

**THE EFFECT OF FINANCIAL MANAGEMENT SYSTEMS ON
LOCAL GOVERNMENT PERFORMANCE:
THE CASE OF NAMTUMBO DISTRICT COUNCIL**

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THE CASE OF NAMTUMBO DISTRICT COUNCIL**

By

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A&F) of Mzumbe University**

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DECLARATION AND COPYRIGHT

I, Nicholas S. Ndunguru, the undersigned, declare that the work presented in this thesis is my own original work, and to the best of my knowledge the same work has never been presented at Mzumbe University or at any other higher institution of learning. Where it became necessary to use the work of other authors (scholars), all references have been indicated and acknowledged.

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DEDICATION

This dissertation is dedicated to my beloved wife, mother, father, sisters, son and daughter for their support and encouragement.

ACKNOWLEDGEMENTS

First and foremost I thank God for having provided me with faith, courage, strength and diligence to reach my goal. Without the help of the Almighty God nothing is possible.

Compiling this thesis would not have been possible without the support and concerted efforts of a number of dedicated people.

- Much appreciation to my family: who encouraged and supported me in spite of my absence at times.
- My gratitude to my Supervisor Thomas Magambo for having the confidence in me and for encouraging me to complete the thesis. I am truly indebted to him.

ABSTRACT

The financial management in the Local government can be improved by the development of an integral accrual accounting system to enable the preparation of accrual-based budgets, financial statements and performance reports to meet the needs of the various stakeholders. Traditionally the management of government expenditures has been focused on a system of expenditure control, which is based to ensure that budgetary authority granted by the legislature is not exceeded. The cash basis of accounting does not measure the resources consumed during the period under review, thus the true costs of government programmes and projects are not correctly measured, controlled or reported. In the absence of accurate cost information, performance measures of efficiency and cost-effectiveness cannot readily be determined. The establishment of International Public Sector Accounting Standards (IPSAS), these standards introduce the accrual basis of accounting and is a significant step towards transparent and accountable information. The study was specifically designed to achieve the following specific objectives:-

- i) To determine whether a budget system links with strategic outcomes
- ii) To determine whether a performance reporting framework is on cash basis or accruals basis?
- iii) To determine whether there is a sound internal control system in the council
- iv) Determine whether the internal Audit functions properly and does its work independently.

Key findings of the study

The financially successful and efficient Local Government is headed by competent management and makes use of effective budgetary control. Effective budgetary control is based on operating budgets that are closely linked with long-term strategic plans and desired outcomes. The operating budgets are then compared with actual results, on an

accruals basis, in order to measure performance and efficiency. It is clear from the above that three basics exist for financial management performance measurement, namely:

- (i) committed and competent head of department;
- (ii) outcomes-based budgeting; and
- (iii) Accruals-based reporting.

A Financial performance measurement framework that uses the balanced scorecard as a base are developed for Local governments and incorporates (i) the implementation of an outcomes-based budget; (ii) the use of an accruals-based cost/revenue allocation to measure the costs of the various outputs; and (iii) a performance statement.

Committed and competent head of department is the first condition for financial performance measurement. The responsibilities and training needs of the Executive Authority and Head of department are clearly defined and the training needs of Local government officials are highlighted.

Outcomes-based budgeting is the second condition for financial performance measurement. The Management in Local governments should take cognizance of the shortcomings of the current budgeting process and consider the implementation of activity-based budgeting. Reporting on an accruals basis is the third condition for financial performance reporting. Internal reporting in Local government departments should be revitalized and the activity-based costing should be implemented to facilitate accruals-based cost allocations to all the various activities and processes that are required for each output.

Finally, the study recommends an audit committee and finance committee should basically discuss various issues concerned with council financial performance and financial statements of Local government departments.

Suggestions for Future research Studies

All the unanswered questions arising from this study should be addressed in future studies. The following list of topics may be of interest to financial management in the government:

- i) A critical analysis of cost accounting systems in the public sector;
- ii) A framework to implement the balanced scorecard in the public sector;
- iii) A critical analysis of performance measurement systems in the public sector;
- iv) A survey of the cost effectiveness of service delivery in the public sector;
- v) A framework for the implementation of accrual accounting in the public sector.

TABLE OF CONTENTS

	PAGES
DECLARATION AND COPYRIGHT	I
DEDICATION	II
ACKNOWLEDGEMENTS	III
ABSTRACT	IV
LIST OF TABLES	XI
CHAPTER ONE	1
1.0 INTRODUCTION AND BACKGROUND INFORMATION	1
1.1 Introduction	1
1.2 Background to Local Government Authorities in Tanzania	1
1.3 Background of the Namtumbo District Council	3
1.4 Background Information to the Research Problem	5
1.5 Statement of the Research Problem	5
1.6 Research Questions	7
1.7 Objectives of the Study	7
1.8 Research hypotheses	8
1.9 Significance of the Study	8
1.10 The Scope of the Study	9
1.11 Limitations of the Study	9

CHAPTER TWO.....	10
2. O LITERATURE REVIEW.....	10
2.1 Introduction	10
2.3 Empirical Literature Review	15
2.4 Conceptual Framework	17
CHAPTER THREE	19
3.0 RESEARCH METHODOLOGY.....	19
3.1 Introduction	19
3.2 Research Design	19
3.3 Study Population	20
3.5 Unit of inquiry.....	21
3.5.1 Sampling.....	21
3.6 Data Collection Methods.....	22
3.7 Data Analysis	24
3.8 Drawing Conclusions and Making Recommendations	24
CHAPTER FOUR.....	25
4.0 PRESENTATION OF THE RESEARCH FINDINGS, DATA ANALYSIS AND DISCUSSION	25
4.1 Introduction	25
4.2 Whether there is a need for trained and committed Head of Departments for better local Government performance	26
4.3 Does the budget system of the council links with strategic outcomes	33
4.4 Which the reporting framework should the Local Government Authorities use Cash basis? Or Accruals basis.....	44
4.5 Does the Council Have a Sound Internal Control System in the Council?.....	47

4.6 Is the internal Audit unit functioning properly and does its work independently? ..	50
4.7 Performance of Audit Committees in Namtumbo district council.....	51
CHAPTER FIVE.....	52
5.0 CONCLUSION AND RECOMMENDATIONS	52
5.1 Conclusion.....	52
5.2 Recommendations	52
5.3 Topics for Future Studies	56
REFERENCES	57
APPENDICES	59

LIST OF ABBREVIATIONS

GDP	Gross Domestic Product
CAG	Controller and Auditor General
O & OD	Obstacle & Opportunities in Development
GAAP	Generally Accepted Accounting Practice
SWOT	Strength Weakness Opportunities and Threat
ASB	Accounting Standards Board
D by D	Decentralization by Devolution
LGAs	Local Government Authorities
IPSASs	International Public Sector Accounting Standards
LLG	Lower Level Governments
IFAC	International Federation of Accountants
MTEF	Medium Term Expenditure Framework

LIST OF TABLES

	PAGES
Table 3.1: Sample size of the study	19
Table 4.1: Number of people interviewed	23
Table 4.2: Attributes of District Treasurer	29
Table 4.3: Types of Budget used in local Governments	32
Table 4.4: Key factors of effective budgeting systems	34
Table 4.5: Importance ratings of features for effective budgeting	37
Table 4.6: Council expenditure against Internal Audit queries for year 2010/2011	44
Table 4.7: Council expenditure against Internal Audit queries for year 2011/2012	44
Table 4.8: Audit Certificates showing the Financial Performance	45

CHAPTER ONE

1.0 INTRODUCTION AND BACKGROUND INFORMATION

1.1 Introduction

This research presents the study on the assessment of effectiveness of financial management system on local government performance. In the performance of any organization there are aspects of management systems which include financial aspect and non financial aspects, the researcher concentrated only on the financial aspect. Thus the study was exploring the status of the local government effectiveness in financial management system in achieving the better performance hence value for money. The study was conducted at Namtumbo District Council in Ruvuma region which presented the sample of the Local government authorities in Tanzania. The performance measurement approach highlights the importance of the setting of benchmarks or predetermined measures to assess effectiveness of the Local government authority. These benchmarks and measures were predetermined by using the strategies and desired outcomes of an organization as a base that incorporated the planning and budgeting process.

1.2 Background to Local Government Authorities in Tanzania

1.2.1 Decentralization in Tanzania

The United Republic of Tanzania is made up of two formerly independent countries, Tanganyika and Zanzibar, which united in 1964 to form a new nation of Tanzania. The two halves of the republic have somewhat different evolution and system of local government. The mainland Tanzania has a long history of functioning local government, starting with the Native Authorities Ordinance in 1926.

1.2.2 Staff in Local Government

The head of the Local Government is the District Executive Director in the district authorities and the Town/Municipal/City Director in the urban authorities. Typically, below the Director there are a number of Heads of Departments. Central government appoints the chief officers through the process of open bidding. City council directors are appointed by the president, while Directors of Town, Municipal and District councils are appointed by the Minister. The Minister also appoints the heads of departments after a recruitment process. The responsibility to recruit and dismiss senior officers is, at the moment, being devolved to local governments.

1.2.3 Independent Scrutiny

In Tanzania, there is now exists a code of conduct for the officials and Councilors. Also, procedures are in place to sanction against any offenders. In terms of financial matters, the Controller and Auditor-General is responsible for the external audit of the local government accounts, under the Controller and Auditor-General Act.

1.2.4 Public Service Delivery

The stated basic functions of the local government are Maintenance of law, order and good governance, Promotion of economic and social welfare of the people within their areas of jurisdiction and Ensuring effective and equitable delivery of qualitative and quantitative services to the people within their areas of jurisdiction.

1.2.5 Finances

Most of the local government income comes from government allocations, which amount for 80 % of the entire local authority budget. Local authorities can also raise revenue locally. The main sources of local income come from: Fees including taxi registration, bus stands, forestry products, valuation, scaffolding, inoculation and ambulance, Licenses including road, liquor, Property taxes and rents, Charges including for refuse collection, cess, hire of vehicles, markets, Fines and Others including sale of assets and recovery of public fund (General Purpose Grant). And the contribution of the

local government of the mainland Tanzania to the GDP of the mainland was about 3% in 2002(URT, (2006).

1.3 Background of the Namtumbo District Council

1.3.1 Introduction

Namtumbo District Council is one of the Five Councils that forms Ruvuma Region. Namtumbo District Council was splited from Songea District Council in the 1st July 2002. The District area of jurisdiction covers 20,375 sq km. The District shares the borders with the Republic of Mozambique in the South, in which the Ruvuma River forms an International Boundary, It borders with Songea District in the West, Tunduru District in the East and Ulanga District (Morogoro Region) in the North.

According to 2002 Population Census, Namtumbo District had total population of 175,051 of which 85,925 were males and 86,126 females. Namtumbo population estimates for the year 2011 stood at 217,165 of which 106,826 were males and 110,339 females with growth rate of 3.4 per annum.

It is estimated that about 97% of people engage in agriculture activities which is the main source of income with very little animal husbandry. The type of agriculture is still very traditional (Shifting cultivation) with low yields in subsistence crops per hectare. Individual peasant undertakes farming on cash and food crops production. In making sure that agricultural production is well improved the government from the financial year 2008/2009 has extended its support to agricultural implements by providing subsidies through **KILIMO KWANZA** strategy.

