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**School of Postgraduate Studies**

**Determinants of the Quality of Public Financial Management (PFM) on Budget and  
Budgetary Control in Zimbabwean Fiscally Decentralised Local Governments**

Eriazeri Muguti

PhDAC1511225

**Submitted to the School of Post Graduate Studies in fulfilment of the requirements of  
award of the Doctor of Philosophy in Accounting**

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# DECLARATION

## DECLARATION

This thesis is purely my own work and that has not been submitted to this University and any other University for similar purposes. The information borrowed from other sources has been clearly acknowledged and cited in the position in which they appear.

STUDENT NAME: **ERIAZERI MUGUTI**


DATE: **30/08/2020**

SIGNATURE: 

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FIRST SUPERVISOR NAME: **BONGANI NGWENYA (PhD)**

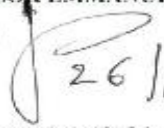
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SECOND SUPERVISOR NAME: **PROFESSOR EMMANUEL MULENGA PAMU**

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I ..... And on behalf of the University of Lusaka do hereby confirm that I have read and examined the Thesis written by .....and supervised by ..... and ....., therefore, approve this research work.

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## **DEDICATION**

I dedicate this thesis with extreme affection and gratitude to my parents; the late Mr Philip Muguti and Mrs Margaret Muguti, my spouse; Tendai Caroline Muguti, my kids; Kupakwashe, Ruvarashe and Rutendorwashe and my supervisors; Dr. Bongani Ngwenya and Professor Emmanuel Mulenga Pamu.

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## **LIST OF ACRONYMS**

PFM.....	Public Financial Management
PEFA.....	Public Expenditure and Financial Accountability
COSO.....	Committee of Sponsoring Organisations
SBU.....	Strategic Business Units
PFMA.....	Public Finance Management Act
UCA.....	Urban Councils Act
RDCA.....	Rural District Councils Act
KCCA.....	Kampala City Council Authority
CEO.....	Chief Executive Officer
NPM.....	New Public Management
NGO.....	Non-Governmental Organisation
MTEF.....	Medium-Term Expenditure Framework
SAI.....	Supreme Audit Institution
IPSASs.....	International Public Sector Accounting Standards

## **ABSTRACT**

### **Study Title:**

Determinants of the Quality of Public Financial Management (PFM) on Budget and Budgetary Control in Zimbabwean Fiscally Decentralised Local Government

### **Introduction:**

Public Financial Management (PFM) in decentralised local governments is a critical area that has seen limited research over the years. In addition, PFM research has mostly centred on developed countries' case studies, using quantitative approaches with results having little explanatory power. Also, the multi-disciplinary nature of PFM has often been ignored. Furthermore, the PFM discipline lacks a comprehensive theory and little is known about the determinants of the quality of PFM systems for decentralised local government in a developing country context. This study, therefore, aimed to describe the systems, institutions and processes that determine the quality of PFM in Zimbabwean fiscally decentralised local government budget and budgetary control systems.

### **Methods:**

This study used an interpretive research paradigm, phenomenological research design, and qualitative research approaches. Interviews and documentary analysis were used to collect data, which allowed the researcher to interact with the study participants. This enabled the study to learn more details reflective of the participants' experiences and perceptions. The targeted population of the study comprised local authorities' chief executive officers, heads of departments, finance, procurement and accounting staff, councillors, internal auditors, central government financial advisors and external auditors. In addition, the purposive sampling method was used and 36 interviews were conducted with these key informants, before saturation was attained. Furthermore, phenomenological qualitative data analysis through open, axial and selective coding was used.

### **Results:**

This study found that the quality of budget planning and formulation was influenced by the availability and predictability of resources, innovation and application of business principles, oversight from higher-level government, compliance with laws and regulations, appropriate human resource skills and competences, leadership skills, collaboration and support, contents and structure of the budget, nature of strategic and financial planning systems and active stakeholder participation and access to information. Also, the quality of budget execution and implementation was found to be determined by resource allocation, accounting systems and internal controls. In addition, various sub-themes also emerged. The quality of budget monitoring and evaluation was

found to be influenced by; budget and financial reporting systems, external auditing systems, and legislative oversight and scrutiny systems. Various sub-themes also emerged.

**Conclusion:**

This study concluded that the determinants of the quality of PFM in decentralised local government are multi-theoretical and multi-disciplinary. They could however be classified into three categories, namely; stakeholder focus, capacity and the management approach. As a result, the study proposed the theory/model of “Enhancing Capacity through Stakeholder Focus and Management Approach.” This study thus provided essential theoretical insights into the understanding of PFM systems in decentralised local governments and a crucial contribution towards the development of a comprehensive theory of PFM. The findings can also assist in the design and improvement of PFM systems. Further studies are recommended to test the determinants developed, using larger samples, quantitative research approaches and statistical methods.

**Keywords:** public financial management, decentralised local government, determinants, quality, phenomenology, qualitative.

# CHAPTER 1: INTRODUCTION

## 1.1 Introduction

Decentralisation is usually understood as the assignment of public functions to subnational governments along with supporting structures, systems, and resources (Smoke, 2015). It can take many forms such as administration, political and financial (Tahina, 2015). The phenomenon of decentralisation is now a major subject for developing countries especially in the context of policies against poverty and exclusion (Smoke, 2015). It has become an important political agenda in many developing countries and is described as a new approach to democracy (Tahina, 2015). It is hoped that by moving decision-making closer to the grassroots and thereby strengthening the political participation and representation of the poor, the effectiveness and efficiency of public service delivery for poverty reduction can be improved (Leiderer *et al.*, 2007).

However, contrasting outcomes of decentralisation have been witnessed between and within countries in terms of governance and the provision of public services. Some studies underscore the positive impact of decentralisation (Albornoz and Cabrales, 2013; Faguet, 2012) while others show its detrimental effect (Treisman, 2006) and even some show no effect at all (Khaleghian, 2003) or mixed evidence (Smith and Revell, 2016). In general, evidence shows that the effects of decentralisation are context- and time-specific.

