FINANCIAL ACCOUNTABILITY AND FINANCIAL REPORTING IN A DECENTRALIZED ENVIRONMENT (A CASE STUDY OF TANZANIAN LOCAL GOVERNMENT AUTHORITIES)

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ABSTRACT

The responsibility of public sectors undertakings in providing the basic amenities to the society requires strong financial management. Following the outcry on the proper management of public resources; the current study aims to assess the role of financial reporting in enhancing financial accountability in local governments. The study has been motivated by the efforts exerted by public sectors stakeholders worldwide to improve the proper use of public resources in local governments. To achieve this objective, the study employed both primary and secondary data. The secondary data were mainly compiled from the CAG general reports of Tanzanian local governments, while primary data were collected by using structured questionnaires distributed to 28 different councils. The key respondents were, accountants, internal auditors, planning officers, procurement officers, council directors and ward councilors.

The study employed statistical techniques to address the subject matter of the research problem. Among other things, the study found that quality of financial reporting is very significant in enhancing financial accountability of Tanzanian local governments. Also, it was found that the adoption of IPSASs accrual basis of accounting of local government will improve decision making, transparency and accountability. The local government management is urged to continue improving the proper utilization of public financial resources to ensure quality provision of social services to the citizens.

Key words: Financial Reporting, Accountability, Financial Accountability, Local Governments, Social Services.
1. INTRODUCTION

The management of public financial resources is the topical issue in both developing and developed countries. This has become pertinent after a widespread transfer of financial responsibilities from central government to sub-national local governments with the idea of improving operational accountability and performance. Financial reporting as an element of financial accountability is very significant in ensuring proper use of public finances for providing social services. Faridi and Nazar (2013) point out that the need for strong management of public resources at local government has been accelerated by the fiscal decentralization which grants fiscal autonomy in both revenues and expenditure responsibilities. The nature of operations in local governments attracts strong mechanism of financial accountability and one of the key elements of financial accountability is financial reporting. Also, Setiyawati (2013) argues that one of the main roles of internal control is to ensure reliability of local government accounting and financial information which leads to quality of financial reporting.

According to Bukemya (2014) quality of financial information embraces key aspects such as relevance, reliability, understandability, accuracy and timeliness. These qualities of financial information have significant contribution on the quality of financial reporting. Reliable and relevant financial information improves control mechanism in a fiscal decentralized environment. Precise financial information has significant contribution on decision making and resource allocation (ACCA, 2010). Financial reporting is mainly considered as the key instrument of assessing accountability by using financial statements (García, Díaz and Rodríguez; 2002). Public sectors accountability is very important in controlling aspect and stakeholders are strongly interested with the aspect of accountability in local government operations. According to Basri and Nabiha (2014), proper financial reporting plays major roles on enhancing and demonstrating accountability for easy assessment of operating performance of an organization. Also, Hutagalung and Hum (2016) argue that financial reporting contributes strongly on enhancing public accountability and transparency. Accountability and transparency are the key factors for the successful operations of public sector towards provision of social services.

In a fiscal decentralized environment where fiscal autonomy for revenues and expenditure responsibilities are granted, transparency operation is very important to secure accountability mechanisms. Transparency operations help to improve quality of financial reporting and accountability mechanisms. In Tanzania, public financial reporting is governed by Local Government Act of 1982 which requires local government to prepare annual accounts for audit purposes. Also, as an important aspect of financial accountability, financial reporting conveys information of the process of accountability in which general public are informed about economic events which occurred in the local governments (Mohamad, Abdullah and Deris; 2012). It helps to assess the general performance and operations of the local government authorities by pointing out key areas of improvements and other areas which require more attention. Mir and Sutiyono (2013) point out that financial reporting is very important in enhancing financial accountability of the public agencies and also assists in decision making for internal and external stakeholders. Apart from financial reporting, the success of financial accountability depends also on sound management system and effective
in institutional arrangement (Adeolu and David; 2012). Thus, the strong move of enforcing financial accountability in local governments requires effective organizational arrangement to ensure favorable working environment for both local officials and citizens.