1.3.2 O & OD Process

It is the approach used in the planning process during budgetary period. It mainly starts in September of each year. This approach needs that all projects undertaken in the District come from the grass root level (Villages/Wards). Development projects are

initiated by the Communities in Villages through participatory approach. At the District level the priorities are discussed and included in the comprehensive District Plan

1.3.3 Names of Key Stakeholders

Key Stakeholders of Namtumbo District Council is the whole Community (Men, Women, Youth and Children) who are supposed to participate equally in Socio-Economic Development activities. However, other Key Stakeholders include The Central Government, the Development Partners, and The Non-Governmental Organizations, the Community Based Organizations, and the Faith Based Organizations

1.3.4 SWOT Analysis

Namtumbo District Council, has since its establishment by an Act of Parliament, been the biggest provider of all the basic services to the population in its area of jurisdiction. The analysis of the district on its strengths and impact, strategic value, opportunity and comparative advantages, weaknesses and threats makes the council to have better performance in terms of provision social services to the public.

1.3.5 Vision of the Council

Namtumbo District Council intends to provide better sustainable services so as to have a community that enjoys good standard of living.

1.3.6 Mission Statement

Namtumbo District Council in collaboration with the external stakeholders intends to provide high quality and sustainable services derived from participatory approach, good governance, and the rule of law and through the use of opportunities and proper use of available and future resources so as to improve the quality of life and increased income by 2025. (Namtumbo MTEF, 2012/2013)

1.4 Background Information to the Research Problem

In Tanzania the management of government expenditure has traditionally been focused on a system of expenditure control to ensure that budgetary authority granted by the legislature is not exceeded. In the absence of accurate cost information, performance measures of efficiency and expenditure effectiveness cannot readily be determined other than by performing relatively expensive ad hoc studies. The financial information currently available cannot appropriately satisfy the need to evaluate or control the operations and projects under review. The Public Finance Act, No. 6 of 2001 requires the National Treasury to prepare financial statements in accordance with Generally Accepted Accounting Practice (GAAP) in respect of public sector entities. Also this Act further provides for the establishment of an Accounting Standards Board (ASB) to set the statements of generally accepted accounting principles. This is a significant step in the reform process in local government authority financial reporting; with the result that monitoring performance against objectives will be easier. It is against this background that the study was taken.

1.5 Statement of the Research Problem

The history of local governments in Tanzania has been filled with gross financial mismanagement to the extent that is why the government has decided to institute periodical restructuring and reform program. Shortcomings in management measures involving millions of Tanzania Shillings where the taxpayer do not receive value for money they intend to receive for the service rendered by their Government. For example every audit regularly reported by Controller Auditor General to the President each year the audit reports tabled by the Controller Auditor General show the result of financial management on performance of Local Government Authorities.

The CAG on his 2009/2010 report states that decline in Local Government Authorities' (LGAs) performance was mainly attributed by the following main reasons:

- i) Some submitted financial statements lack proper disclosures as per the requirements of IPSASs accruals basis of accounting thus resulting into difficulties in measuring performance of the LGAs.
- ii) Lack of close supervision on the part of Council management to supervise and monitor implementation of development projects being implemented at Lower Level Governments (LLG) i.e. Wards and Villages. Councils transfer funds to Wards and Villages without making close follow-ups.
- iii) Increase of funds transferred to Councils under the arrangement of decentralization by devolution (D by D) arrangement and from Councils to Lower Level Governments. This arrangement puts high demand on capacity to manage the finances at the lower administrative levels hence increased risks of mismanagement of such funds.
- iv) Increase in non compliance to the existing internal control systems.
- v) Long-term planning, linked to resources, frequently does not take place in a formal manner. The coordination of planning actions is not always satisfactory;
- vi) Management information systems do not always provide the necessary information and often function in an uncoordinated manner.

(Controller and Auditor General (CAG), General Report on LGAs for 2009/10)

From the above observation, there is a need to carry out the study to see whether Local Government Authorities particularly Namtumbo District Council has the effective financial management system on the performance of the Council. The researcher chooses Namtumbo district council in order to present other district council because of familiarity and awareness.

1.6 Research Questions

1.6.1 The main research question

How does financial management system affect Local Government performance in Namtumbo district council?

1.6.2 Specific Research questions

The study was guided by the following research questions:-

- (i) Does the budget system of the council links with strategic outcomes?
- (ii) Which the reporting framework should the Local Government Authorities use cash basis? Or accruals basis?
- (iii) Does the council have a sound internal control system in the council?
- (iv) Is the internal Audit unit function properly and does its work independently?

1.7 Objectives of the Study

1.7.1 General Research Objective

The main objective of this study was to examine the impact of financial management systems on the performance of local government authorities.

1.7.2 Specific Objectives

The study was specifically designed to achieve the following specific objectives:-

- i) To determine whether a budget system links with strategic outcomes
- ii) To determine whether a performance reporting framework is on cash basis or accruals basis?
- iii) To determine whether there is a sound internal control system in the council
- iv) Determine whether the internal Audit functions properly and does its work independently.

1.8 Research hypotheses

Kothari (2004) defines a hypothesis as an unproven proposition or supposition that tentatively explains certain facts or phenomena. It is a statement, an assumption about the nature of the world. In its simplest form, it is a guess.

H₀: Performance of local government authority does not depend on Effective Financial management system in local government.

H₁: Performance of local government authority depends on Effective Financial management system in local government.

1.9 Significance of the Study

Research is the foundation of knowledge for the sake of the knowledge and an important source of providing guidelines for solving different business, governmental and social problems. It is a sort of formal training, which enables one's field in a better way, Kothari (2004). This study is expected to contribute significant to the number of stakeholders as follows:

1.9.1 Policy Markers and Council

It will bring practical and strategic recommendations on how to improve the financial management and administration of resources to overcome identified shortcomings, it will provide answers to the main research puzzle in a need to understand the reason for the continuous prevalence of reported gross financial mismanagement against local authorities nevertheless notwithstanding there are financial rules and regulations that all local authorities are required to adhere to in their operations, it will provide necessary information for the government to improve the managerial controls which are currently relatively poor and it will contribute to the structural improvement of the capacity of local authorities to manage district development in an effective manner.

1.9.2 Researcher

The study is an extension of knowledge to the researcher and it is part of fulfillment of master degree program. After learning theoretically that the financial management is one of key issue of organization performance, the researcher is willing to know how financial management affects organization performance.

1.10 The Scope of the Study

This study will concentrate on financial management and in particular performances reporting in local governments with specific reference Namtumbo District Council. The principles of financial management are based on practices followed in the private sector. It should further be noted that although environmental differences do occur in different Local governments, the applications and the findings of this study can also be applied to other Local Government Authorities.

1.11 Limitations of the Study

Availability of scarce resources is the factor that limits most studies. Resources may be information, fund, time and like. This study was undertaken for a dissertation to be submitted as partial for fulfillment of the requirements for the award of a master degree, the implication was that there was time limit and financial constraints in a sense that the researcher cannot manage to go all around the nation, thus it led to selection of a sample rather than working with the entire population of Local Government Authorities in Tanzania.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The literature review discusses published information in a particular subject area, and sometimes information in a particular subject area within a certain period or it can be just a summary of the sources but is usually an organized pattern and combines both summary and synthesis. This implies that the literature review demonstrates that a researcher is thoroughly knowledgeable about related research, and the intellectual traditions that surround and support the study.

2.2 Theoretical Review

The effort of improving financial management for Local Government Authorities, the government has imposed financial controls by issuing Public Finance Act No. 6 of 2001, public procurement act of 2004 and regulation of 2005, Local Government Financial Memorandum of 1997, Local Authority Accounting Manual of 1992, internal auditing manual of 1995, Local Authority Finance Act No. 9 of 1982 revised 2000 and other regulations of procedures and directives specifically to financial management to local government from central government issued by minister responsible for local government. The Local Authority Finance Act No. 9 of 1982 revised 2000 sect. 33 and various guidelines makes it mandatory for the council to institute sound policies towards proper management of resources. In achieving this fundamental goal, organization needs to institute a series of aspect that shall enable them to exercise effective controls for better performance of the council hence value for money. The council therefore, has to design organization setup that supports transparency and sound internal control system.

For better performance of the council the management of the council should design the financial management system which facilitates checks and balances for economy, efficiency and effectiveness.

2.2.1 Financial Management

Sound financial management systems are powerful instruments for preventing, discovering, or facilitating the punishment of fraud and corruption. Important elements include the organisation and staffing of the local revenue administration, the effectiveness of the auditing systems and the realism of budgets (Lapsley 1996). Hence, budget reform has become an important element of public sector reform, which in turn incorporates elements of skills building and institutional strengthening.

2.2.2 Corporate Governance and Financial Management

Corporate governance is a term used to describe the overall management of an organisation. Governance in the public sector has a political dimension because the roles of the stakeholders in governing the local government are important. The stakeholders will be represented by a governing body, for example the parliament, who has by elected representatives the responsibility for appraising performance. The stakeholders also include providers of resources (taxpayers, lenders, bondholders, and creditors), service provider/partners (employees, contractors, and joint venture partners and other government entities), users of services (individuals and businesses who benefit from the services that the entity provides), interest groups, analysts/statistic gatherers (policy analysts, economists, financial analysts, rating agencies), media and the wider community IFAC (2001:par. 2).

2.2.3 International Developments in Public Financial Management

Globally a growing trend exists towards public sector reform and government accounting reforms that take place at a rapid pace. Seeking to improve government accountability, the Public Sector Committee (PSC) of the IFAC has undertaken a multi-year initiative to develop a series of recommended international public sector accounting standards and related guidance. The PSC set itself an ambitious task of developing by the end of 2001 a core set of International Public Sector Accounting Standards (IPSAS) based, to the extent appropriate, on the Standards of the International Accounting Standards Committee". The international focus on the improvement of service delivery has necessitated a closer inspection of results (outputs and outcomes) and performance of public sector departments and agencies. This resulted in a fundamental shift in the way public sector departments are managed around the world (Henley 1989).

2.2.4 Objectives of Financial Management in the Local Government

The objective of a financial management system in the local government is to support management in their deployment of limited resources with the purpose of ensuring economy and efficiency in the delivery of outputs (services and/or goods produced by entities in terms of quantity, quality, cost and time), required to achieve desired outcomes (effectiveness) that will serve the needs of the community (IFAC 2000: par. 282 - 283). Effectiveness, efficiency and economy, therefore, inter alia form the basis of financial management and performance measurement.

2.2.5 The Features of Sound Financial Management

The IFAC (2001:par. 284) listed the characteristics of this strategy and are shown as Chief executives and other key staff are on a term contract, supported by performance agreements and clearly defined objectives and specified outputs, clearly defined responsibility for the chief executive and other participants for resources committed to outputs produced, strategic planning and operational plans are introduced, central regulations are reduced to the minimum and are replaced with guidelines and risk

management principles are followed, accounting practices similar to those employed in the private sector are followed and incentives are created to ensure improved efficiency; and Non-financial measures for outputs in terms of quantity, quality and timeliness are introduced and used together with financial measures in the evaluation of performance towards the achievement of pre-determined goals.