Public Financial Management (PFM) refers to the science and art of budgeting, spending, and accounting for public funds (Smoke, 2015). It covers the whole budget cycle from planning to evaluation and the legal and institutional framework for the management of public finances (Leiderer *et al.*, 2007; Scott, 2016). Sound PFM ensures that there are clearly defined and well-applied rules and processes for managing public resources, limits opportunities for corruption, and provides stakeholders with information to assess the performance of government (Smoke, 2015). The management of subnational finances has become topical due to widespread fiscal decentralisation (Chalam and Ng'eni, 2017; Faridi and Nazar, 2013).

A key component of good governance in subnational governments is sound financial management and transparency. For example, in the decentralised rural local government of Madagascar, it was observed that ineffective PFM systems led to misuse and waste of resources and inequitable allocation of funds (Tahina, 2015). Thus, the financial management of local authorities in decentralised communities is still a problem to be solved (Tahina, 2015). This is because decentralisation renders the processes of PFM significantly more complex, multiplying coordination requirements and possibly overtaxing scarce human and technical capacities in developing countries (Leiderer *et al.*, 2007). Decentralisation involves decisions about how public resources are spent. Good management of public finances is thus of significant importance for the successful implementation of effective decentralisation (Leiderer *et al.*, 2007)

Expanding the expenditure responsibilities and spending authority of local governments without improving PFM systems have led to poor service delivery outcomes under decentralisation (Baltaci and Yilmaz, 2006). Therefore, a grave need exists to keep local governments fiscally on track and to hold local government officials accountable for results (Baltaci and Yilmaz, 2006). While the efficient and effective use of public resources is a universal concern for all levels of government; the issue is more critical at decentralised local government level. This is particularly true in developing countries, where local PFM systems seem to be at a relative disadvantage compared to central PFM systems (Boex and Muga, 2009).

This study has sought to answer a policy question that is relevant to many decentralising countries around the world. The question concerns the systems, processes and institutions that are considered to influence the quality of local PFM in decentralised local government in a developing country context (Boex and Muga, 2009). A study of the determinants of the quality of local PFM has broader implications for the understanding of PFM performance and how to strengthen it (Boex and Muga, 2009). There is a need for having regular performance assessments of local governments, particularly in countries that are undergoing fiscal decentralisation reforms. However, it is essential for the assessment instrument to be composed of the appropriate context-specific components. There is thus need for analysis in each country case to confirm the validity

of the individual items included in the instrument, or the relative importance of each item as part of the broader component (Boex and Muga, 2009).

## **1.2 Background of the study**

Zimbabwe is a unitary state with strong centralistic features. However, in recent years the state has begun to devolve functions and responsibilities to local levels of government. Thus, when in 2013 a new constitution was adopted it entailed the requirement to establish devolved local government authorities. The New Constitution emphasized on establishing political decentralisation through democratically elected local assemblies and the devolution of central government functions to local government level(The-Government-of-Zimbabwe and The-World-Bank, 2017).

Local government authorities in Zimbabwe take the lead in providing services for solid waste disposal, public lighting, water provision and sanitation, housing, and local roads. They are also involved in delivering basic health and education services. These public services play a crucial role in promoting the economic and social well-being of citizens in cities, municipalities, towns, local boards and rural district councils (The-Government-of-Zimbabwe and The-World-Bank, 2017).

Unfortunately, many Local Authorities in Zimbabwe faced challenges in meeting their service delivery mandates due to financial, institutional, and capacity constraints. Revenue collection was poor and this was exacerbated by the debt cancellation in 2013 which caused significant disruption to local government finances, both in terms of immediate finances and longer-term impacts on ratepayer compliance. Also, employment costs and general administration remained a more significant percentage of overall spending as compared to delivery. Furthermore, low spending on capital and repairs and maintenance was also observed (The-Government-of-Zimbabwe and The-World-Bank, 2017).

Besides, cases of financial mismanagement at public entities including local authorities seemed to be on the increase. The challenges facing many local authorities were viewed to be partly as a result of mismanagement of funds which saw managers deliberately flouting procedures to enable them to steal public funds. The Auditor-General Mrs Midlred Chiri's office and Parliament's Public Accounts committee produced damning reports of mismanagement of funds by managers

of parastatals and local authorities. For example, according to the Parliament's Public Accounts Committee, Bulawayo City Council's books were in shambles raising the risk of embezzlement of funds (Editorial, 2017). All these observations brought into question the quality of the public financial management systems, institutions and processes in Zimbabwean local authorities.

In 2013, a new constitution was enacted, which provided for the devolution of political, administrative and fiscal powers to local authorities. As a result, one aspect of the new local autonomy was fiscal decentralisation. Fiscal decentralisation entailed granting the local government the rights and obligations to manage their revenues, expenditures and finances. However, one result of fiscal decentralisation was that local authorities now have more responsibilities in public financial management (The-Government-of-Zimbabwe and The-World-Bank, 2017).

The objectives of local government Public Financial Management (PFM) are to ensure; fiscal discipline (balanced budget), strategic allocation of resources in the development of local communities and efficient service delivery to local citizens (PEFA-Secretariat, 2016a). An optimal local PFM system is a pivot that can enhance the achievement of these objectives. Furthermore, an assessment of the performance of a local PFM system also contributes to bringing the local authority closer to the citizens. This is the case because citizens would now have access to the necessary standards to judge the activity of local government. The performance of a Local PFM system must be assessed by using a coherent and consistent set of indicators (Tudose, 2013).

Effective institutions and systems of Public Financial Management (PFM) play a critical role in the implementation of national policies concerning development and poverty reduction. Good PFM is the linchpin that ties together available resources, delivery of services, and achievement of government policy objectives. If it is done well, PFM ensures that revenue is collected efficiently and used appropriately and sustainably (PEFA-Secretariat, 2016a). An open and orderly PFM system is one of the enabling elements needed for desirable fiscal and budgetary outcomes. These outcomes include achieving, aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. It is, therefore, crucial to be able to assess the quality of a government's PFM systems, institutions and processes and make appropriate improvements.

The increased interest in PFM reforms has gone hand-in-hand with efforts to quantify the quality of countries' PFM systems. The Public Expenditure and Financial Accountability (PEFA) framework is probably the best-known assessment mechanism. It was developed by a consortium of donors and consists of 31 indicators covering all phases of the budget cycle, budget comprehensiveness and transparency, and budget credibility. Other tools also exist, including the OECD's Budget Practices and Procedures Database, the Open Budget Index (OBI), and the recently revised IMF Fiscal Transparency Code (Andrews *et al.*, 2014).