Based on the above grounds, the relevance of quality of financial reporting on financial accountability is irrefutable fact. The importance and crucial roles played by quality of financial reporting has necessitated this study to examine the key roles of financial reporting in enhancing financial accountability in Tanzanian local governments. This study is expected to add knowledge on the academic work stock on quality of financial reporting and financial accountability. Also, the study is very important to decision and policy makers, scholars, researchers, stakeholders and other interested parties of local government authorities.

The rest of the paper is organized as follows: The first part which is 2.0 is the role of financial reporting in financial accountability, whereas 2.1 is the general aspects of financial accountability, 2.2 is all about financial control and accountability in public sector, 2.3 gives details about financial reporting in Tanzania, review of empirical literature, methodology, data presentation and analysis and concluding remarks.

2. ROLE OF FINANCIAL REPORTING IN FINANCIAL ACCOUNTABILITY

It is undeniably fact that local government financial reporting is very important and contributes significantly to the success of financial accountability. The foremost objective of financial reporting is to facilitate public expenditure control by demonstrating accountability for compliance with approved budget (Hughes, 2013). Financial reporting assures the operational transparency which is mostly demanded by the tax payers and other stakeholders to build confidence on the proper use of the collected public finances. According to Adeolu and David (2012), the successful operation of financial accountability requires good financial reporting, strong management system and effective organizational arrangements. The improvement of financial accountability demands also strong institutional arrangement to enable apparent working environment in local government dealings. Thus, all internal stakeholders of local governments have strong contributions to the success of financial accountability. On the similar vein, Mande (2015) expounds on the relevance of strong mechanism of financial reporting in enhancing financial accountability as a key instrument of controlling misappropriations of public funds. Also, comprehensive financial reporting is enforced by demanding accountability on what local governments have done with public finances (Schaeffer and Yilmaz; 2008). Financial accountability helps to control misuse of public resources by focusing on those entrusted with public funds in order to facilitate smooth provision of public social services.

The published financial statements are the hub of public accountability because they draw attention for stakeholders to discuss the public expenditure (Ayobami, 2014). Good financial reporting helps local governments to control efficiency and economic use of public resources towards provision of public services. Also, the idea of improving political system and public administration should be of paramount in government operations. Hladchenko (2016) argues that government financial accountability and transparency contributes significantly on the performance of political system and quality of public administration. The main focus of financial accountability is not only to control public resources but also to stabilize good governance at the local government and public sector in general. Good governance ensures smooth operation and stabilization of social economic at the local governments. Therefore, the efforts of improving financial accountability should also correspond with the enhancement of good governance at local government authorities.
The financial reporting is very important in the public sector financial management and also it is considered as the best indicator of accountability (Akhidime, 2012). Local government financial reporting facilitates provision of information on financial position and operating performance. Ibrahim et al (2004) point out that financial reporting in local authorities needs to be relevant and reliable in order to enable general public to measure performance in terms of efficiency and effectiveness in using public resources. Local government can achieve reliability of financial reporting by ensuring that financial statements are free from material errors and misstatements. Such reports facilitate decision making, transparency and enables discharging accountability.

In any achievements there are always challenges, which slow the efforts of reaching the intended goals. The main challenge of financial accountability in local government is the understanding of the roles and responsibilities for the responsible organs for holding accountable those entrusted with public resources (Akudugu, 2012). Thus, responsible organs for assessing accountability must possess enough knowledge to enable discharging their duties honestly and diligently. Also, more efforts need to be directed on educating citizens and other stakeholders about the importance of financial reporting in decision making and assessing accountability in local government operations.

2.1. General Aspects of Financial Accountability

The word “financial” represents money and other economic resources; however, in financial reporting, accountability is originated from the word “accounting” which involves recording, analyzing, verifying and reporting financial transactions to the users of such information (Nnenna, 2012). Accountability which is the base of financial accountability is termed as multidimensional theme (see for example Akpanuko and Asongwa, 2013; Mwombela, 2012; Othmain et al, 2008 and Thurmaier, 2003). So we can agree that financial accountability is also a multidimensional theme, meaning that it cannot be measured by single item, it is measured by a number of variables together. There is no clear measure of financial accountability; nonetheless, some of the authors such as Mohamed (2014) and Lane (2008) have tried to point out some of the variables that can represent financial accountability in public sector.