2.2.6 Performance Measurement

Drury (2001) indicated that performance measurement should eventually lead to performance management, which is a tool of transforming ideas, vision and mission of senior managers into actions that can be planned for, measured, modified and corrected.

From the above one can define performance measurement as the comparison of outcomes of activities or processes with the strategic goals of an organisation. The comparing of actual results with strategic outcomes represents performance measurement. Performance measurement therefore strengthens the principles of corporate governance as it promotes accountability and openness to stakeholders. Performance measurement is the link between what is set out to do and what is actually achieved. It is, however, critical that an organisation ensures that this loop is closed. Unless performance is controlled and reported, and feedback into the new planning cycle is provided, continuous performance will not take place (Drury 2001). To align with consistent strategic plan the management should Estimates of expenditure; performance contracts between a Local government council and the head of the department; performance contracts between the head of a department and senior employees; service delivery improvement programme; and departmental annual reports.

2.2.6.1 Nature of Performance Measurement

The Local Government authorities is increasing its interest in measuring and reporting programme performance and increasing emphasis during budget reviews on programme performance. The IFAC (2001;par. 215) stated that the public sector is under intense pressure to improve its operations and deliver its products and services more efficiently

and at the least cost to the taxpayer. Performance measurement is a useful tool in this regard, since it formalizes the process of tracking progress toward established goals and provides objective justifications for organisational and management decisions. Thus, performance measurement can help improve the quality and reduce the cost of Local government activities hence value for money. Performance measurements also have a significant role in managerial or internal control, in ensuring that organisations are managed in the best interests of all the stakeholders. Performance measurement, therefore, is important for both external and internal accountability and a handy tool to management.

2.2.6.2 Strategic Planning

As strategic planning, and hence also outcomes-based budgeting, is a prerequisite for performance measurement it is necessary to collaborate on strategic planning. Strategy will be defined first and then the process of strategic planning and requirements by National Treasury will be looked at. Garrison and Noreen (2000:464) define strategy as a theory about how to achieve the goals of an organisation. Strategic planning focuses on the identification desired outcomes and outputs. Desired outcomes are results the government wants to achieve for the benefit of the communities, for example reduce road accidents and lower crime rates.

2.2.6.3 Characteristics of Performance Measures

Performance measures are the indicators or predetermined targets that are used to measure performance. These measures indicate to management the areas where it is going to plan and where to make changes or adoptions in order to meet the strategic goals of an organisation. The three Es of financial management should in line with the performance measures. Lapsley (1996) referred to the three Es and appropriateness as what performance measures usually take into account Economy which refers to the acquisition of the appropriate quality and quantity of financial, human and physical resources at the appropriate time and place and at the lowest possible cost, efficiency which refers to the use of resources so that output is maximized for any given set of

resource inputs, or input is minimized for any given quantity and quality of output provided, effectiveness which refers to the extent of the achievement of set or predetermined outcomes, objectives or other intended effects of programmes, operations, activities or processes, and Appropriateness which deals with whether the objectives or outcomes of programmes, operations, activities or processes address the real needs of customers.

2.2.6.4 The Balanced Scorecard as Performance Reporting Model

The performance reporting model is based on the balanced scorecard because it links the strategic goals of an organisation with the desired outcomes and outputs. Financial performance measures on its own do not equal the best measures of organisational performance. Financial measures are historic indicators that report on outcomes of past actions. Garrison and Noreen (2000) defined a balance scorecard as an integrated set of performance measures (quantifiable targets and outputs) that are derived from the strategy of an organisation. The opinion is also held that a balanced scorecard consists of an integrated set of performance measures that are derived from the strategy of an organisation. Drury (2001) suggested three or four objectives under each perspective. It is clear from the diagram below that the strategic objectives, the performance measures to track these objectives, the targets for achievement against each objective and initiatives are closely linked and in harmony with the vision and strategies of the organisation.

2.3 Empirical Literature Review

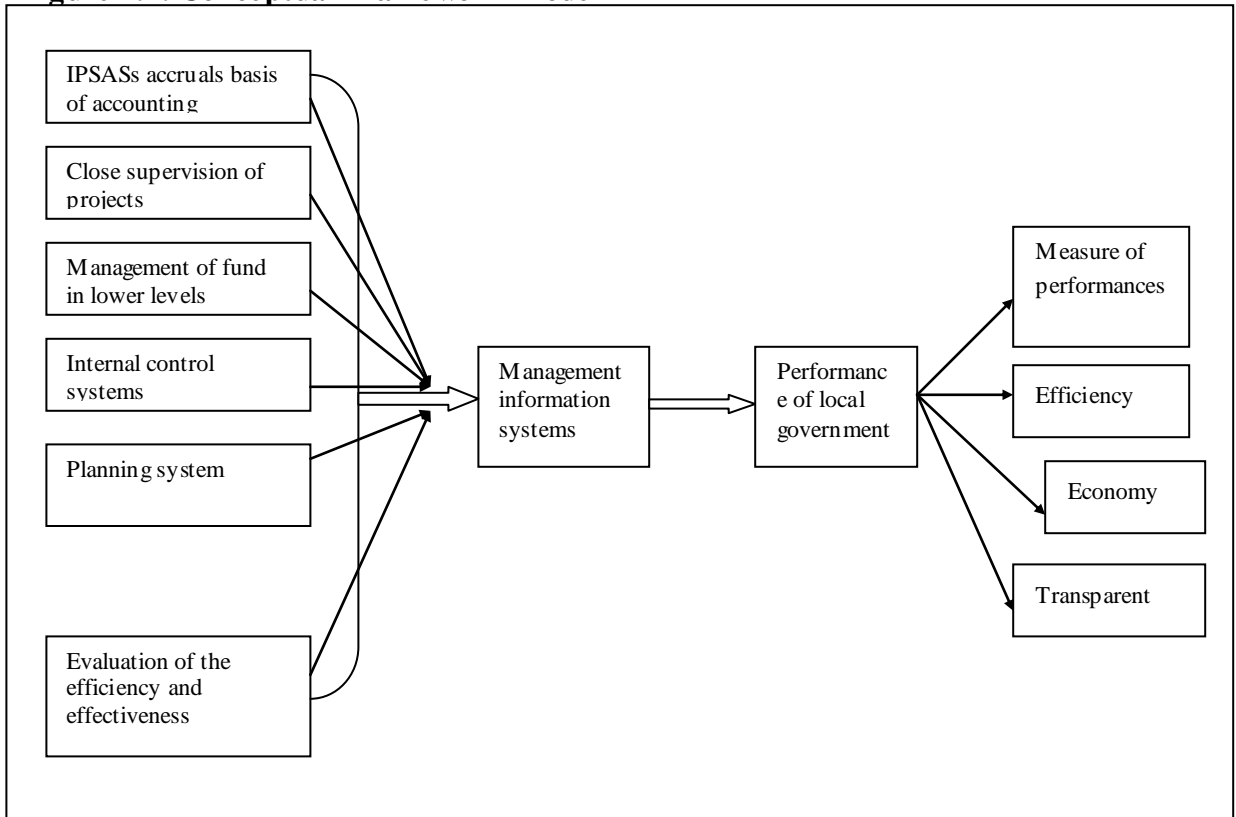
According to Palmer (1993) in her study of local government performance in the UK concluded “authorities, perhaps not surprisingly, concentrate on measuring what is easily measurable and this results in a bias towards measuring performance in terms of economy and efficiency, rather than effectiveness” (Palmer, 1993).

With the same view, Carter (1987) observed that the performance indicators systems in local government that “tend to have few performance indicators sensitive to consumer’s needs or to quality” (Palmer, 1993). Another issue of performance measurement in local government that attracts attention is the capability of using indicators for valid comparison between councils. The approach of using performance indicators for comparing seems to be active in UK, Australia, including Victoria and US. However, recent research on this issue in the UK challenges this approach. Research by Boyne (1997) evaluated the Audit Commission Indicators for comparing the performance of local authorities in UK. He conducted an extensive empirical study with over 400 local authorities. From his research, Boyne concludes, “it would therefore be unwise for local citizens or central government to evaluate the relative performance of different councils purely on the bases of the Audit Commission’s data”.

According to, Odd- Helge Fjeldstand et al (2006), the research conducted in six councils of Tanzania they argued that for the public sector to deliver public services and achieve its policy objectives, it is critical that public finances are managed well. The empirical analysis in this paper uses data for local government authorities in Tanzania in order to explore the relationship between local government financial management performance on one hand, and local management practices, local governance, and other local characteristics on the other hand. While the exactly local management practices that matter for the quality of local financial management in Tanzania vary depending on how financial management performance is measured, it appears that councils with better financial management practices, better planning budget and better project implementation practices achieve better local financial management outcomes.

2.4 Conceptual Framework

Figure 2.1: Conceptual Framework Model



Source: Constructed by the researcher, 2013

Conceptual framework refers to a collection and model of interrelated concepts/constructs that provide a fruitful language and orientation, in which to frame substantive research problems (McNeill, and Chapman, 2005). Conceptual frameworks explain a subject area and may give context to the available evidence. The conceptual model is a careful description of the concepts and the relationships among them. Models may be simple, representing only a small number of concepts and relationships as in this study refer to Figure above, or they may be quite complex and multifaceted.

The conceptual framework attempted to explain the relationship between dependent variables, the independent and intervening variables (intervening variables include management information system). In the framework, the independent variables are:

- i) IPSASs accruals basis of accounting
- ii) Close supervision of projects
- iii) management of such fund in lower levels
- iv) internal control systems
- v) planning system
- vi) measurable objectives and
- vii) evaluation of the efficiency and effectiveness

Used in an attempt to explain the performance of local government.

The objective of this study is to identify the main features of effective financial management in the local government sphere that can be enforced as a solid foundation for performance measurement. The independent variables comprise major and minor components. The measurement of minor independent variables locates any weaknesses existing in the major independent variables.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The researcher involves various steps along with logic behind them. Thus the researcher considers the research to be structured with specified steps to be undertaken in a specified order with the well defined set of rules. Research methodology refers to the way in which a researcher plans to collect information or data. Also the methodology describes the research design, the census, data collection procedures and the measuring instrument.

3.2 Research Design

A research design refers to the overall plan aimed at addressing a research question, along with specifications to enhance the study's integrity. A plan specifically conceived and implemented to bring realistic evidence to bear on a research problem, question, or hypothesis. It refers to the overall approach to or outline of the study that details all major components of the research (Kothari 2004). The objectives of the study determined during the early stages of the research are included in the design to ensure that the information collected is appropriate for solving the problem (Kothari 2004).

3.2.1 Case study method

Namtumbo district council, which is the one of the council in Ruvuma Region, was chosen as a case study in order to carry out an in-depth study to be able examines the impact of financial management systems on the performance of local government authorities. Denscombe (2005:31) believes that the starting point and indeed the defining characteristic of a case study approach is its focus on just one instance of the thing that is to be investigated. According to Denscombe (2005:31), the logic behind concentrating efforts on one case rather than many is that there may be insights to be gained from

looking at the one that can have wider implications that may not easily be realized if one tried to cover a wider scope. The aim was therefore to illuminate the general by looking at the particular.