However, there are a number of challenges identified in applying these different tools in assessing the quality of PFM in different government entities. These assessment mechanisms tended to evaluate the degree to which PFM processes comply with forms considered 'good practice' and paid less attention to the functionalities that these good practices are assumed to produce. For example, many measures of the quality of budget classification systems examined compliance with existing international standards, not the usefulness of classification systems for domestic policy-making. They focused on the number of years that forward estimates cover in a budget, and at the existence of costed sector strategies, rather than looking at the characteristics of the strategic resource allocation decisions that governments took. They measured budget transparency by counting the number of documents that governments published, rather than by examining how useful that budget information was to domestic stakeholders. Also, most of the instruments focused on central governments (Andrews *et al.*, 2014).

The PEFA assessment seems to espouse a normative one-size-fits-all model of what an appropriate PFM system looks like (Pretorius and Pretorius, 2008). However, a sound PFM system and its assessment should be based on the rational approach. This rational approach involves introducing change to solve problems agreed upon and felt within an organisational field. This would probably result in different, contextually fitted solutions (instead of normative PEFA-like reforms). There are three types of pressures which hinder national and subnational governments from developing contextually fitted PFM systems and assessments. These are coercive pressures, mimetic pressures and normative pressures (Ashworth, Boyne and Delbridge, 2007; DiMaggio and Powell, 1983b). This has developed into the Theory of Isomorphism.

Coercive pressures involve one organisation exerting power and influence over another to force the adoption of preferred structures or institutions, often through political and legal means or by controlling resource access. Highly dependent, politically vulnerable organisations are particularly susceptible to such pressures. Mimetic pressures centre on the influence of ‘best’ or ‘good’ practice on the structural choices an organisation makes. These manifest in the tendency some organisations have to emulate or copy what appear to be desirable or accepted practices, even if these have not been proven effective. Organisations dealing with uncertainty are particularly vulnerable, especially when uncertainty clouds the relationship between organisational means and ends, complicating the choice of means. Normative pressures describe the effect of professional standards and the influence of professional communities on organisational characteristics (Ashworth, Boyne and Delbridge, 2007). They are particularly strong where a professional grouping accredits certain practices, establishing them as norms.

All three sets of pressures are evident in the African PFM reform field. Politically vulnerable, resource-poor governments are highly dependent on donor organisations, which offer support on condition of specific types of PFM reform. The reform designs are often influenced by “good international practice” that countries appear willing to replicate because of a dearth of local solutions to the problems they face. PFM is also an area dominated by professionals, from accountants to auditors and other groups bent on standardisation. These professionals, mostly working in donor organisations, have become central to the growing PFM field in development. They have contributed to the emergence of the PEFA assessment tool, which is an important standardizing device that establishes the normative legitimacy of a set of practices and characteristics, inferring the need for governments to adopt such (Andrews, 2009). This explains why: (i) budgets are made better than they are executed; (ii) practice lags behind the creation of processes and laws (Andrews, 2010b).

However, studies also found out that involving more stakeholders in PFM reforms and assessments pays (Andrews, 2010b). African countries have unique and common elements among them which shape the environment of PFM. The literature is clear that good governance reforms have been an important theme in the majority of African countries. These reforms included PFM reforms. Driven by the agenda drawn up by the development partners, PFM reforms are aimed at creating an effective PFMA system (Basheka and Phago, 2014).

Hughes (2003) in his extensive analysis of PFMA in Africa, demonstrated that reform in PFM has been one of the keys to overall public management reform. However, African countries seemed to have got the implementation of the reforms wrong (Basheka and Phago, 2014). It is in this context that Peterson (2011) doubts any successful reform in an African context. However, a close evaluation of his argument pointed to his satisfaction with the successful Ethiopian example of PFM reforms in Africa. He illustrated one of the principal causes of the failure of public sector and PFMA reforms in Africa. He argued that African countries focused on summits of sophisticated techniques rather than improving the basic systems and their execution. The focus was more on international best practice rather than systems appropriate for local conditions (Basheka and Phago, 2014).

Thus, one-size-fits-all PFM systems, processes and institutions or reforms have generally failed in Africa because they ignored local conditions. There has been a call for systems, processes and institutions adapted to local needs, expectations and capacities. This study, therefore, intended to describe the systems, institutions and processes that determine the quality of PFM in Zimbabwean fiscally decentralised local government budget and budgetary control systems.

### **1.3 Statement of the problem**

The devolution initiative in Zimbabwe has come along with fiscal decentralisation in local authorities. This entails that local authorities should be able to mobilise and manage their revenues. However, there was no clear and comprehensive guide on how local authorities should structure their institutions, systems, processes and procedures to accomplish the increased responsibilities in financial management. To further compound the problem, attempts to come up with frameworks, noted in the literature, suggested one-size-fits-all models for assessing the quality of local government financial management structures. This made the frameworks unsuitable for the local condition because they ignored country-specific economic, social, legal and regulatory conditions. This study, therefore, intended to describe the systems, institutions and processes that determine the quality of PFM in Zimbabwean fiscally decentralised local government budget and budgetary control systems.

## **1.4 Objectives of the study**

### **1.4.1 Main objective of the study**

To describe the systems, institutions and processes that determine the quality of PFM in Zimbabwean fiscally decentralised local government budget and budgetary control systems.

### **1.4.2 Specific objectives of the study**

1. To describe the systems, institutions and processes that determine the quality of budget planning and formulation in Zimbabwean fiscally decentralised local government budget and budgetary control systems.
2. To describe the systems, institutions and processes that determine the quality of budget execution and implementation in Zimbabwean fiscally decentralised local government budget and budgetary control systems.
3. To describe the systems, institutions and processes that determine the quality of budget monitoring and evaluation in Zimbabwean fiscally decentralised local government budget and budgetary control systems.

## **1.5 Research questions**

### **1.5.1 Main research question**

What are the systems, institutions and processes that determine the quality of PFM in Zimbabwean fiscally decentralised local government budget and budgetary control systems?

