings will continue to be conducted depending on the availability of resources. | To increase number of trainings related to Telecommunication Revenue Assurance System in the next fiscal year training Plan to supplement internal trainings(on job trainings) | On going |

## Appendix 7(b): Responses from TCRA

## Overall Comments (s)

Auditor Recommendations are accepted.

TCRA acknowledges that the growth of the communication sector has enabled the public to increase the use of the internet. This has resulted into an increase in the use of over-the-top (OTT) applications and services. While the use these applications have helped to accelerate the consumption of data services, revenues for traditional voice and sms have been partly affected. TCRA will continue to carry out regular studies in order to establish mechanisms for regulating OTT applications and services. Meanwhile, the issue of establishing the compliance level for all telecom services provider is being handled in line with the prepared Enforcement and Compliance Guidelines expected to be used by the end of December 2020

## Specific Responses from Tanzania Communications Regulatory Authority (TCRA):

| S/N. | RECOMMENDATIONS | COMMENT(S) | ACTIONS TO BE TAKEN | TIMELINE |
|------|-----------------|------------|---------------------|----------|
| 1 | Establish a compliance level for all telecommunication service providers. | Issues related to assessment of compliance level for the telecom service providers has been incorporate in the *Draft Enforcement and Compliance Guidelines, 2020.* | The Enforcement and Compliance Guidelines is currently undergoing the necessary approvals (by management/Board) prior to being applied. | 31 December 2020 |
| 2 | Carry out regular studies in order to come up with best mechanism for | TCRA has carried out a study in 2018 on the | TCRA is on the process of carrying out another study to establish best | 30 June 2021 |

| S/N. | RECOMMENDATIONS | COMMENT(S) | ACTIONS TO BE TAKEN | TIMELINE |
|------|-----------------|------------|---------------------|----------|
| | regulating over-the-top (OTT) applications and establish possible revenue collections from OTT services | impact of OTT applications | mechanisms for regulating OTT applications | |
| 3 | Strengthen Collaborations to help TRA collect all revenues from Telecommunications Service Providers | TCRA has been fully collaborating with TRA through the established MoU | Regular meetings will be held to implement the agreed terms of the MoU | 30 June 2021 |
| 4 | Ensure it fully implements terms agreed in Memorandum of Understanding between itself and TRA to facilitate effective collection of tax revenue. | Since 2015, TCRA issued TRA with access accounts to allow retrieval of data relevant for collection of tax revenue | Regular meetings will be held with TRA to effectively implement the agreed terms of the MoU | 30 June 2021 |

## Appendix 7(c): Responses from MWTC

## Overall Comments (s)

The MWTC advices directives to be provided to Treasurer Registrar to remind Institutions to seek approval of the Ministry on adherence to policies before obtaining Board and Treasurer Registrar budget approval

## Specific Responses from Ministry of Works Transport and Communications (MWTC):

| S N | RECOMMENDATIONS | COMMENT(S) | ACTIONS TO BE TAKEN | TIMELINE |
|---|---|---|---|---|
| 1. | Develop monitoring and evaluation indicators for monitoring the performance of TCRA in regulating the telecommunication sector | - Indicators for regulating the performance of TCRA are already available in the National ICT Policy Implementation Strategic, although need to be reviewed and updated.<br><br>The ICT policy objectives (7,12, 13, 14, 15), have indicators and means of verification which guides Monitoring and Evaluation of performance of TCRA in regulating Telecommunication sector (as attached) | - Review and update milestones, targets and indicators to be used to monitor performance of TCRA to make sure comply with the National ICT Policy objectives before approval of their action plan and budget;<br><br>- TCRA Quarterly, mid-year and annual performance reports to be submitted to | Before action plan and budget approval<br><br>- Quarterly, Mid-year and annually<br><br>2020/21 |

| S N | RECOMMENDATIONS | COMMENT(S) | ACTIONS TO BE TAKEN | TIMELINE |
|---|---|---|---|---|
| | | | the Permanent Secretary, reviewed by management and recommendations provided and submitted back to TCRA; but also reported to the MOFP; and<br><br>- Evaluate efficiency and effectiveness of TCRA implementation of the National ICT Policy Implementation Strategic, where the findings will be used as an input in formulating a new National ICT Policy Implementation Strategic. | |
| 2. | Ensure that TCRA adheres and effectively implements all the agreed terms in the Memorandum of Understanding between itself and TRA to facilitate | Review of the MoU is recommended to ensure terms on revenue collection are implementable as well as technical terms be revised and improved for the total solution of the matter | - MWTC will Guide evaluation of MoU to identify existing weaknesses in both entities;<br><br>- MWTC will Guide on review of MoU so that to | By 30th June, 2020 |

| S N | RECOMMENDATIONS | COMMENT(S) | ACTIONS TO BE TAKEN | TIMELINE |
|---|---|---|---|---|
| | effective collection of tax revenue. | | provide appropriate supports to TRA in revenues collection | |
| | | Frequently assessment is recommended on the implementation of MOU | Communicate with TCRA and TRA Regularly in order to identify challenges/ barriers hindering revenues collection in Telecom service providers | Quarterly, Mid-year and annually |
| 3. | NICTBB as autonomous separate entity to facilitate its regulation and eliminate conflicts of interest; | Pursuant to the directive of the Chief Secretary, NICTBB shall operate as a subsidiary company under the Tanzania Telecommunications Corporation. The Ministry has prepared a paper regarding formation of NICTBB as an independent entity under TTCL | The Ministry will share the paper with key stakeholders and a taskforce will be formed to review the paper and come out with a final document, prepare Memorandum and Articles of Association and provide support in the registration of a subsidiary Company subject to necessary approvals. | To be completed by 30th June, 2020 subject to availability of funds to undertake the task |