3.2.2 Advantages of the case study method

One advantage of using a case study is that it permits a researcher to reveal the way a multiplicity of factors have interacted to produce the unique character that is the subject of research (Thomas, 2003:35). Case studies tend to be holistic in nature, rather than dealing with isolated factors. When a researcher makes a decision to devote his/her efforts to just one case, there is far greater opportunity to search in more detail and discover things that might not have become more apparent through more superficial research (Denscombe, 2005:30). The case under investigation is normally something that already exists and is not something that is artificially generated for the purposes of research (Denscombe, 2005:31). In order to understand and interpret case studies, researchers describe the ecology or environment in detail. The case study approach enables the researcher to use resources, data and research methods as part of the investigation (Denscombe, 2005:31). This study used interviews, questionnaires and available data relevant to the investigation and led to the validation of data through triangulation.

3.3 Study Population

A population refers to the entire aggregate of cases (individuals or elements) that meet a designated set of criteria (Kothari 2004). Further distinction is made between target population and accessible population. The target population refers to a set of cases about which the researcher would make generalizations, while the accessible population refers to one that meets the criteria and would be available for a study. In this study, the target population, which was readily accessible, is the entire staff component of Namtumbo district council staff and national audit staff in Ruvuma region. Approximately 35 staffs constitute the entire population.

The targeted sample of the study was Namtumbo District council personnel and Ruvuma Resident Audit office personnel as in the following:

Table 3.1: Sample Size of the Study

Department	Number of employees
Finance department	12
Internal audit department	2
Head of department	10
Audit Committee members	5
National Audit (Ruvuma resident Audit office)	6
Total	35

Source: Surveyed data,(2013)

3.5 Unit of inquiry

In this study the unit of inquiry was individuals from among the District Council staff and officials from National Audit Office Ruvuma resident Audit Office.

3.5.1 Sampling

A sample is a subset, or some part, of a larger population. The purpose of sampling is to enable researchers to estimate some unknown characteristics of the population Kothali (2004). The researcher must decide the way of selecting a sample or what is popularly known a sample design. A sample design is a definite plan determined before the any data actually collected for obtaining a sample from a given population. It is appropriate for a researcher to select the sample on the basis of own knowledge of the population, its elements and research aims and objectives. Based on the nature of the research and the

methodologies that are to be employed, purposive/ judgmental sampling is to be used in order to obtain a rich and to detail analysis of the study.

Purposive sampling is a type of non probability sampling based on the researcher's judgment and purpose of the study. Non probability sampling is appropriate in this case because the research will be conducted in a situation where the selection of probability samples to be used in large-scale social surveys could prove.

The researcher use technique that helps him to collect relevant evidence with minimum expenditure of effort, time and money. The researcher use given numbers of employee given in the District Council staff and officials from National Audit Office Ruvuma resident Audit Office because of familiarity and awareness.

3.6 Data Collection Methods

Kothari (2004) print out two types of data Primary and Secondary data, for the sake of this study the researcher use both types of data that is primary data and secondary. During data collection, the following data collecting instruments was developed for this study:

- i) Individual interviews with local government officials;
- ii) Use of questionnaires; and
- iii) Review of policy documents available for public use

Data collection was drawn from a multiple source of information and helps to triangulate the information and to check its validity. Hence using multiple methods to cross-check and verify the reliability of a particular research tool and the validity of the data collected (McNeill and Chapman, 2005). It further enhanced the empirical survey.

3.6.1 Primary Data

3.6.1.1 Interview

Thomas (2003), states that interviews involve a researcher asking questions for individuals to answer orally. The advantage of interviews is that the researcher is provided with greater flexibility, personal control, and a personal relationship between the interviewer and the interviewee is more effective in eliciting more information from the respondent (Thomas, 2003).

3.6.1.2 Questionnaires

The researcher prepared questionnaires and pre-plan guiding questions for the face to face interviews. It should be noted however, that a researcher was not required to ask questions the way they are on paper but they are ideas to guide him on what to be asked (Kothali, 2004).

3.6.2 Secondary Data

Documentary Review

McNeill and Chapman (2005) believe that from an interpretive point of view, documents can give sociologists important insights into the social meanings that underpin social action and how people interpret the social worlds in which they live, as well as give evidence of how institutions and events are constructed. The researcher sought to triangulate information by studying documents and literature documents that are keys in providing data on both the previous and present local government financial management structures.

3.7 Data Analysis

Analysis is the application of reasoning to understand and interpret the data that have been collected; Kothali (2004). By definition, qualitative data analysis is the range of processes and procedures whereby one moves from the qualitative data that have been collected into some form of explanation, understanding or interpretation of the people and situations being investigated. Qualitative data analysis is usually based on an interpretative philosophy. Analyzing qualitative data is essentially a complex process which consists of noticing, collecting and thinking; and the purpose of this model is to show that there is a simple foundation to the complex and rigorous practice of qualitative data analysis. This process is interactive and progressive. In this study, the researcher uses the judgmental practice which is a suitable method of analyzing qualitative data and the ethnographic representation of social realities.

3.8 Drawing Conclusions and Making Recommendations

The final stage of research process is to interpret the information and draw conclusions relevant to managerial decisions. Making recommendations is often a part of this process; Kothali, (2004).

CHAPTER FOUR

4.0 PRESENTATION OF THE RESEARCH FINDINGS, DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents the views of the respondents regarding the effect of financial management system on local government performance. The analysis was guided by the following research questions:

- i) Does the budget system of the council links with strategic outcomes?
- ii) Which the reporting framework should the Local Government Authorities use cash basis? Or accruals basis?
- iii) Does the council have a sound internal control system in the council?
- iv) Is the internal Audit unit function properly and does its work independently?

The following Table 4.1 shows characteristics of the respondents covered by the study.

Table 4.1: Numbers of people interviewed

Department	Number of employees
Finance department	12
Internal audit department	2
Head of department	10
Audit Committee members	5
National Audit (Ruvuma resident Audit office)	6
Total	35

Source: Analyzed data, 2013

4.2 Whether there is a need for trained and committed Head of Departments for better local Government performance

Committed and competent staffs form the first of the three fundamentals for effective financial management and performance measurement. An affective corporate framework, focused leadership, astute Staff and a professional finance team are the key ingredients of a performance orientated organization. Three categories of management in Local government departments were identified in Namtumbo District council in this study namely, the political head within the executive authority, the Accounting officer and Head of a department (CMT). It is recommended that financial management be the responsibility of accounting officers (DED), and Heads of departments and not the responsibility of District Treasurer. Ten per cent (10%) of the respondents still think that financial management is not the responsibility of the Accounting officers (DED), and Heads of departments but that of the District Treasurer. It is recommended that the Accounting officers (DED) and Heads of departments be held accountable for financial management in Local governments.

The study tested the involvement of the political head in the financial management of a department. Only 38% of the respondents are of the opinion that the political head should be involved in the financial management at Namtumbo District Council departments. This low rating is perhaps because the of Accounting officers (DED), and Heads of departments is in accordance with the Public Finance Act and local government finance memorandum responsible for financial management in Local government departments and not the political head.

The study also revealed the lack of training as a serious shortcoming. It is recommended that finance department staff in Namtumbo District council must be trained technically and be proficient in at least strategic management; workflow design; performance measurement; financial accounting; management accounting; internal control; information technology; economy; negotiation skills; analytical skills; communication and other management skills.

It is further recommended that it is not only the finance department staffs that need training but also the non-finance department staffs, such as the heads of departments of Council because they are responsible and accountable for financial management in their departments. The human factor in effective financial management cannot be over-emphasized. People are the most important and most expensive asset. The features of good corporate governance cannot be applied in Local government departments without committed and competent Staffs.

4.2.1 Committed and Competent Head of Department

An affective corporate framework, focused leadership, astute head of department and a professional finance team are the key ingredients of a performance oriented council. The establishment or refinement of a corporate governance framework that promotes accountability, responsibility and performance within the public sector is the responsibility of the district executive director and head of department of a council.

Committed and competent head of department are regarded as the first requirement of performance measurement. The way in which financial management is practiced depends on the commitment of senior management to develop financial management systems and expertise to support a performance management culture. The performance culture is one area where head of department are held directly accountable for financial and operational performance. Committed and competent head of department include features of sound financial management, such as

- i. Accrual management;
- ii. financial management being the responsibility of Head of department;
- iii. financial advice being the responsibility of financial staff;
- iv. professionally qualified financial staff;
- v. chief executives and other key staff that are on an outcomes based limited term contract that is supported by performance agreements;
- vi. clearly defined responsibilities for the Head of department; and
- vii. Incentives to ensure the efficiency and risk management principles are to be followed.

4.2.2 The Roles of Different Head of Departments in Local Governments

Financial management should be the responsibility of District executive director and Heads of Departments. These persons can only do this with the provision of high quality financial information and advice, which is the responsibility of professional financial staffs.

A section 4 – 6 of Local Authority Financial Memorandum clarifies the roles of the heads of departments, the accounting officers and the political head (also referred to as the ‘District Chairperson’).

The Local Authority Financial Memorandum on section 8 also highlights the positions of other officials such as District treasurer whose main responsibility is to provide accurate, appropriate and meaningful financial information on which strategic financial decisions can be taken. The District treasurer should provide the District executive director with the relevant information which the District executive director can use for effective financial management. The final responsibility of financial management therefore lies with the District executive director whilst the District Treasurer is to provide the necessary financial information.

All Head of Departments in Local government departments have responsibilities. A Head of Department in a department

- i. must ensure that the system of financial management and internal control established for that department is carried out within the area of responsibility of that official;
- ii. is responsible for the effective, efficient, economical and transparent use of financial resources within that official's area of responsibility; and
- iii. Must take effective and appropriate steps to prevent, within the official's area of responsibility, any unauthorized expenditure, irregular expenditure and fruitless and wasteful expenditure and any under-collection of revenue due."

In effect, this implies that each head of department is responsible for the use of financial resources or contributions to a particular activity. In addition, because measurable objectives must be submitted for each main activity within the department, head of department may also be held accountable for the outputs generated within that activity. The study showed that 93% of the respondents are of the opinion that management skills will have to change in future whilst 72% felt that leadership styles will also be influenced.

Essentially, a new set of skills such as the ability to strategically integrate budgets with strategies and to implement accruals-based accounting and GAAP is required by these head of department and finance staff.

From the above it is clear that three positions are important in financial management in the Local government, namely the Finance committee, District executive director and the Head of Departments. The responsibilities of these positions will now be discussed.

4.2.3 Finance Committee

The finance committee, in the relation to a constitutional consisting of a body of persons, means the chairperson of the council. The finance committee includes the political head of a committee and Head of department on the Council. The accounting officer (district executive director) reports various financial aspects to the political. According to the Local Authority Financial Memorandum the following should be reported by the accounting officer to the political head / Finance committee:

- i. Various financial and policy considerations;
- ii. under-collection of revenue due, shortfalls in budgeted revenue and overspending of budgeted votes;
- iii. annual report of activities, annual financial statements and the report of the Controller of Auditor General;

- iv. within 15 days after month-end a monthly financial report, expected income and expenses for the rest of the year and material variances from budgeted figures and how these will be addressed; and
- v. inability to comply with the accounting officers duties

From the above discussion it is evident that the Finance committee therefore forms an integral part of the financial management process.