### **1.5.2 Sub-research questions**

1. What are the systems, institutions and processes that determine the quality of budget planning and formulation in Zimbabwean fiscally decentralised local government budget and budgetary control systems?
2. What are the systems, institutions and processes that determine the quality of budget execution and implementation in Zimbabwean fiscally decentralised local government budget and budgetary control systems?

3. What are the systems, institutions and processes that determine the quality of budget monitoring and evaluation in Zimbabwean fiscally decentralised local government budget and budgetary control systems?

### **1.6 Justification of the study**

Management of public finance is recognised as extremely important in both theoretical and practical areas (Świrska, 2016). Other scholars have even underscored that successful societal evolution hinges on the systems and procedures societies develop to manage public finance and procurement (Porter *et al.*, 2010). It is crucial to the smooth and efficient functioning of public institutions including local government units (Świrska, 2016). The search for optimal solutions in local PFM is argued to increase the rational use of public resources, transparency of expenditures, and efficiency of public tasks (Świrska, 2016). Fiscal decentralisation has resulted, in an increase in interest in efficiency and effectiveness at the local level. This is because of the growing number of tasks performed and public funds spent (Świrska, 2016). Sound PFM is critical to improving the quality of public service outcomes. In support, using quantitative analysis, to a sample of seven countries at different levels of development, Campos and Pradhan (1996) found that there was a correlation between changes in PFM systems and improvements in budget outcomes. Sound PFM also helps to instil public trust in public sector organisations (ACCA, 2010). As a result, increasing attention and resources are being devoted to strengthening the PFM systems of developing countries worldwide (World-Bank, 2008).

Unfortunately, PFM is a complex field with many new initiatives but relatively few successes. Implementing PFM reform is a challenge in all countries (Cheruiyota *et al.*, 2017). Fritz, Verhoeven and Avenia (2017) observed that based on PEFA results by region, sub-Saharan Africa (SSA) is the weakest performing region. Similarly, Barroy and Kabaniha (2018) underscored that in Africa, PFM challenge is more acute than in other regions of the world, with bottlenecks affecting all steps of the budget cycle. PFM reforms in Africa is argued to have failed in its approach. This is because it focused on the introduction of complex interventions imposed by international organisations ignoring capacity and other institutional factors, especially at subnational levels (Barroy and Kabaniha, 2018). Andrews (2010b) also analysed recent PFM assessments in 31 governments in Africa and found that budget formulation was better than budget

execution and budget processes were stronger where concentrated stakeholders were engaged. The study argued that PFM reform should therefore engage more stakeholders and understand what context-appropriate reforms look like.

Expanding the expenditure responsibilities and spending authority of local governments without improving PFM systems have led to poor service delivery outcomes under decentralisation (Baltaci and Yilmaz, 2006). Therefore, a grave need exists to keep local governments fiscally on track and to hold local government officials accountable for results (Baltaci and Yilmaz, 2006). While the efficient and effective use of public resources is a universal concern for all levels of government; the issue is more critical at decentralised local government level. This is particularly true in developing countries, where local PFM systems seem to be at a relative disadvantage compared to central PFM systems (Boex and Muga, 2009). The issue of finance management is very sensitive to the members of the public because it affects the living standards of the community members. This is because resources that are well utilised and distributed would be of many benefits to the public (Lugwe, 2016).

Schaeffer and Yilmaz (2008) asserted that decentralisation was a move in the right direction in terms of governance in many developing countries. However, the author underscored that its success depends on the existence of sound PFM systems both at the central and local levels. This indicates that the quality of PFM systems is very crucial in decentralised systems. Unfortunately, there is limited, reliable sources of information and cross-country data to assess and compare the quality of PFM systems (Hedger and de-Renzio, 2010). Some preliminary attempts have been made through Public Expenditure Reviews (PERs), promoted by the World Bank; Reports on the Observance of Standards and Codes on Fiscal Transparency (so-called 'Fiscal ROSCs'), designed by the International Monetary Fund; Indicator 13 of the World Bank's Country Policy and Institutional Assessment (CPIA); Highly Indebted Poor Countries (HIPC) initiative (International-Monetary-Fund. and World-Bank., 2005) and the Public Expenditure and Financial Accountability (PEFA) Performance Measurement Framework for PFM (PEFA-Secretariat, 2016a). However, these instruments inhibit several limitations which include; methodological flaws, focus on central governments, assuming a one-size-fits-all instrument and neglecting other components of PFM (Hedger and de-Renzio, 2010).

This study has sought to answer a policy question that is relevant to many decentralising countries around the world. The question concerns the systems, processes and institutions that are considered to influence the quality of local PFM in decentralised local government in a developing country context (Boex and Muga, 2009). A study of the determinants of the quality of local PFM has broader implications for the understanding of PFM performance and how to strengthen it (Boex and Muga, 2009). There is a need for having regular performance assessments of local governments, particularly in countries that are undergoing fiscal decentralisation reforms. However, it is essential for the assessment instrument to be composed of the appropriate context-specific components. There is thus a need for analysis in each country case to confirm the validity of the individual items included in the instrument, or the relative importance of each item as part of the broader component (Boex and Muga, 2009).

Often, a lack of coordination between PFM and decentralisation have also led to inconsistencies (Barroy and Kabaniha, 2018). Boex (2019) also observed a big clash in cultures between national PFM experts and decentralised governance specialists. The national PFM specialists prefer sophisticated local PFM systems to ensure centralised control and oversight over public sector finances. This contrasts the objective of decentralised governance which is to reduce centralised control and grant local governments more autonomy and control over PFM systems. Unfortunately, local governments lack the necessary financial management standards and systems. So it is virtually impossible to grant them full autonomy over PFM systems (Boex, 2019). Equally undesirable, is granting national PFM experts free rein to develop and impose PFM standards and systems for local governments. This is because they are most likely to ignore local capacity and conditions (Boex, 2019).