In assessing the financial accountability of the Somali Federal Government Organizations, Muhammed, (2014) employed various factors related to four key areas of financial accountability. The four key areas proposed (ibid) are financial internal control mechanism, budgeting framework and practices, financial reporting and external audit and oversight. The author considered these four variables to assess the financial accountability and finally he found that there is improvement in public sector financial accountability due to strengthened pubic financial management. Also in assessing country’s public expenditure, procurement and financial accountability, Lane (2008) employed four variables; comprehensiveness and transparency, budget framework and practices, accounting records and reporting and external scrutiny and audit. It is believed that public expenditure tracking, procurement and financial accountability are very important aspects of public financial management which facilitates achievement of the value for money in development projects.

Also, the IMF manual on fiscal transparency and the code of good practices on fiscal transparency, Section 166 states that “The core component of government auditing is the regularity audit. It covers attestation of financial accountability of individual agencies involving evaluation of financial records and the expression of opinions on financial statements; attestation of the financial accountability of the government as a whole; and audit of financial systems and transactions, and of internal control and audit functions including an evaluation of compliance with regulations and statutes” (IMF, 2001). From this paragraph of
Manual on fiscal transparency, we can deduce measures of financial accountability in local government operations. Measures of financial accountability identified in this paragraph are financial reporting, internal control mechanism, external audit and assessment of other aspects of financial accountability such as budgeting and external influence from NGOs.

In addition to that, the World Bank (2001) assessed the effectiveness of public financial accountability in ten East Asian Countries. In making assessment, World Bank (ibid) employed nine elements of a sound public financial accountability system. These elements of financial accountability can be grouped into four: budgeting framework, financial reporting issues, external auditing and procurement and internal control system.

In summary, it can now be agreed that the key measures of public financial accountability as explained above are budgeting framework and practices, public financial reporting, mechanism of internal financial controls and public external audit. All these variables contribute to the success of public financial management and financial accountability in particular. However, the most important variables of public financial management are internal control mechanism and financial reporting. Adebeju (2013) asserts that internal control is very important instrument of financial accountability and helps to solidify financial reporting mechanisms. Also, internal auditing as an important element of internal control system plays an important role in ensuring quality of financial reporting and financial management.

2.2. Financial Control and Accountability in Public Sector

According to Kushlak (2015), financial control is among the significant roles of the local government as a mechanism of enforcing implementation of financial policies and ensures effective use of public financial resource. Financial management has significant role in the efficient use of public resources at local governments. This implies that, public financial management is very important in improving the quality of public service products (ACCA, 2010). Langlois, Beschel and Stapenhurst (1998) expound that strong financial management systems are very efficient instruments for averting, discovering and facilitating the punishment for misusing public resources and corruption. In general, funds of the sub-national governments are managed by the key officers of respective councils (Ojo, 2009). In this respective power of local officials, financial management is required to institute strong mechanism of accountability to enforcing local official to abide with stipulated financial rules and regulations. Moreover, in order to enable local governments to work efficiently and effectively, there should be a proper financial management and accountability for all available resources (Asuquo, 2014). Also, it should be noted that control mechanisms have positive significant impact on the effectiveness of financial management (Wikiriba, Ngahu and Wagoki, 2014).

The decentralized local operations need some degree of fiscal discipline and favorable institutional relationships to enhance transparency and accountability mechanism in reporting local government operations in a good manner (Sevilla, 2005). It should be remembered that fiscal decentralization entails fiscal autonomy in mobilizing internal revenue and spending them. So in this era of fiscal autonomy, local governments need apparent mechanism of financial reporting to help safeguarding these resources and direct them to public social services. Also, Thurmaier (2003) pointed out that to enable proper use of public resources, local financial management reforms in budgeting process and budget execution are inevitable. Budgeting process has significant contribution on smooth delivery of basic public services to the citizens.