The Council management team is involved in the strategic planning process in order to identify the desired outcomes and outputs and needs to receive feedback from the accounting officer on a regular basis on the performance of a Local government department as to the actual results and achievements. It was concluded that the responsibility of the Finance committee is the formulating of policy and outcomes in order to provide guidelines for the strategic planning process. The Council management team is indeed involved in the financial management process.

4.2.4 The District Executive Director

The district executive director/accounting officer implements the policy and achieves the outcomes by taking responsibility for delivering the outputs defined in the departmental budget. The accounting officer through head of department prepares the departmental budget (specified in terms of measurable objectives) for the council. The accounting officer, therefore, is responsible for implementing and managing the budget within a performance measurement framework.

4.4.5 The District Treasurer

The District treasurer within the Local government sector context will play a pivotal role in that they provide accurate, timely and useful financial information that can be used in the financial decision-making process. The ability of the District treasurer in the Local governments has to be strengthened as they are currently not suitably qualified or do not

have the necessary expertise to implement the requirements of the Financial memorandum in particular with regard to an accrual accounting effectively. The study showed that the District treasurer in the Namtumbo District council has a professional qualification and this will hamper the implementation of the planned activities due to a lack of expertise.

According to Drury the three “Rs” of financial officials – ‘reading, writing and arithmetic’ – are no longer enough. The three “Cs”- computing, critical thinking and the capacity for change should take the place of the three “Rs” so that District treasurer is able to provide useful information for the decision-making process. The study revealed the following importance ratings with regard to the attributes of the District treasurer:

Table 4.2: Attributes of the District Treasurer

Attribute	Rating	Ranking
Professionally Qualified	92 %	1
Critical thinker	92 %	1
Flexible mind	88 %	3
Financial analyst	86 %	4
Good communicator	81 %	5

Source: Analyzed Data, 2013

It is clear from the above Table 4.2 that the District Treasurer of a Local government should not only be a good communicator. He/she should at least be professionally qualified and a critical thinker with a flexible mind to adjust to the changing circumstances and to perform his/her duties in such a manner that relevant information is provided to enhance financial management. With regard to the experience and/or the ability of the District treasurer, it is recommended that Local government should seek to employ a District treasurer who is professionally qualified and is a full member of a recognized professional body, such as National Board of Auditors and Accountants.

4.2.6 Training Needs for Finance Department Staffs at Namtumbo District Council

Staff members are important assets in any organization and should be maintained just as other tangible assets. The staff members should be trained or reallocated if necessary. The successful implementation of the provisions of the accounting package will largely be determined by the skills and competences that a District official in the different financial management and accounting occupational categories possess. This in return will be determined by appropriate training. These performance measurement systems for staff members will not reap any benefits without the necessary training to develop the skills of staff in order to perform better. If the Local Government wants to introduce a performance measurement system for its employees the need for training is an important condition. Accounting officers, therefore, will need to ensure that the essential systems for effective implementation are in place.

The study revealed that 100% of the finance staff in the Namtumbo District Council has accounting qualifications. From the study it became apparent that financial staff has a lack of experience, knowledge and skills in respect of financial attributes. Support staffs need to be trained and if serious knowledge and experience gaps are evident, qualified people must be recruited. It is evident that training must be presented to the above-mentioned groups of officials to ensure that they will in future be able to comply with the requirements of the accrual accounting systems and understand the new reporting formats. From the study it became clear that the training of finance staff is still high on the priority list of Namtumbo district council. Successful financial management is the result of a collective and conscious effort from everybody in the Council, as guided by a technically trained and proficient District treasurer who is objective and performs his/her duties with due professional care.

4.3 Does the budget system of the council links with strategic outcomes

Outcomes-based budgeting includes features of sound financial management, such as professional financial contribution to strategic and operational planning; clearly defined objectives and specified outputs and accruals based budgeting.

After the strategic outcomes of a Council are identified the financial contribution into strategic and operational activities will be logical. Strategic planning is the starting point of outcomes-based budgeting. Strategic planning deals with the interpretation of stakeholder requirements and expectations and the formulation of plans to meet these requirements. It is all about focusing on outcomes and outputs. Without identifying the outcomes in the strategic planning process performance measurement will be of no use as no benchmark is identified.

Outcomes-based budgeting, therefore, means to budget with the desired outcomes in mind that form the basis of performance measurement as actual outputs are compared with the anticipated outputs. The harmony between accounting and budgetary systems and the integration thereof are described as well as activity-based budgeting, costing and management. Finally, the process for effective budgeting is discussed that will include the various steps of the budgetary process.

4.3.1 Nature of Budgets

Garrison and Noreen (2000:378) defined a budget as a detailed plan for the acquisition and use of financial and other resources over a specified period. It represents a plan for the future expressed in formal quantitative terms. The act of preparing a budget is called budgeting and the use of budgets to control the activities of a Council is known as budgetary control. Planning involves the development of objectives and preparation of budgets to achieve those objectives while control involves the steps taken by management to increase the likelihood that objectives determined at the planning stage are attained.

A sound budgeting system must provide for both planning and control. In the planning process objectives are identified that satisfy the needs of the stakeholders. In order to satisfy the needs of the stakeholders' outcomes should be identified as well as the strategies to be implemented to satisfy these needs. These strategies should eventually be linked with the planning of processes and activities.

The formulation of outcome objectives, output performance measures and operational plans are part and parcel of strategic planning and budgeting. Quantifiable planning without effective control is time wasted. On the other hand, unless plans are laid down in advance, no objectives exist toward which control can be directed and performance measurement should be impossible. Budgeting is an essential element of the financial planning, control and performance evaluation processes of public sector entities. By its nature it is a means of allocating resources to achieving the objectives of a public sector entity, and a management tool for planning, as well as a means of controlling funds to ensure that the stated objectives can be met (IFAC 2001:272).

The Full council of Local governments is usually responsible to approve a budget or financial plan within the overall approved level of expenditure to provide authorization for the acquisition and use of financial resources. The authority is also responsible for overseeing and monitoring the implementation of the approved budget or financial plan (Local Authority Financial Memorandum 1997:18).

The value-for-money concept means that the outcome and outputs of services that are delivered must justify the expenditure. Fruitless expenditure is to be highlighted and eliminated as no value (outputs) for expenditure is incurred. A number of budgetary methods exist that can be used in Local government departments, each with an explicitly different focus.

4.3.2 Types of Budgets Used In Local Governments

Kluvers (1999:69) stated that a budget in the public sector is a key element in planning and performance measurement and is a major vehicle to allocate resources.

The author continues by stating that the type of budget that the public sector uses can have an influence on budgeting systems and identifies four main budget types, namely:

- (i) Line-item budgeting being the traditional form of budgeting in which lines exist for each of the resources an organization intends to use in a specific period. Its major focus is on inputs;
- (ii) performance budgeting focuses on the unit cost of activities and is a precursor of programme budgeting;
- (iii) zero-based budgeting emphasizes the justification of all expenditure including an examination of the effects on performance of a change in expenditure; and
- (iv) Programme budgeting identifies the objectives of an organization and the resources required to achieve those objectives; importance is placed on the intended outcomes of the proposed expenditure and multi-period perspective is adopted.

The respondents in the study indicated as Table 4.3 that sometimes more than one budgetary method is used.

The study revealed the following types of budgets being used in Local government departments:

Table 4.3: Types of Budgets used in Local governments

Type	Percentage of occurrence
Line- item budgeting	67%
Programme budgeting	87%
Zero-based budgeting	53%
Activity-based budgeting	53%

Source: Analyzed data, 2013

From Table 4.3 it is clear those programmes and line-item budgeting is the most frequently used in Local government departments. Programme budgeting is closely related to activity-based budgeting and confusion could have occurred in filling in the questionnaire. It is doubtful whether departments have the necessary costing systems in place to implement activity-based budgeting. Line-item budgeting does not incorporate planning or the aim to meet objectives, but is primarily concerned with controlling and confining the budgetary process to setting aggregate spending limits. Zero-based budgeting is attempts to overcome the shortcomings of instrumentalism of line-item budgeting.

4.3.3 Shortcomings of Current Budgeting Systems Applied in Local Governments

According to the IFAC (2001 :par. 279) The World Bank Publication, “Financial Accounting Reporting and Auditing Handbook” the budget problems in developing countries relate to:

- (i) Lack of appropriate feedback systems;
- (ii) failure to integrate budgeting with accounting and cash management functions;
- (iii) lack of comprehensive coverage, that is certain programmes/agencies may be excluded from the budget;
- (iv) focus on one year rather than multi-year;
- (v) classifications or budget categories not fully useful for expenditure planning and control;
- (vi) lack of focus on goals and programmes;
- (vii) lack of clarity and accuracy in defining recurrent and development expenditures; and
- (viii) Over-emphasis on sophisticated concepts beyond realistic capacity.

Apart from the above the study also revealed the following shortcomings of budgetary systems used in Local government departments:

- (i) Strategies and budgets are not aligned;
- (ii) costing skills of staff are lacking;

- (iii) lack of qualified and experienced staff;
- (iv) information systems are not in place;
- (v) budgets are not zero-based, but rather make use of the line-item budgeting method;
- (vi) inadequate monitoring and measurement;
- (vii) no communication with stakeholders to determine needs; and
- (viii) capital budgets (for long-term assets) are not separate and are still part of operating expenditure (not on an accruals-basis).

It is clear from the above that budgetary systems in Local government departments are not in line with contemporary budgetary strategies. Performance measurement, therefore, will be impossible as desired outcomes and outputs are not linked to the budgetary process.

This approach did not clearly define responsibilities, and resulted in poor accountability and value-for-money. The incremental (one-year) budgetary system undermined planning and the prioritization of programmes. Accounting officers adopted a passive approach to their budgets during the financial year, and did little to avoid overspending or underspending.

Effective budgetary systems used in Local government departments should address the above shortcomings.

4.3.4 The Key Factors of Effective Budgeting Systems

The United Nations as summarized by IFAC (2001:75) indicated some of the key factors that contribute to making the budgeting process effective in practice. These factors are outlined hereunder:

Table 4.4: Key factors of effective budgeting systems

Transparency	<ul style="list-style-type: none"> • The budget documents provide a clear link between objectives and expenditures; • all participants in the budget process are clear about their roles and responsibilities; • simple, well documented procedures; • well-defined basis of budgeting e.g. incremental, zero-based; and • Departmental/entity targets and resources allocated, clearly indicated and explained.
Management	<ul style="list-style-type: none"> • Effective budgeting involves more than simply preparing annual budgets; the management and monitoring of the budget is equally important with an emphasis on results achieved.
Decentralisation	<ul style="list-style-type: none"> • It is potentially inefficient and may undermine the budget system for all decisions to be made at the centres.
Co-ordination and co-operation	<ul style="list-style-type: none"> • All those involved in the budget process are required to ensure links between recurrent and development budgets and the processes in the financial management system.
Integration	<ul style="list-style-type: none"> • The incorporation of recurrent and development projects: the recurrent costs arising from the development projects need to be built into recurrent expenditure planning and trade-offs between recurrent and development expenditure considered for sustainability.