Efficient public expenditure management practices seem to be absent in most decentralised local governments (Scott, 2019). Various authors pointed out that even decades since the adoption of decentralisation, there are valid PFM concerns which need continuous robust theoretical and empirical analysis (Ahmad and Brosio, 2009; Essuman and Akyeampong, 2011; Inkoom, 2011). In this regard, Herrala and Haapasalo (2012) have contended that local governments often lack good public PFM systems to assist their tax and budget choices (Herrala and Haapasalo, 2012). For example, Kivumbi, Nangendo and Ndyabahika (2004) found through qualitative research in

Uganda that a cocktail of bureaucratic control systems, corruption and incompetence made the financial management system under decentralisation counter-productive for malaria control. Observations in Kenya and South Africa indicated that the pace of decentralisation should go hand in hand with strengthening the PFM systems (Niko *et al.*, 2018). Mushemeza (2019) also asserted that several studies commissioned by the Ministry of Local Government and other stakeholders in the recent past in Uganda have drawn attention to the conflicting PFM and planning reforms. This has created distortions, that need correction, in decentralisation reforms (Mushemeza, 2019).

Expanding the expenditure responsibilities and spending authority of local governments without improving PFM systems have led to poor service delivery outcomes under decentralisation (Baltaci and Yilmaz, 2006). This includes; fiscal imbalance, weak accountability, political capture, and deterioration in public services. For example, too much borrowing with poor fiduciary management in Argentina and excessive fiscal deficits in India, Brazil, and Columbia as a result of weak local political capacity, lack of internal control and external oversight, and expectation of bailouts when localities borrow beyond their means (Baltaci and Yilmaz, 2006). Therefore, a grave need exists to keep local governments fiscally on track and to hold local government officials accountable for results (Baltaci and Yilmaz, 2006). While the efficient and effective use of public resources is a universal concern for all levels of government; the issue is more critical at decentralised local government level. This is particularly true in developing countries, where local PFM systems seems to be at a relative disadvantage compared to central PFM systems (Boex and Muga, 2009).

Critics of decentralisation point out that local governments are often administratively weak, typically lack sufficient financial management capacity, and that local political accountability mechanisms are generally inadequate to assure that local political leaders respond to the needs and wishes of their communities (Olowu, 2003). Indeed, the available evidence indicates that the inadequate management of finances results in substantial leakages of local public resources that are intended to fund pro-poor public services such as primary education or basic health services (Reinikka and Svensson, 2004). In turn, poor local government performance could reduce popular confidence in the public sector and undermine the support for decentralisation reforms (Hiskey and Seligson, 2003). Lugwe (2016) asserted that records have shown that a large number of the

devolved units are yet to develop and implement effective financial management, yet these attract benefits to both the devolved units and the members of the public. Similarly, Ashraf, Bandiera and Blum (2016) underscored that an important determinant of decentralisation success is the capacity of local governments to handle the assigned tasks. In this vein, Bardhan (2002), asserts that the central government does not know local conditions while local governments cannot take advantage of their knowledge of local conditions. This has led to unsuccessful decentralisation reforms (Ashraf, Bandiera and Blum, 2016).

In the last decade, there has been a growing interest in the quality of PFM in developing countries. In reality, developing countries in the world have been facing serious problems with regards to PFM and provisions of sustainable development, especially in the local government areas (Feridoun, 2005; Pere and Buseni, 2013). In particular, numerous weaknesses have been found in Local PFM systems in decentralised local governments of various developing countries. For example, in Tanzania, low capacity required external or central government technical advisors to be hired as the backbone of day-to-day operations. Similarly, in South Africa, billions of Rands of expenditure on items unrelated to service delivery was observed and formal taxation by-laws were missing in most municipalities. Also, in Sierra Leone, there was high in transparency in PFM due to delays in publication of accounting reports. Similarly in Ethiopia, limited information on accounting procedures and the reliability of provided information was observed (Ashraf, Bandiera and Blum, 2016).

Often, a lack of coordination between PFM and decentralisation have also led to inconsistencies (Barroy and Kabaniha, 2018). The solution to that problem starts by recognising that the design and operation of sound local PFM systems require collaboration between various stakeholders. Also, it should be recognised that, local PFM systems, by their very nature, are not the same as central governments, and that there is not a “one size fits all” solution to subnational PFM (Boex, 2019). Local PFM systems should be appropriate to the level of capacity of local governments, the complexity of their financial operations and the capacity of local institutions (Pretorius and Pretorius, 2008). For these reasons, subnational governments should not automatically follow the PFM systems of central government (Hart and Welham, 2016).

Boex and Muga (2009) also asserted that, while the PEFA indicators are starting to be used widely at the central government level in many developing countries, their application is yet to be extended to subnational PFM. Efforts to address deficits identified in PEFA assessments drive the adoption of the claimed PFM best practices regardless of their relevance or suitability to country context (Haque, Knight and Jayasuriya, 2015). Such a standardised approach to contrast the diversity and simplicity of PFM systems in place in most developing countries (Krause, 2013). Also, Andrews (2010a) highlighted that countries that are considered ‘highly effective’ in world rankings often do not exercise some of the good PFM practices measured in PEFA assessments. Thus, Boex and Muga (2009) recognised that the determinants of the quality of local PFM are likely to be quite context-specific. Thus, local governance systems, mechanisms or practices that contribute to improvements in local PFM performance in Zimbabwe are likely to be quite different from those that might achieve the same in other developing countries in Africa, Asia, or Latin America (Boex and Muga, 2009). Nonetheless, given the dearth of research on this question in developing countries, the case of Zimbabwe provides important insights into the determinants of the quality of local PFM systems in a developing country context. Andrews (2010b) also analysed recent PFM assessments in 31 governments in Africa and argued that PFM reform should therefore engage more stakeholders and understand what context-appropriate reforms look like.

Similarly, Haque, Knight and Jayasuriya (2015) asserted that little literature examines the political-economy determinants and drivers of PFM performance in developing countries. Also, there have been no formal analyses of the impacts, drivers and consequences of capacity constraints on PFM performance. This necessarily requires a reduced emphasis on the adoption of ‘good practice’ standards across the full range of PFM functions. Effective and efficient local PFM is the cornerstone of any effective decentralisation strategy. The task of improving local PFM systems is enormous. The legal framework varies across countries. Local governments vary in size, financial and economic resources. As a result, there is no singular PFM system that can be applied across the board to all local governments and countries (Pere and Buseni, 2013). Sound budgeting and financial management practice are defined to embody the generally accepted principles guiding budget preparation, execution, monitoring and evaluation (Bempah, 2017).