Accountability can be an unstructured concept to define. It is a multidimensional in nature and entails more goals than simply democratic responsiveness (Thurmaier, 2003 and Dennis, Sulaiman and Jussoff; 2008). However, it can be explored in a good manner when linked
with decentralization particularly fiscal decentralization. In broadest sense, accountability is a state whereby the act of performing defined functions by an individual or body is subject to another’s enquiry for oversight, direction and demands the former to justify the course of their actions (Mwombela, 2012). The concept of accountability encompasses two key features which are answerability and enforcement. Answerability refers to the obligation of the government, its agencies and public officials to justify decisions they make and the resulting actions (Brinkerhoff, 2004). This implies that accountability mechanism enforces public officials to provide justification to the enforcement agency for oversight. Control mechanism suggests that public or oversight institutions can sanction the entrusted party and seek a remedy for underperformance or abuse of public finances. This aims to strengthen accountability and financial discipline towards proper management of public resources.

The objective of Government accountability is to ensure that actions resulting from decisions made by public officials are subject to oversight by an independent party. This is done so as to guarantee that government initiatives meet their stated objectives and eventually benefit the citizens who are the objective of all government functions and responsibilities (Rabrenovic, 2009). Also accountability is believed to improve public service delivery by being answerable to performance (Romzek, 2000).

Accountability does not consider only scrutinizing, blaming and punishment but also help organizations to perform better in providing quality social services (Hupkes, Quintyn and Taylor; 2005). It helps to strengthen public sector governance by proving thorough understanding on how governments’ programmes can underperform and finding corrective measures for improving performance (Onuorah and Ebimobowei; 2012). According to Bovens (2005) accountability means agreeing to be responsible. Accountability helps to enforce local officials to be more responsible to the needs of citizens by adhering to the approved budgets and other financial regulations for the benefit of the citizens.

Also in order to ensure value for money is achieved, fiscal decentralization needs to be linked with strong mechanism of accountability (Akudugu, 2012). Accountability is very crucial in identifying and penalizing malfeasance or maladministration and also serves as a mechanism of securing sustainable improvement in the whole system of public financial management (Hedger and Blick, 2008). Fiscal decentralization is believed to create strong mechanism of accountability through fiscal autonomy and fiscal transparency. Clearly, this system can help to enforce those entrusted with public funds to spend them economically, efficiently and effectively towards citizens’ needs. Full understanding of accountability system enables to provide impartial and targeted support to improve capability in safeguarding and utilizing public resources as stipulated in the budget guidelines (OECD, 2014).

2.3. Financial Reporting Framework in Tanzanian LGAs Context
The main organ of assessing quality of financial reporting in Tanzanian local governments is National Audit Office of the Tanzania (NAOT) under the leadership of Controller and Auditor General (CAG). The functions of the CAG are mandated in the constitutional of the United Republic of Tanzania. Constitution of United Republic of Tanzania (1977) section 143 (2) states clearly the audit mandate and responsibilities of CAG in controlling and auditing public resources. Also, Local Government Finance Act of 1982 states clearly that the external auditor for all local governments shall be Controller and Auditor General.

As an external auditor, CAG is required to audit all financial statements of the local governments and issue audit opinion accordingly. Audit opinions are grouped into four categories, namely, unqualified opinion, qualified opinion, adverse opinion and disclaimer of opinion. Each audit qualification is issued after considering material facts relating to the
opinion concerned. For example unqualified opinion (clean) is issues to the local government after being confirmed that financial statements presents true and fair view. This implies that financial statements have been prepared by using applicable accounting policies, legislations and accounting standards. The main idea of conducting audit of financial statements is to secure financial accountability in order to ensure proper use of public resources. Thus, financial reporting contributes significantly to the quality provision of public social services by securing financial discipline in public finances.

In order to ensure this reporting mechanism in Tanzania, LGFA (1982) Section 45 (4) requires council’s accounting officer to prepare final accounts and submit to the Controller and Auditor General for auditing purposes. In this case, final accounts (financial statements) include statement of financial position (balance sheet), statement of income & expenditure and statement of cash flows. Financial statements help stakeholders to assess assets and liabilities of the council and also to examine operating performance together with cash inflows and outflows of the local government. It is evidently that financial reporting and auditing are very significant in the successful operation of the fiscal decentralized local governments. Auditing process informs general public (principal) about the general operation of the local governments including management of the public finances entrusted to local officials (agents).