Table 4.4: Key factors of effective budgeting systems

Flexibility	<ul style="list-style-type: none"> • The system allows responses to changes circumstances: these responses are built into the system, so that implications of any changes are sufficiently analysed and still fit within the overall objectives and priorities of the public sector entity.
Discipline	<ul style="list-style-type: none"> • Although the system provides flexibility, effective control over expenditures is evident; • any changes to the budget are carefully analysed and justified; • only limited use of supplementary estimates; and • penalties for breach of rules and regulations.
Link to Medium Term Expenditure Framework (MTEF)	<ul style="list-style-type: none"> • Link between the resource framework of the MTEF and the annual budget; and • link between the policies and priorities of the MTEF and the budget allocations. <p>Accountability and credibility</p> <ul style="list-style-type: none"> • Governing body involvement: good links between the governing body and the executive; • involvement of accountability of senior managers in all stages of the process; • if the executive do not believe that they will be held to their ceilings, or if they can easily bypass normal procedures, the whole process of budgeting can be undermined; and • budgets are reliably close to actual outcome.
Comprehensive	<ul style="list-style-type: none"> • The budget process and documents need to include all revenues and expenses, including aid funds; the budget also contains information on expenses of the previous and current year.
Performance measurement/reporting	<ul style="list-style-type: none"> • Measuring the impact of the budget by means of output performance measurements for recurrent and development expenses.

(IFAC 2001:75)

The above Table 4.4 key factors also address the shortcomings listed in the previous paragraphs. Shortcomings such as the lack of integration with strategic plans and not to plan for more than one year will be resolved if these features are applied in Local government departments.

From the key factors above a clear line can be drawn between budgetary control and the principles of corporate governance. The features of openness and accountability and to a lesser extent integrity are apparent from the list above. Under openness one can include all the features under transparency and discipline. Under accountability one can include categories such as management, co-ordination, integration, flexibility, comprehensive and performance measurement and under integrity one can link categories such as credibility and discipline.

In the study the above features were tested for their importance. The respondents gave the following importance ratings to the above features:

Table 4.5: Importance ratings of features for effective budgeting

Feature	Importance rating
Transparency	83%
Management and monitoring of the budget	96%
Decentralization	74%
Co-ordination and co-operation	81%
Integration of recurrent and development budgets	78%
Flexibility when circumstances change	83%
Discipline	91%
Link to medium-term expenditure framework	84%
Accountability and credibility	94%
Comprehensive	85%
Performance measurement /reporting	92%

Source: Analyzed data, 2013

The importance of accountability in the budgetary system can be observed in Table 4.5. All the features with a rating of 90% or higher can be linked to the accountability principle of corporate governance. The accountability principle and performance measurement go hand in hand and harmonize with the objectives of this study. The above features of budgeting cannot be applied by Local government departments if the budgetary system cannot be supported by a uniform accounting and costing system.

4.3.5 The Integration of Budgeting and Accounting Systems

One of the key factors of performance is the integration of systems. Drury (2001:326) indicated that budgeting needs are to be integrated with accounting systems to be effective. If a similar basis of accounting is adopted for budgeting purposes and financial reporting, it will provide a framework of accounting information to present a more rational basis for planning and controlling expenditure and for decisions about its financing.

The IFAC (2001:par. 278) stated that regular monitoring of accounting results against the budget is vital. The revenues or expenditures reported against budgets need to be reliable and readily available for discussion and management action, and projections are revised where necessary. The budget and accounting systems, therefore, should be in total harmony. Without accurate actual information performance measurement and control will be impossible in Local government departments.

If accrual accounting is adopted for financial and cost accounting purposes then the budgets should also be on an accruals basis. One must also bear in mind that budgets that are prepared on an accruals basis will not reflect cash in- and out-flows. Where the accounting system is based on an accruals basis of accounting, cash flow budgeting will form an essential element of effective cash management and therefore a forecast of the timing of cash inflows and outflows would always be needed.

4.3.5 The Process of Effective Activity -Based Budgeting

A few steps exist in a sound budgeting process: Firstly, the identification of outcomes and objectives; secondly, the identification of activities within programmes designed to meet the objectives; thirdly, the identification of desired outputs and performance measures; and fourthly, the preparation of these budgets by costing the activities within the programmes in financial terms. An extension of the balanced scorecard it integrated into the overall strategic management system of an organization. The balance scorecard should be used as a base to identify the most important objectives and identifies the critical initiatives to achieve these objectives. These objectives should be translated in financial terms by allocating financial resources towards these objectives. This process must define all contributing activities, understand how the activities generate costs, and then determine the level of cost each output consumes. This process extends the use of activity-based costing principles for budgeting to result in activity-based budgeting.

Hongren et al. (1999:197) stated that activity-based budgeting focuses on the cost of activities necessary to produce and sell products and services. In a service organization the objectives can be divided into activities. These activities should be budgeted and cost by using activity-based budgeting. Activity-based costing uses the cost of these activities as the basis for assigning costs to products, services or customers (Hongren et al. 1999:17). The costs of activities that are needed to provide services are used as a basis for assigning costs to outputs.

4.3.6 Principles of Activity-Based Costing (ABC)

One costing method that emerged in the 1980s first in manufacturing industries, but more recently in service industries, is Activity-Based Costing (ABC). This model is one of the most significant developments in cost accounting and deals with an accurate method of cost allocation to various products and services. Apart from acquitting the external need to cost outputs, access to more detailed cost information is significant for the management of organizations and should be examined in more detail.

The understanding of the component processes or activities that are needed in the production of goods or the delivery of services are fundamental to effective management. Without this operational knowledge, managers will not be able to improve product quality, lower costs, or complete a greater range of services (Drury 2001:174).

Best practice costing systems have therefore been developed accepting activity-based costing as a profound costing system. This system defines all contributing activities, understand how the activities generate costs, and then determine the level of cost each output consumes. According to Drury (2001:174) organizations with a demand-driven output find this model useful for budget estimation. ABC furthermore has a clear objective of adding value to the management of resources in an organization. Implementation requires a multi-discipline approach that analyses all of the activities that contribute to the output from the organization.

This analysis identifies those activities that add value to the output and those that only add cost. Producing better internal management information has the additional effect of increasing the quality of data on output costs to external bodies. The Process View uses a detailed activity analysis to understand process improvement. The Cost Assignment View looks at aggregated activity data used for cost allocation to outputs and is therefore applicable to the public sector.

The study revealed that it is possible to apply ABC in Local governments. Eighty-eight per cent (88%) of the respondents of Namtumbo District Council are of the opinion that programmes can be divided in activities and 81% felt because of this, that ABC can be implemented in Local governments.

The ABC system requires the definition of those actions (processes) that result in resources being consumed (resource drivers) and those activities that are used to allocate costs to outputs. With this information, Head of Departments are in a position to make informed decisions on resource usage.

Thus, costs that are not material and that cannot easily be linked to cost objectives should not be allocated by means of resource accounting (Drury 2001:171). The most significant direct expense in delivering goods and rendering services, whether for internal or external consumption, is staff costs.

4.4 Which the reporting frame work should the Local Government Authorities use Cash basis? Or Accruals basis?

Accountability and performance measurement is dependent on the budgetary control process. The control process of a budgetary system on the other hand is manifested in a sound accruals-based reporting system. Budgeting needs are to be integrated with accounting systems to make performance measurement in Local government departments effective. If a similar basis of accounting is adopted for budgeting purposes and financial reporting, it will provide a framework of accounting information to present a more rational basis for planning and controlling of expenditure and for decisions about its financing.

The public service entities at all levels of the public sector are currently in the process of implementing new accounting and reporting systems. The accounting systems are to be modified to incorporate accrual accounting and the financial reporting models are upgraded to move closer to those used in the private sector.

Accrual accounting accurately allocates costs to outputs (services) and this information provides a platform for better management of government resources, enhanced accountability and more meaningful performance management. Head of department of Local governments require accurate information of the full and true costs of their outputs or services in order to decide on the efficiency of the delivery of the services or whether services should be outsourced. Sixty-three per cent (63%) of the respondents in the study indicated that their departments do calculate the costs of their outputs.

Seeing that the cash basis of accounting proposed to be currently used in the public sector the accuracy of these costs are doubtful as all the resources that are consumed are not accounted for under the cash system of accounting. The only way to do accurate costing of outputs is to use an activity-based costing system on an accruals basis. It is recommended that an accruals-based ABC is to be continued used in Local government departments.

The respondents in the study mentioned the following shortcomings of the cash basis in Local governments:

- (i) Full financial position is not reflected (no proper balance sheet is drawn up) by showing assets and liabilities under control;
- (ii) no control over fixed and current assets;
- (iii) all expenses incurred are not accounted in the process;
- (iv) no records of debtors and creditors are kept;
- (v) actual costs of services cannot be calculated; and
- (vi) Cannot be used as a base for performance measurement.

The respondents in the study mentioned the following advantages to be expected by using the accruals basis of accounting in Local governments:

- (i) Fair presentation of the financial position;
- (ii) accurate recording of liabilities
- (iii) accurate recording and control over assets;
- (iv) reliable information regarding cost of services;
- (v) matching income and expenses;
- (vi) better working capital (inventory, debtors, creditors and cash) management; and
- (vii) better information for decision-making and performance measurement.

The implementation of accrual accounting will take some time to be implemented as 64% of the respondents were of the opinion that accrual accounting will take six years or longer to implement. It is recommended that the cash basis of accounting should not be adopted in local government because it does not represent the true costs that are

consumed by activities and outputs of Local government departments. The respondents are of the opinion that the implementation problems of accrual accounting, such as the recruitment and training of skilled finance staffs, changing the mindsets of current staffs and upgrading of information systems will take some effort. While it is true that the application of accrual principles does present some challenges, the benefits that it delivers in terms of better presentation of Local government financial information, outweighs any implementation difficulties.

Two kinds of reporting exist in order to satisfy the different needs of the users, namely internal and external reporting. Senior management makes more use of internal reports to measure performance of the various activities whilst the external users use external annual reports.

The study evaluated the importance of internal reporting. Ninety-three percent (93%) of the Local government respondents indicated that internal reporting is an important information tool in their departments. The study also revealed the following importance ratings for the various aspects of internal reporting:

- (i) Written documentary 77%
- (ii) Full set of financial statements 70%
- (iii) brief report on variances from the budget 85%

From the study it is clear that internal reports should be concise and that a condensed variance report is more appropriate. A full set of financial statements is not concise enough and had the lowest rating for management purposes. It is recommended, therefore, that a concise report with written comments be used in Local governments as a guideline for internal reports.

The study also revealed the following frequency of internal reporting together with the percentages of occurrence:

- (i) Monthly 100%
- (ii) Quarterly 42%

(iii) Half-yearly 28%

(iv) Yearly 50%

From the feedback of respondents it is clear that internal reporting in Local Governments takes place at least every month. Some departments in the local government even have half-yearly reports that are not required by the Finance management act. The study also revealed that both the monthly and quarterly reports do not refer to outputs but are still focused on expenditure control. It is clear, therefore, that the strategic objectives are not linked with the internal reporting systems as required by Treasury. This shortcoming should be addressed by local governments.