This study provided critical determinants, which must be taken into account to strengthen sound budgeting and financial management practices at the decentralised local government level. The findings from the study inform managers, policy implementers and all stakeholders as to which area and path of implementation to focus on implementing budgeting and financial management practices. The conceptual model developed can also be applied to other public sector reform implementation and at various levels of governance. The study also contributes to solving the persistent lack of a theory of a budget, through bringing out the explicit insight of looking at budgeting and financial management from a multi-theoretical and multi-disciplinary perspective (Bempah, 2017).

PFM systems are essential for realising the expected benefits of decentralisation. This is because they play a key role in enhancing managerial efficiency, transparency, and subnational government accountability to both higher levels of government and locals (Smoke, 2015). As a result, the management of local finances has become topical due to widespread fiscal decentralisation (Chalam and Ng'eni, 2017; Faridi and Nazar, 2013). Poor PFM systems and practices have undermined the effectiveness of decentralised local governance in many developing countries. For example, Scott (2019) noted that the allocation of resources for expenditure in strategic priorities was undermined by the fragmented nature of the budget and lack of effective monitoring and evaluation mechanisms in Ghana's local government. The stakeholders of the public sector are, as a result, demanding more effective and efficient use of public resources (Kendie, 2018). Gargan (1987) also asserted that the level of capacity achievable in any given community is determined by the interplay of three factors: namely; (i) state-of-art in financial management, (ii) quality of local financial managers (Gargan, 1987) and the (iii) local political environment (Gargan, 1987).

Schick (1983) also encouraged scholars to revisit public budget theory from the perspective of other disciplines. O'Toole Jr (2000) also noted that few studies have attempted to empirically develop or test hypotheses relating to the determinants of the success of PFM systems. This study brought out the explicit insight of looking at PFM from a multi-theoretical and multi-disciplinary perspective. The study provided critical determinants which must be taken into account to strengthen local PFM practices. The results inform managers, PFM officials and all stakeholders as to which area and path to focus on implementing sound PFM systems, institutions and processes.

## **1.7 Research Methodology Outline**

The study adopted an interpretivism research paradigm, phenomenological research design and qualitative research approaches. Phenomenological design and qualitative research approaches were used to explore the perspectives and experiences of local government stakeholders on the current and expected PFM institutions, systems, processes and procedures (PFM enabling framework). The data was gathered through semi-structured interviews with key informants in local Public Financial Management (PFM). Data was also gathered through documentary analysis of legislative documents and policy documents, statutory documents and checklists. Data were analysed mainly through thematic and content analysis with the help of NVIVO software.

The unit of analysis was a council/local authority. The study targeted 15 local authorities in 5 provinces of the 10 provinces in Zimbabwe. External auditors and Local Government Financial Advisors in the Ministry of Local Government were also interviewed. All five sizes and types of councils/local authorities were used (cities, municipalities, towns, local boards and Rural District Councils (RDCs). 65 Senior personnel in the accounting, finance, internal auditing, external auditing and councillors were sampled using purposive sampling.

## **1.8 Contribution to The Body of Knowledge**

Firstly, at the theoretical level, it has been established that the focus on budgeting and financial management reform has mostly centred on the national level of government administration (Lipsky, 1980). This ignores the decentralised level of government organisations operating at the local level of service delivery. In contrast, it is argued that if PFM reform is to have a considerable effect on the attainment of objectives, policymakers and analyst should also focus their attention at the local government level (Lipsky, 1980). This study, therefore, focused on budgeting and financial management reform implementation at the local level of administration and contributes to both theory and practice.

Pretorius and Pretorius (2008) also reviewed the literature on PFM and found that most of the studies focused on national PFM systems and used case study methodology. Also, the theoretical approaches to PFM have also been biased towards political systems and economic theory only (Gibran and Sekwat, 2003; Rubin, 1990). Thus, whereas, the multi-disciplinary nature of PFM has

been recognised, there has been lack of attempts in developing multi-theoretical models for its empirical investigations (Caiden, 1990; Gibran and Sekwat, 2003; Khan and Hildreth, 2002; Rubin, 1990). No systematic attempt has been made in the academic domain to develop and test a generic theoretical model of PFM practices in the public sector. Therefore, there are still gaps and limited knowledge on determinants of the quality of PFM systems at decentralised local government level. The significance of this study is expressed through the articulation of insights from policy implementation, modern management and public expenditure management approaches to propose a multi-theoretical model of implementation of sound local PFM practices. The aim is to broaden the theoretical and practical understanding of PFM practices at the decentralised local level of public administration in a developing country context.

Little is known in the literature about the determinants of effective local PFM in developing and transition economies (Boex and Muga, 2009). Relatively little empirical research has been done to explore the determinants of local government PFM performance (Boex and Muga, 2009). Also, even those few studies that specifically examined the relationship between a government's financial condition and the subnational government's PFM practices have mostly adopted quantitative approaches. An observed weakness of such an approach is that no single indicator has emerged as the preferred measure of local PFM performance. Furthermore, virtually all of the available evidence regarding the relationship between local PFM performance and local government practices is based on developed economy experiences (Boex and Muga, 2009). In concurrence, Kioko *et al.* (2011) also underscored that PFM (how financial resources are managed) receives little attention outside the PFM subfield.

Cogburn and Schneider (2001) and Dennis (2004) are the two studies that most directly sought to identify the determinants of a local PFM performance. For instance, Cogburn and Schneider (2001) analysed the relationship between the quality of management and the budget performance of state-level governments in the United States using quantitative approaches. Similarly, Dennis (2004) examined the relationship between local PFM practices and the local government's financial performance for a large sample of municipalities in the United States. While Dennis finds statistically significant (albeit moderate) correlations between local financial conditions and local financial management practices among the U.S. municipalities in her sample, regression analysis

fails to indicate any statistically significant relationship between a local government's financial performance and financial management practices after controlling for governance and socioeconomic factors. Beyond the scarcity of empirical research on the topic, it is worth noting that the explanatory power of the existing empirical models is rather low, even when the necessary data appear to be available (Boex and Muga, 2009). For instance, Dennis (2004) can explain approximately 15 per cent of the variation in local financial conditions in the sample of U.S. municipalities. This only underscored the need for a further empirical study of the relationship between local financial performance and its anticipated determinants.