Also, in a bid of improving quality of financial reporting, LGFA (1982) Section 45 (1) requires accounts of local government to be audited internally by the internal auditor employed by the authority concerned, though the final assessment of the local governments’ final accounts is done by Controller and Auditor General as an external auditor for Tanzanian local government authorities. Also order 11 through 14 of Local Government Financial Management 2009 requires all LGAs to establish proper internal controls to ensure preparation of financial statements which are relevant and reliable. Reliable financial statements are ones which can influence economic decision while relevant financial statements are the ones which are free from material misstatements. Thus, it is the responsibility of the local government management to ensure that financial statements are relevant and reliable to enable users and other stakeholders to make social economic decisions.

The quality of financial reporting is very significant in the whole process of financial accountability and financial management in general. To ensure proper financial reporting framework, local governments’ management and other responsible organs have been working tirelessly to improve reporting framework. In this endeavor, local government adopted International Public Sector Accounting Standards (IPSASs) accrual basis of accounting effectively from 1st of July 2009 [40] in order to improve transparency and accountability; giving a grace period of five years to ensure full compliance. Accrual basis of accounting recognizes both cash paid and accrued transactions to enable faithful representation of financial statements. The grace period for full compliance on IPSASs ended in 2014 which means that the first local governments’ financial statements prepared under IPSASs were for the financial year 2014/15.

The adoption of IPSASs is another achievement that resulted from local government financial management reform which aimed to enhance transparency and accountability in local governments’ operations. The full adoption of IPSASs is expected to improve local government financial reporting framework to facilitate decision making, transparency and accountability. According to IPSASs 1, a complete set of financial statement includes statement of financial position, statement of financial performance, statement of changes in net assets/equity, cash flows statement, a statement of comparison of budget versus actual amount by function and notes to the financial statement. The full set of financial statements
enables various stakeholders to assess financial position, financial performance and cash flows of the local government.

Source: Kalulu (2015)

**Figure 1** Financial Reporting Framework for Public and Private Sectors in Tanzania

Figure-1 indicates the applicable accounting standards for government (public) sector and private sector. The structure shows further that applicable accounting standard for central government, local government and a government non-business enterprise is IPSASs accrual basis of accounting. Also, the relevant accounting standard for government business enterprises and private sector is International Financial Reporting Standard (IFRSs). Apart from LGAs, central government and non-government business entities reported financial statements for the first time under IPSASs accrual basis of accounting in the financial year 2012/13.

3. REVIEW OF RELATED EMPIRICAL LITERATURE

Traditionally, financial reporting is used to save as a means of assessing stewardship between agents (managers) and principals (suppliers of funds). Also in public sector, financial reporting saves the same purpose by considering two parts; those entrusted with public finances and general public (owner of the public funds). However, of recent the purpose of financial reporting has changed to incorporate the elements of accountability as an important part of financial control in public sector. In his findings, Rahmatika (2014) reveals that financial reporting is very important in the whole operations of local governments and contributes significantly on good governance. Quality of financial reporting enables local governments’ stakeholders to debate on operating performance. Due to the relevance of financial reporting, it is the responsibility of the local government management to create favorable environment for the enhancement of financial reporting. Also, Garret, Hoitash and Prawitt (2014) find significant association between trust and quality of financial reporting in a relatively decentralized environment. This gives another idea that decentralization creates a sense of ownership and hence improves trust amongst local government officials which leads to the improvement of financial reporting and accountability.

Proper keeping financial records also has strong influence on the financial performance of an organization. Bukenya (2014) documents significant positive association between quality of accounting information and financial performance. These findings remind public sector management and policy makers to be very keen in improving accounting information.
improvement of financial reporting in local governments is also influenced by some factors such as competences, information technology and internal control. In their study, Nuryanto and Afiah (2013) found that quality of financial reporting is positively contributed by apparatus competence, information technology and internal control. The importance of quality of financial reporting as an important instrument for discharging accountability in local government is an irrefutable fact. Thus, strong effort should be dedicated to improve reporting environment and management information system to enable easy availability of reliable and relevant accounting information.