Both external and internal reports should deal with performance measurement and should not only deal with the control over inputs. Reports in local governments should be output driven with comparisons of actual and targeted outputs both with regard to quantities and costs. These reports should create a performance measurement culture, which is the main objective of this study.

4.5 Does the Council Have a Sound Internal Control System in the Council?

In this study, the researcher found that ten (10) respondents out of 35 interviewed (75%) mentioned major weak area of internal control in Namtumbo District Council being ineffective of unauthorized persons entering freely to sensitive areas of finance department such as the cash office and treasurers' office. They mentioned random access of payment vouchers/ documents by unauthorized persons, irregular movement of files to other places by individual payees and skipping proper payment procedures.

The study also reveals that, NDC like other councils in the country operates its finances in accordance with Local Financial Memorandum, 1997.

For the council to have effective internal control system is to conduct internal audits quarterly. On reviewing the internal the internal audit report of NDC for financial year 2010/2011 and 2011/2012, the study observed that an increasing rate of improperly Vouched expenditure as presented in Table 4.6 and Table 4.7

Table 4.6: Council expenditure against Internal Audit queries for the year 2010/2011

Quarter	Total expenditure	Queried amount	%
1	2,322,013,790.07	1,936,069,079.00	83
2	2,224,032,458.13	1,766,352,907.00	79
3	2,451,378,701.31	532,436,681.15	22
4	4,046,867,496.00	1,714,954,472.35	42
Total	10,044,292,445.46	5,949,813,139.50	54

Source: Namtumbo district council internal audit reports for 2010/2011

Table 4.7: Council expenditure against Internal Audit queries for the year 2011/2012

Quarter	Total expenditure	Queried amount	%
1	2,049,217,266.80	1,176,796,935.98	57
2	3,121,338,599.86	2,807,185,603.51	90
3	4,026,615,781.19	3,431,038,150.54	85
4	5,906,856,561.80	1,759,818,448.92	30
Total	15,104,028,209.62	9,174,839,138.95	61

Source: Namtumbo district council internal audit reports for 2011/2012

Major parts of internal audit reports of NDC address irregularities against the adherence to internal control procedures. For the two consecutive financial years as presented above, the council had an increasing rate of improperly vouched expenditure in which the audit reports pointed irregularities on the part of approval documentation and attachment as the main cause.

Other matters relating to internal controls which the researcher observed that the council prepares procurement plans for each department each year for which the procuring department has to follow whenever they demand to purchase. Those procurement plans describes each item to be purchased, the date and the procurement method that would be applied i.e single sourcing, contract and bidding.

Audit certificates:

According to the controller and Audit general (CAG) report, Namtumbo district council has been performing well in its financial activities as issued by the audit certificates. From the certificates issued by CAG when the total error over total expenditure is less than 5%, the auditor either unqualified opinion with emphasis matter, qualified opinion or if error is above 5% the auditor produce adverse opinion and when no documents produced the auditor provide disclaimer opinion.

For case of Namtumbo district council audited financial statements for financial year 2009/2010, 2010/2011 and 2011/2012 when auditors compute mathematically tolerate error was below 5% that’s why they awarded the opinion as shown by table 4.8 below.

Table 4.8: Audit Certificates Showing the Financial Performance

Financial year	Type of Audit Certificates/ Opinion
2009/2010	Qualified opinion
2010/2011	Qualified opinion
2011/2012	Unqualified opinion

Source: CAG Reports on the Financial Performance of Namtumbo District Council

4.6 Is the internal Audit unit functioning properly and does its work independently?

To understand if the internal audit unit functioning properly the researcher required to explain the matter to the respondents. From the respondents the study reveals that the internal audit performance in Namtumbo district council leaves a lot to be desired in terms of human resources, financial resources, audit coverage, audit methodology/ approach and quality of their reports. The respondents in the study also mentioned the following in respect of internal audit unit:

- (i) The Units continue to be understaffed having only two staff and experiencing inadequate funding. Taking into account the diversity of the Councils' activities, two auditors are not adequate for sufficient audit coverage.
- (ii) The audit coverage and scope of internal audit functions during the year is limited due to inadequate resources. As such financial and operational controls are not properly evaluated therefore as such it could not place reliance on the works of Internal Audit Units in order to reduce the extent of audit tests.
- (iii) The position of internal audit in the governance framework, as well as roles and responsibilities were not articulated in the Internal Audit Charter.
- (iv) Lack of audit working paper files which could facilitate the review process and forming the basis of audit findings and recommendations contained in the internal audit reports.

Due to the deficiencies above the study reveals that in order to curb them Namtumbo district council in collaboration with PMO-RALG and Ministry of Finance should strengthen the internal audit functions through increased financial and human resources. In addition, internal auditors should be equipped with knowledge and skills to enable them increase the scope of audit and enhance their performance.

4.7 Performance of Audit Committees in Namtumbo district council

The Audit Committee is an integral part of the governance process of an entity, designed to enhance the control framework of an organization. An effective Audit Committee has the potential of strengthening the control environment and consequently assisting the Accounting Officers to fulfill their stewardship, leadership and control responsibilities as well as facilitating the effectiveness of internal audit functions and enhancing financial reporting. Although this has been clear, the study noted the performance of the Audit Committees in Namtumbo district council to be ineffective due to the following shortcomings:

- (i) Weak performance of Internal Audit Units indicates that The Committee did not review the financial statements and reports of the Councils.
- (ii) In some cases there was no proof that the annual committee reports have been prepared and submitted to the Accounting Officers for taking appropriate action on Committees' recommendations.

The inefficiency performance of Audit Committees could spread inefficiencies in the overall control environment and good governance within the Councils.

It is important for District council management to include some more tasks in the audit committee terms of reference such as review of financial statements and reports, risk management and fraud management and control in order to make it a strong tool in monitoring internal controls. The Audit Committee failed to oversee the role of internal auditors.

CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

This chapter presents the conclusion which is the summary of the findings and recommendations made out of the research findings. A number of methods and techniques were used to collect data and to analyse it. The performance measurement approach is promoted in this thesis to enhance the effectiveness of financial management system in Local government departments. Performance measurement will only be possible by means of competent Head of department that is committed or contracted to perform; clearly identified outcomes through an activity based budgeting process and by an integrated accruals-based reporting system to fulfill the transparency and accountability principles of corporate governance. A performance statement that can be included in the financial statements was proposed as a formal and orderly framework to report on performance measurement within the Local Government.

5.2 Recommendations

5.2.1 Financial Management in the Local Government

In chapter Four the categories of the features of financial management that were identified as competent and committed line managers (places 2, 6, 7 and 10 above), outcomes-based budgeting (places 4 and 5 above) and accrual reporting (places 1, 3, 8 and 9 above). These groupings were evaluated in the study and 97% of the respondents were in agreement with these groupings. The groupings can also be seen as three categories for effective financial management in Local government departments which is an objective of this study. The principles of corporate governance are based on openness, integrity and accountability.

Performance measurement is shown as a requirement to meet the principle of accountability. Ninety-seven per cent (97%) of the respondents are of the opinion that corporate governance principles should be enforced in Local governments as a basis for effective financial management. It is recommended that:

- Financial management in Local governments be based on the three categories, namely competent and committed line managers, outcomes based budgeting and accrual reporting. These categories of financial management will address the current shortcomings that were highlighted by the respondents in the study. The performance measurement as an important element of financial management and is also the key objective of this study. Without performance measurement the accountability principle will not be achieved.

5.2.2 Performance Measurement

In IPSAs¹ the composition of financial statements is addressed and should include a balance sheet, income statement, cash flow statement, notes and any other statement that might be required. This thesis promotes the performance report to be utilised as the “other statement”. This study recommends:

- A performance report or statement that can form part of the annual financial statements of Local government departments. Ninety-six per cent (96%) of the respondents in the study are of the opinion that a performance report or statement should be part of the annual financial statements of Local government departments. A need, therefore, exists for such a statement at Local government departments.
- That the performance statement combines the balanced scorecard and the income statement. The use of the balance scorecard can enhance managerial control and accountability in Local government departments.
- That performance measures should be linked with desired outcomes and outputs and furthermore that without an accurate reporting framework performance cannot be measured at all.

5.2.3 Committed and Competent Head of Departments

Three categories of key management in Local government departments were identified in chapter four of this study namely, the political head within the executive authority, the accounting officer and head of a department (CMT). It was recommended that:

- Financial management be the responsibility of accounting officers (Council Executive Directors, Heads of departments) and not the responsibility of District Treasurer.
- The CMT be held accountable for financial management in Local governments.

5.2.4 Outcomes-Based Budgeting

The key factors for effective budgeting were also identified in chapter four. In the study these factors were tested for their importance. In this study the researcher recommends:

- That activity-based budgeting (ABB) be introduced with Local government departments as ABB estimates costs of activities that are required to deliver the desired outcomes to satisfy the needs of the stakeholders. A few steps in a sound budgeting process can be set out as; firstly, the identification of outcomes and objectives; secondly, the identification of activities within programmes designed to meet the objectives; thirdly, the identification of desired outputs and performance measures (the use of the balanced scorecard is promoted); and fourthly, the preparation of these budgets by costing the activities within the programmes in financial terms.

5.2.5 Accruals-Based Reporting

Accountability and performance measurement is dependent on the budgetary control process. The control process of a budgetary system on the other hand is manifested in a sound accruals-based reporting system. Budgeting needs are to be integrated with accounting systems to make performance measurement in Local government departments effective. It is recommended that:

- The cash basis of accounting should be phased out as quickly as possible as it do not represent the true costs that are consumed by activities and outputs of Local government departments. The respondents are of the opinion that the implementation problems of accrual accounting, such as the recruitment and training of skilled financial staff, changing the mindsets of current staff and upgrading of information systems will take some effort.
- Both external and internal reports should deal with performance measurement and should not only deal with the control over inputs. Reports in Local government departments should be output driven with comparisons of actual and targeted outputs both with regard to quantities and costs. These reports should create a performance measurement culture, which is the main objective of this study.

5.2.6 Practical Implementation of the Performance Measurement Approach

It is recommended that the three fundamentals of performance measurement, namely committed and competent Head of departments, outcomes-based budgeting and accruals based reporting be implemented in a chronological manner. First the Head of Departments should be trained and educated or recruited if necessary. The implementation of outcomes-based budgeting and accruals based reporting should be executed parallel to each other.

5.2.7 The Performance Report

It is recommended that a performance report in the form of a performance statement be included as part of the annual financial statements of Local government departments. The performance statement should be in harmony with the income statement and with the balanced scorecard. The statement compares the objectives identified in the strategy analysis with the actual results on an accrual basis. It is further recommended that the performance statement be complemented with a set of notes collaborating on the efficiency in meeting the predetermined objectives. All the unallocated expenses that cannot be assigned to the main objectives of a government department should be investigated in detail to identify any fruitless expenses. The statement should be prepared on the accrual basis of accounting to ensure that the costs of the outputs are correctly calculated and take into account all the resources that were consumed. Cost allocations using activity-based techniques are also recommended.