Quantifying the quality of local PFM in quantitative approaches is a great challenge (Boex and Muga, 2009). For example, Boex and Muga (2009) used the annual audit opinion as a measure of local PFM performance in Tanzania in their quantitative analysis. They, however, recognised that a disadvantage of using the audit opinion as a measure of financial management quality is the categorical nature of the measure. The second measure of local financial management quality used was the percentage of expenditures questioned by the CAG during the audit process. The study, however, hinted the limitation that this measure failed to take into account the degree of severity with which an expenditure item was being questioned (Boex and Muga, 2009). Furthermore, Boex and Muga (2009) also noted the limitations of the quantitative approaches in terms of inconsistencies of the results. For example, the results indicated that addressing gender and environmental issues and the proper functioning of the local tender board worsened rather than improved local PFM performance. This pattern raised the question of whether the annual local performance assessment instrument included the right assessment items (Boex and Muga, 2009). This study responded to the above limitations by employing qualitative approaches and contributed in coming up with the assessment items that could be tested in future quantitative approaches.

Similarly, Bempah (2017) employed quantitative path analyses to explain the determinants of implementation of sound budgeting and financial management practices at the local level of public administration in Ghana. He, however, noted some methodological limitations. These included the fact that the study respondents were mainly members of the district health management team. He asserted that it was equally important to consider the views of managers at national and regional

levels with regards to budgeting and financial practices in the service. This would expand the scope of understanding as to whether practices at the national and regional levels exerted considerable influence at the district level in implementing budgeting and financial management practices (Bempah, 2017). This study contributed to the methodologically, by using qualitative approaches and including more local authorities and more stakeholders; internal and external and at both local and central government level

Academics have long lamented over the methodological approaches to PFM research investigations (Gibran and Sekwat, 2003; Khan and Hildreth, 2002; Rubin, 1990). They contend that the general lack of theory of PFM causes an over-focus of research on the use of case studies as well as the concentration of PFM reforms studies at the national and sectoral levels (Short, 2003; World-Bank, 1998). This leaves out the focus of understanding of PFM practices at the local government level. Also, although it is recognised that PFM is multi-disciplinary, there have been limited attempts to develop multi-theoretical frameworks for its empirical investigations (Gibran and Sekwat, 2003; Khan and Hildreth, 2002; Rubin, 1990). There are also scarce attempts by academicians to develop and test theoretical models of PFM (Khan and Hildreth, 2002; LeLoup, 1983; Schick, 1998).

Schick (1988) urged academicians to revisit the development of a budget theory. He argued that it is more illuminating to examine budgeting from the perspectives of other disciplines than as a field of its authority. Goggin *et al.* (1990) also pressed on implementation scholars to develop clear operational instruments to assess the quality of PFM systems and provide adequate empirical observations to test their hypotheses. However, only a few studies have so far followed this path (DeLeon, 1999; O'Toole Jr, 2000). The current research contributed to these recommendations and therefore developed a model of the determinants of the quality of PFM in the context of decentralised local government in a developing country. This was achieved through a review of theoretical insights on policy implementation models, modern management theories and public expenditure management models to develop a model that broadens the scope of understanding of the systems, institutions and processes that determine the quality of PFM in decentralised local government in Zimbabwe.

## **1.9 Limitations of the study**

The study had some methodological and conceptual limitations as well. Firstly, the study adopted an interpretivism research paradigm and qualitative research approaches. In this regard; quantitative or mixed methods could be employed to enable the statistical analysis of data and triangulation. Also, the sample size was smaller. Although this suited well the research design, larger sample sizes could be used with a positivism research paradigm. Furthermore, the study could also extend beyond one country.

## **1.10 Scope of the study**

The study focused on the enabling financial management institutions, systems, processes and procedures. No attempt was made to measure the results of applying the current practices. In other words, no attempt was made to measure the financial performance or financial condition of local authorities. Also, the geographical delimitation was to 5 provinces in Zimbabwe as detailed in Chapter 5. This allowed an in-depth analysis and great ease in accessing the required respondents.

## **1.11 Assumptions of the study**

The study assumed that interviewees gave honest responses. It was further assumed that interviewees understood the questions that were asked.

## **1.12 Definition of key terms**

**Local authority (local government entity)**-this refers to an urban council or rural district council.

**Local financial management**-this refers to a local authority's budgeting, accounting and reporting, management of assets and liabilities, internal controls, auditing and intergovernmental transfer system.

**Enabling structure/framework**-the required institutions, systems, processes and procedures.

**Fiscal decentralisation**-a part of the devolution process was legally constituted, separately identifiable local authorities are given the power to mobilise their revenues and manage their finances in achieving development priorities and local service provision.

**Dimension** is an aspect of a concept.

**The indicator** is a specific measure of a more abstract concept.

### **1.13 Outline of the Thesis**

The thesis consists of seven chapters organised as follows;

**Chapter 1** described an outline of the contents of the thesis. It discussed the background of the study, the statement of the problem, research objectives, research questions, justification of the study, research methodology (briefly), contribution to the body of knowledge, limitation of the study, the scope of the study, assumptions of the study, definition of key terms and the organisation of the thesis.

**Chapter 2** reviewed the theoretic framework. This included policy implementation models, modern management theories and public expenditure models.

**Chapter 3** reviewed literature related to and previous studies on PFM systems, processes and institutions. This chapter consisted of review based on the three main stages of the budget cycle; namely, budgetary planning and formulation, budget execution and implementation and budget monitoring and evaluation.

**Chapter 4** presented the Conceptual Framework drawn from the review of related literature and the Theoretical Framework. This covered the variables in local PFM to be studied, their sub-components and interrelationships.

**Chapter 5** discussed and justified the research methodology used to examine the research objectives. The sections in this chapter included; Research design, Population, Sample and Sampling methods, Data collection instruments, Data collection procedures, Data presentation and Analysis, Data validity and reliability and also Ethical considerations.

**Chapter 6** presented and analysed qualitative data from both interviews and documents.

**Chapter 7** was the concluding chapter of the thesis. It consisted of four main sections as follows; Summary of findings, Conclusion, Recommendations and Areas for further research.

## **1.14 Chapter Summary**

This chapter laid the foundations for the thesis. It introduced the background of the study, the research problem, research objectives and research questions. Then the research was justified, definitions were presented, the methodology was briefly described and justified, the thesis was outlined, and the limitations were given. Also, the contribution to the body of knowledge was elaborated. On these foundations, the thesis can proceed with a detailed description of the research. Chapter 2 of the thesis provided a review of the theories applicable to PFM.