In their study, Iskandar and Setiyawati (2015) reveal that financial reporting quality has significant positive effect on the financial accountability. Given the fact that financial reporting is a hub of control and accountability mechanism at local governments, more efforts need to be dedicated to enhancing transparency and reporting framework. Proper presentation of financial statements plays significant role as a means of discharging accountability in public sector financial management. Moreover, apart from being an instrument of discharging accounting stewardship, financial reporting is used for decision making purposes. Nogueira, Jorge and Oliver (2013) documented that municipal financial reporting is very useful in decision making regarding social economic issues in Portuguese. Also, Tayib, Coombs and Ameen (2006) revealed that taxpayers require more disclosure of financial information in order to raise confidence on paying taxes. Nevertheless, the usefulness of financial reporting can be enhanced by disclosing more information including non-financial information to aid internal decision making.

The prior studies on quality of financial reporting in public sector focused on relevance, contributing factors, disclosure of financial information and its key role on improving financial controls. All previous studies noted the importance of financial reporting in enhancing local government accountability mechanisms and internal decision making in social economic stance. In this case, the only truth to unveil is that whether the same roles are played similarly in developing countries like Tanzania. Thus, the current study tries to assess the role of financial reporting in financial accountability in Tanzanian local governments. The current study is expected to widen stock of literature on how financial reporting influences financial accountability in local government and public sector in general.

3.1. Methodology of the Study
The main objective of the study has been achieved by considering secondary data and primary data collected using structured questionnaires from three hundred and eighty nine respondents. The study established a sample of councils from a total of one hundred and forty (140) councils from CAG Report on Tanzanian local government authorities 2012/13. We employed stratified sampling, grouping local governments into strata based on the four types of councils. The local governments were grouped into four strata, and then employed simple random sampling to arrive at the appropriate sample by using proportional number in each stratum. Respondents were drawn from twenty eight (28) councils which represent twenty percent (20%) of local governments, comprising; district councils, town councils, municipal councils and city councils. Key respondents were accountants, internal auditors, planning officers, procurements staffs and ward councilors. Also, the authors reviewed controller and auditor general reports, performance reports of councils and other documents which in one way or other contribute to the success of the quality of financial reporting mechanisms in local governments.
4. ANALYSIS AND INTERPRETATION:
We start analysis of primary data by considering demographic factors, such as sex of the respondents, age, education level, working experience and category of the respondents’ professional wise. The details of the demographic factors have been summarized and presented on the various tables and figures below in terms of frequency and percent for each factor.

4.1. Demographic Factors

![Figure 2 Age and Sex of the respondents](image)

In this analysis, authors have analyzed age of respondents against sex of respondents as shown on figure 2 above. The analysis indicates that, most respondents fall in the age group of 36-45 years with a total number of one hundred and ninety two (192) in which male are 112 (58%) and female are 80 (42%). For the age groups of 19-35 years and 36-45 years, the number of male and female is almost proportional compared to age groups of 46-55 years and above 55 years in which number of male and female is far apart.

<table>
<thead>
<tr>
<th>Table 1 Education level of the Respondents</th>
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<tbody>
<tr>
<td>Valid</td>
</tr>
<tr>
<td>Secondary Education</td>
</tr>
<tr>
<td>Certificate / Diploma</td>
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<tr>
<td>Degree / Advanced Diploma</td>
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<tr>
<td>Masters level</td>
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<tr>
<td>Total</td>
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</table>

Table-1 portrays education levels of the respondents working in Tanzania local governments. The analysis shows that majority of the respondents hold degree/advanced diploma which makes a total of two hundred and fifty two (252) equivalents to 64.8% of the total respondents. Masters level and certificate/diploma together represents 34% of the total respondents. Broadly speaking, Tanzanian local government authorities have skilled working force with full of competences to enable smooth running of the day to day activities. This major achievement might have been attributed by the local government reforms through decentralization which aimed to ensure that local governments are fully equipped with skilled and professional staffs with strong qualifications.

http://www.iaeme.com/IJM/index.asp 23  editor@iaeme.com
Table 2 Composition of respondents in Departmental wise

<table>
<thead>
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<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Accounts</td>
<td>192</td>
<td>49.4</td>
<td>49.4</td>
</tr>
<tr>
<td></td>
<td>Internal Auditors</td>
<td>66</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Policy and Planning</td>
<td>66</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Procurement</td>
<td>58</td>
<td>14.9</td>
<td>14.9</td>
</tr>
<tr>
<td></td>
<td>Ward Councilors</td>
<td>7</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>389</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The composition of the respondents’ departmental wise was also another factor which was considered by the authors in analyzing primary data. The profile of the respondents’ departmental wise comprises accounts, internal auditors, policy and planning, procurement and ward councilors. The respondents involved in this study were from departments of accounts with the highest number of 192 (49.4%), internal auditors 66 (17%), policy and planning 66 (17%), procurement 58 (14.9%) and the last category of respondents was of ward councilors 7 (1.8%). The composition of respondents was thought to be enough to provide reliable inputs in regarding with the financial reporting and financial accountability in local government authorities.