5.3 Topics for Future Studies

All the unanswered questions arising from this study should be addressed in future studies. The following list of topics may be of interest to financial management in the government:

- vi) A critical analysis of cost accounting systems in the public sector;
- vii) A framework to implement the balanced scorecard in the public sector;
- viii) A critical analysis of performance measurement systems in the public sector;
- ix) A survey of the cost effectiveness of service delivery in the public sector;
- x) A framework for the implementation of accrual accounting in the public sector.

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APPENDICES

APPENDIX 1

QUESTIONNAIRE

The Effect of Financial Management System on Local Governments Performance: A Case of Namtumbo District Council

1. What is your current position? (Indicate by means of a circle)

- A. Accounting officer:
- B. District Treasurer:
- C. Internal Auditor:.....
- D. External Auditor.....
- E. Other (Specify)

2. Which department do you represent?

.....

3. What is your highest qualification?

- A. Academic
- B. Professional:
- C. Other:

4. How many years' experience do you have?

- A. Management:
- B. Finance:
- C. Other:

5. What is your perception of the standard of financial management in the public sector? Please rate it between one and five. Indicate (5) if it is excellent and (1) if it is considered to be poor.

1	2	3	4	5
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6. What do you think are the current shortcomings of financial management in the public sector? Please list them briefly.

.....

7. Several developments have taken place in public financial management over the past few years. Please rate them between five (important) and one (not so important).

A. Generally Accepted Accounting Practice

1	2	3	4	5
---	---	---	---	---

B. Public Finance Act and Local Government Finance Act

1	2	3	4	5
---	---	---	---	---

C. Public Procurement act and Regulations

1	2	3	4	5
---	---	---	---	---

D. Guide to Financial officials

1	2	3	4	5
---	---	---	---	---

E. Zero-based budgeting

1	2	3	4	5
---	---	---	---	---

F. Medium Term Expenditure Framework

1	2	3	4	5
---	---	---	---	---

G. Other (Specify) _____

1	2	3	4	5
---	---	---	---	---

8. Do you think that (1) management skills and (2) leadership style will change in the future as a result of the above?

A. Management skills YES/ NO

B. Leadership style YES/NO

9. Corporate governance is based on the principles of openness, integrity and accountability. Are you of the opinion that financial management in the public sector should be based on these principles? Please rate them between five (important) and one (not so important).

A. Openness

1	2	3	4	5
---	---	---	---	---

B. Integrity

1	2	3	4	5
---	---	---	---	---

C. Accountability

1	2	3	4	5
---	---	---	---	---

10. What do you consider to be the features or characteristics of sound financial management in the public sector? Please rate the features below between five (important) and one (not so important).

A. Integral accrual accounting system

1	2	3	4	5
---	---	---	---	---

Strategic and operational planning

1	2	3	4	5
---	---	---	---	---

B. Focus on results rather than rules

1	2	3	4	5
---	---	---	---	---

C. Appropriate internal controls

1	2	3	4	5
---	---	---	---	---

D. Ex post accountability replacing ex ante control

1	2	3	4	5
---	---	---	---	---

E. Financial management: responsibility of managers

1	2	3	4	5
---	---	---	---	---

F. Financial advice: responsibility of financial staff

1	2	3	4	5
---	---	---	---	---

G. Excellent information

1	2	3	4	5
---	---	---	---	---

H. Professional financial staff

1	2	3	4	5
---	---	---	---	---

I. Key staff are linked to performance agreements

1	2	3	4	5
---	---	---	---	---

J. Clearly defined objectives and specified output

1	2	3	4	5
---	---	---	---	---

K. Clearly defined responsibilities of key staff

1	2	3	4	5
---	---	---	---	---

L. Executives have flexibility and discretion

1	2	3	4	5
---	---	---	---	---

M. Risk management principles are followed

1	2	3	4	5
---	---	---	---	---

N. Incentives to ensure improved efficiency; and

1	2	3	4	5
---	---	---	---	---

O. Non-financial measures for outputs

1	2	3	4	5
---	---	---	---	---

P. Other (Specify) _____

1	2	3	4	5
---	---	---	---	---

11. Do you agree that most of the features of financial management listed in Question 10 above can be divided in three broad categories namely?

- A. Committed and competent line-managers YES/NO
- B. Outcomes-based budgeting YES/ NO
- C. Accrual's based reporting YES/ NO

12. Whose responsibility is financial management?

- A. The Member of Council Management team YES/ NO
- B. The District Executive Director YES/ NO
- C. The District Treasurer YES/ NO
- D. Councillors through finance committee & full council YES/ NO
- E. All staff of council YES/NO
- F. Councillors and staff of the council YES/ NO

13. Does your department have a Chief Financial Officer? Yes / No

14. The Chief Financial Officer should possess certain attributes. Please rate them between five (important) and one (not so important).

A. Professionally qualified

1	2	3	4	5
---	---	---	---	---

B. A financial analyst

1	2	3	4	5
---	---	---	---	---

C. Good communicator

1	2	3	4	5
---	---	---	---	---

D. Critical thinker

1	2	3	4	5
---	---	---	---	---

E. Flexible mind

1	2	3	4	5
---	---	---	---	---

15. Are you of the opinion that a large portion of the senior finance staff should have accounting qualifications (at least Accounting Diploma level)? Yes / No

16. This question is for District treasurer only.

A. How many senior financial staff is employed?

B. How many do have accounting qualifications?

17. What kind of budgets is used for departmental purposes?

A. Line item budgeting YES/ NO

B. Programme budgeting YES/ NO

C. Zero-budgeting YES/NO

D. Activity-based budgeting YES/NO

E. Other (Specify) _____

18. Activity-based budgeting is a process where programmes of an institution are divided into activities. Do you think it is possible to divide the programmes of the district into different activities and to budget accordingly? Yes /No

19. What is your perception of the standard of the budgetary control system in the Local Government? Please rate it between one and five. Indicate five if it is excellent and one if it is considered to be poor.

1	2	3	4	5
---	---	---	---	---

20. What do you think are the current shortcomings of the budgeting process in the local government authority?

.....

21. Government should acknowledge that public spending is an investment by taxpayers which should therefore be managed optimally. How can this be achieved?

.....

22. The following are highlighted as key factors for effective budgeting systems? Please rate them between five (important) and one (not so important).

A. Transparency

1	2	3	4	5
---	---	---	---	---

B. Management and monitoring of the budget

1	2	3	4	5
---	---	---	---	---

C. Decentralization

1	2	3	4	5
---	---	---	---	---

D. Co-ordination and co-operation

1	2	3	4	5
---	---	---	---	---

E. Integration of recurrent and development budgets

1	2	3	4	5
---	---	---	---	---

F. Flexibility when circumstances change

1	2	3	4	5
---	---	---	---	---

G. Discipline

1	2	3	4	5
---	---	---	---	---

H. Link to medium-term framework

1	2	3	4	5
---	---	---	---	---

I. Accountability and credibility

1	2	3	4	5
---	---	---	---	---

J. Comprehensive

1	2	3	4	5
---	---	---	---	---

K. Performance measurement

1	2	3	4	5
---	---	---	---	---

L. Other (Specify) _____

23. What are the critical strategic issues facing your institution?

.....
.....

24. What are the strategies identified to meet the issues above?

.....
.....

25. Government departments are currently using the cash basis of accounting.
What are the limitations of the cash basis of accounting?

.....
.....

26. What are the advantages of accrual accounting?

.....

.....

27. How long do you consider will it take to implement fully the accruals based system fully in the Local government Authority as required by the IPSAS?

- A .Within 2 years YES / NO
- C. Between 2 and 3 years YES/ NO
- D. Between 3 and 4 years YES/ NO
- E. Between 4 and 5 years YES/ NO
- F. More than 5 years YES/NO

28. Various implementation problems for a fully integrated accruals based accounting system can be identified. These are listed below. Please rate them between five (important) and one (not so important).

The need for skilled finance people

1	2	3	4	5
---	---	---	---	---

A. New information systems

1	2	3	4	5
---	---	---	---	---

B. Getting assets on the books

1	2	3	4	5
---	---	---	---	---

C. Change in mindsets/skills of officials

1	2	3	4	5
---	---	---	---	---

D. Other (Specify) _____

29. Employing appropriately qualified and experienced financial officials could be difficult. What are the current problems experienced with this statement?

.....
.

30. What is your perception of the standard of financial reporting system in the public sector? Please rate it between one and five. Indicate five if it is excellent and one if it is considered to be poor.

1	2	3	4	5
---	---	---	---	---

31. Identify the different users of public financial reports. Literature identifies the following users. Please rate them between five (important) and one (not so important).

A. Legislative bodies

1	2	3	4	5
---	---	---	---	---

B. The public

1	2	3	4	5
---	---	---	---	---

C. Investors and creditors

1	2	3	4	5
---	---	---	---	---

D. Rating agencies

1	2	3	4	5
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E. Other governments

1	2	3	4	5
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F. Economic analysts

1	2	3	4	5
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G. Other (Specify) _____

32. Is internal reporting important in the local Government authority? Yes/ No

33. How frequent is internal reporting undertaken?

- A. Monthly YES/NO
- B. Quarterly YES /NO
- C. Six-monthly YES/NO
- D. Annually YES/NO
- E. Never YES/NO

34. What are the components of effective internal reporting? Please rate them between five (important) and one (not so important).

A. Graphical presentation of performance showing the key performance indicators

1	2	3	4	5
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B. Written commentary on overall performance

1	2	3	4	5
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C. Set of full financial statements

1	2	3	4	5
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D. Concise report on each operational unit (with variances from budget)

1	2	3	4	5
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E. Other (Specify) _____

35. What is your time scale for providing an annual report?

- A. Three months YES/NO
- B. Four months YES/ NO

- C. Five months YES/ NO
- D. six months YES/ NO
- E. Nine Months YES/ NO
- F. Twelve Months YES/NO
- G. Longer than 12 months YES/ NO

36. Does the annual report include an evaluation of achievements with regard to predetermined outputs? Yes / No

37. The desired outcomes are reached/ achieved through the delivery of outputs.

- A. Is the cost of the outputs currently calculated? YES/NO
- B. If yes:
 - By departments; OR YES/NO
 - Across the various departments YES/ NO

38. Activity-based costing (ABC) makes use of two cost allocations. Firstly to the activities concerned and secondly to the outputs of these activities. Do you think that ABC can be introduced in your institution? YES/ NO

39. According to Regulations departments must produce monthly and quarterly reports. Are these reports prepared at your institution? YES/NO

40. Performance measurement is important for effective financial management. Are you of the opinion that a formal performance statement should be included in the financial statements of an organisation together with the other components such as the balance sheet, income statement and cash flow statement? YES/ NO

41. According to the balanced scorecard approach performance measurement should include financial and non-financial measures and should be linked to the strategies of an organisation. What are the broad categories of these strategies?

- A. Strategies for stakeholder satisfaction YES/ NO
- B. Strategies for internal activities and processes YES/ NO
- C. Strategies for innovation and learning YES/ NO
- D. Other (Specify) _____

42. Does your department make use of the balanced scorecard (see previous question) as an approach to measure performance? YES/NO

43. If question 42 is NO, do you think that the balanced scorecard approach can be applied in the public sector? YES/NO

44. What measures are currently in place to secure the improving of service delivery (maximizing output) and reducing the costs?

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**APPENDIX III
NAMTUMBO DISTRICT
COUNCIL STRUCTURE**