![Graph showing working experience distribution](image)

Figure 3 Working Experience of the Respondents

Working experience of the respondents was categorized into five groups, ranging from less than one year to more than ten years. Majority of the respondents have working experience of 4-6 years which is equivalent to 33.4% and minority of the respondents have experience of less than one year which is 6.9% of the total respondents. Moreover, 77.4% of respondents have experience greater or equal to four (4) years while 22.6% of the respondents have experience of less or equal to three (3) years.

4.2. Relevance of Quality of Financial Reporting in Financial Accountability

Quality of financial reporting and auditing is an important element of financial accountability which plays multiple roles in an organization operational efficiency. Apart from being an instrument of assessing stewardship also financial reporting convey significant information to the stakeholders of the local governments. Financial reporting communicates important information for decision making such as financial position of an organization, operating performance and capitalization of the organization. One of the rights of the local citizens is to get information about the revenue collection and how collected revenue is spent in relation with public social service delivery.
Figure 4 Improvement on Quality of financial reporting and auditing practices

Figure-3 shows the respondents’ opinions on the enhancement of quality of financial reporting and auditing practices. Majority of the respondents indicate that there is improvement on quality of financial reporting and auditing practices. Specifically, a total of one hundred and twelve (112) equivalents to 28.8% of the total respondents strongly agree that transfer of financial responsibilities has led to the improvement of quality of financial reporting and auditing practices. Moreover, two hundred and fifty seven (257) which represents 66.1% of the total respondents agree on the enhancement of financial reporting (financial statements) and auditing practices due to fiscal decentralization as a transfer of financial responsibilities to local governments. Despite of the majority of respondents who acknowledge the improvement of financial reporting, 5.1% of the total respondents have negative view about the enhancement of quality of financial reporting in Tanzanian local governments.

Figure 5 Effectiveness of External Auditing in Financial Accountability at LGAs

The public Sector audit is thus critical for effective financial accountability mechanism regarding implementation of public budget and in ensuring value for money. As we can see from figure 5 above that majority of the respondents recognize the role of external auditing in promoting financial accountability. In particular, a total of one hundred and twenty six (126) equivalents to 32.4% of the total respondents indicate that external auditing is very effective in enhancing financial accountability. Moreover, a total of two hundred and forty nine (249)
which represents 64% of the total respondents show that external auditing is effective in ensuring financial accountability at local government authorities. In contrast, about 3.7% of the total respondents indicate that auditing is not effective in improving accountability mechanisms at local governments.

![Figure 6](http://www.iaeme.com/IJM/index.asp)

**Figure 6** Relevance of Quality of Financial Reporting in Reducing Audit Queries

As we can see from figure-6 that majority of the respondents indicate that quality of financial reporting is significant in reducing audit queries concerning local government’s financial transactions. In particular, a total of one hundred and twenty one (121), equivalent to 31.1% of the total respondents, show that quality of financial reporting is very relevant in reducing audit queries at the local government dealings. Furthermore, a total of two hundred and forty eight (248) equivalents to 63.8% of the total respondents indicate that quality of financial reporting is relevant in controlling and reducing audit queries. On the other hand, about 4.2% of the total respondents indicate that quality of financial reporting is either irrelevant or very irrelevant in reducing audit queries. Also, about 1% of the total respondents indicate ‘undecided’ response on the investigative question on the relevance of quality of financial reporting. This analysis indicates that 1% of the total respondents have no idea on whether quality of financial reporting is relevant or irrelevant in managing local government audit queries.

![Figure 7](http://www.iaeme.com/IJM/index.asp)

**Figure 7** LGAs show positive trend on Audit Opinions from External Auditor
The respondents’ responses prove that there is improvement on audit opinions which has been contributed by devolved financial responsibilities. In particular, a total of seventy nine (79) equivalents to 20.3% of the total respondents strongly agree on the encouraging trend of audit opinions due to transfer of financial responsibilities. On the same basis, a total of two hundred and eighty four (284) which represents 73% of the total respondents agree that there is encouraging trend of audit opinions. On the other hand, a total of seventeen (17) and four (4) respondents indicate that they disagree and strongly disagree respectively on the encouraging trend of audit opinions in local government authorities. Moreover, a total of five (5) respondents which is equivalents to 1.3% of the total respondents show undecided response, meaning that they have no idea whether there is improvement or not on audit opinions.

**Figure 8** Assessment of Quality of Financial Reporting of Local Governments

Figure-8 shows the responses on quality of financial reporting of local governments, which indicates that 13.6% of the total respondents show that quality of financial reporting in Tanzanian local governments is excellent. Moreover, 36.8% of the total respondents show that quality of financial reporting is good while 48.1% indicate that quality of financial reporting is satisfactory. This analysis shows that about 98.5% of the total respondents indicate that there is quality of financial reporting in Tanzanian local government authorities ranked from excellent, good and satisfactory levels. In contrast, very few respondents about 1.5% of the total respondents indicate that quality of financial reporting is either below average or poor. The findings from this aspect of financial reporting indicate that local governments have good environment of financial reporting which gives assurance for the improved financial accountability.
The trend analysis of audit opinions indicate there is robust increase of unqualified (clean) opinion from 2004-5 to 2006-7, however there is marginal decreasing trend for the financial year 2007-08 to 2008-09. Also, the figure above indicates appealing positive trend from 2009-10 to 2013-14 and again the number of unqualified opinions dropped from one hundred and fifty (150) in 2013-14 to forty seven (47) in 2014-15. In the financial year 2013-14, local governments recorded the highest number of unqualified audit opinions totaled one hundred and fifty (150). Also, trend analysis for audit opinions indicates fluctuations of number of qualified audit opinions for local government financial statements. Generally, there is decreasing trend of qualified audit opinion despite remarkable increase of one hundred and thirteen (113) in the financial year 2014-15. Further analysis indicates that from 2004-05 to 2013-14 there is an average increase rate of 15% for unqualified audit opinions while qualified opinions have been increasing by an average rate of 1%. Also, adverse opinion and disclaimer of opinion are very marginal in this analysis because they represent only 1% of the total opinions for all eleven financial years under consideration.

5. Conclusions
The main objective of this study was to assess the relevance of financial reporting in financial accountability. The study considered significant contribution of financial accountability in facilitating smooth provision of public social services in local governments. We achieved the objective by considering both primary and secondary data. Primary data were collected from local government official using structured questionnaires while secondary data were compiled from CAG general report on local governments. The quality of financial reporting is the hub of local government financial accountability to ensure proper use of public resources. It is unquestionable that local government operations need strong mechanisms of financial reporting to enable key stakeholders to assess the performance and also to enable local community to debate on the general operations.

The quality of financial reporting creates confidence to tax payers and other stakeholders that public money is spent appropriately to enhance provision of public services. The combination of both primary and secondary data corroborate that quality of financial reporting is very important component of financial accountability which contributes to the
proper use of public finances. Also, the adoptons of IPSASs accrual basis of accounting will continue to improve decision making, transparency and accountability mechanisms in local governments. The findings from this study call for more effort to improve financial reporting in public sector and local governments in particular. The significant role played by financial reporting in securing accountability mechanisms enforces author to advise local government management and other key stakeholders including central government to direct effort on improving financial reporting. It is undeniably fact that quality of financial reporting helps to improve transparency operations and accountability for local government officials.

REFERENCES


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Financial Accountability and Financial Reporting in a Decentralized Environment (A Case Study of Tanzanian Local Government Authorities)


[40] CAG General Report on Tanzanian Local Government Authorities for the financial year 2014/15, pp14; the details on the full compliance of International Public Sector Accounting Standards (IPSASs) for Local Government Authorities and the granted grace period to ensure full compliance.