## **CHAPTER 2: REVIEW OF RELATED LITERATURE**

### **2.1 Introduction**

In recent years, decentralisation reforms have been carried out throughout the world. The aim was to give local communities more autonomy in setting their development priorities and in managing their finances (Tudose, 2013). This chapter reviewed the literature on Local PFM systems, processes and institutions related to various stages of local government budget cycle (Venkateswaran, 2014). The sources of literature reviewed included; journal articles, books, articles from international organisations and professional associations, various government publications and other official documents.

### **2.2 Legal and Institutional Underpinnings of Local Government Public Financial Management (PFM) in Zimbabwe**

The Local Government system in Zimbabwe has both urban and rural localities. At the National Level, the Ministry of Local Government, Public Works and National Housing oversees both urban and rural local authorities. It sets policy, supports capacity building, and provides oversight, especially on financial management and governance issues (Government-of-Zimbabwe and The-World-Bank, 2017). Local authorities are composed of elected councils who are supported by secretariats/local administration that run the local government on a day to day basis. Each selected councillor represents a ward, and consults with Ward Development Committees representing the interests of the ward. Rural development councils may also include chiefs or headsmen as representatives of traditional leadership (Government-of-Zimbabwe and The-World-Bank, 2017).

There are several different categories of local authorities in Zimbabwe, which are designated based on the characteristics of the local authority. There is a total of 32 local authorities designated as Urban Local Authorities. Urban authorities may be categorized as cities (more complex), municipalities, towns, or local boards (less well developed). There is a total of 60 Rural Authorities, consisting of only Rural District Councils (Government-of-Zimbabwe and The-World-Bank, 2017).

The major sources of guidance underlying local Public Financial Management (PFM) in Zimbabwe include; The New Constitution of Zimbabwe Amendment (No.20) Act of 2013, The Urban Councils Act [Chapter 29:15], The Rural Councils Act [Chapter 29:13] and Public Finance Management Act (PFMA) [Chapter 22:19]. Also, procurement for central and subnational governments is regulated by The New Public Procurement and Disposal of Public Assets Act [Chapter 22:23] (the Public Procurement Act). This new Act came into effect on 1 January 2018 and repealed the Procurement Act [Chapter 22:14]. Furthermore, Local PFM is also regulated by Directives of the Ministry of Local Government and Ministry of Rural Development (Government-of-Zimbabwe and The-World-Bank, 2017).

### **2.3 The Budget Cycle**

Public sector budgeting is organized around a cycle within a fiscal year. The budget cycle consists of the following phases: (i) preparation, submission, and approval, (ii) execution and implementation (iii) monitoring and evaluation. The preparation stage of the cycle takes place before the budget year since the budget should be approved before the beginning of the year. Similarly, the evaluation stage takes place mostly after the close of the fiscal year. The overall purpose of the budget process is to help decision-makers make informed decisions about the provision of services and also help to promote stakeholder participation in the budgeting process (Venkateswaran, 2014).

### **2.4 Budgetary Planning and Formulation**

Budgetary planning and budget formulation are the first stages and backbone of the local budget cycle. A good budgetary planning and formulation process should be strategic, incorporating a multi-year financial and operating plan. The plan should allocate resources based on identified goals. Also, a good budget should focus on budget decisions on results and outcomes. Furthermore, a good budget process involves and promotes effective communication with stakeholders, and provide incentives to government management and employees (National-Advisory-Council-on-State-and-Local-Budgeting, 1998).

### **2.4.1 Sources of Revenue and Effective Revenue Mobilisation in Local Authorities**

A sound revenue system for local governments is a critical success factor for effective fiscal decentralisation (Bird, 2010b; Martinez-Vázquez and Smoke, 2010; Olowu and Wunsch, 2003). Effective and efficient revenue mobilisation by local authorities helps to raise revenues to fund service delivery (Oates, 1998; Shah, 1998). It has however been observed that local revenues mobilised in most local government authorities in Africa are not sufficient to develop and supply adequate services for the fast-growing population (Fjeldstad and Heggstad, 2012).

Generally, there are two main categories of revenue for local authorities in Africa. These are (i) internal revenues, which includes taxes, user fees, and licences as stated by Bahl and Bird (2008), and (ii) transfers from central and regional governments usually in the form of grants and revenue sharing (Bahl, Smoke and Solomon, 2003). Also, some countries allow municipalities to borrow to finance investments in local capital infrastructure (Bahl and Smoke, 2003; Yatta and Vaillancourt, 2010). Furthermore, local authorities in other countries also have access to external funding in the form of donor funds (Fjeldstad, 2001; Yatta and Vaillancourt, 2010). Constituency development funds and social action funds have also become important funding sources for social and economic development projects at the local level in some countries. Such countries include; Ghana, Kenya, Malawi, Tanzania, and Uganda. Such funds operate outside the local government budgets (Baskin, 2010).

#### **2.4.1.1 Internal Revenue Sources in Local Government**

The main sources of ‘own revenues’ in Anglophone local governments are usually property rates in urban councils, business licenses, market fees and various user charges (Fjeldstad and Heggstad, 2012). Property tax is viewed as the most appropriate tax for local governments because it is difficult to avoid if well administered. This is because real property is visible, immobile, and a clear indicator of wealth and (Fjeldstad and Heggstad, 2012). Property tax is levied in all Anglophone countries in Africa except in Seychelles (McCluskey and Franzsen, 2005). Commonly it is a local government tax, levied mainly in urban areas only. However, in Liberia (Fjeldstad and Heggstad, 2012) and South Africa (Franzsen, 2007), it has become a national tax.

For property taxes to be properly administered, certain critical success factors should be in place. Property markets should be well developed. In addition, property registers and valuation rolls

should be in place and updated. Furthermore, administrative capacity and equipment should be adequate. Exemptions should be limited and there should be appropriate political support to enforce the property tax and no political interference in revenue collection (Bell and Bowman, 2006). Unfortunately, these critical success factors have been absent in most African countries, which led to the unsatisfactory performance of property taxes (Fjeldstad and Heggstad, 2012).

The other mechanism for mobilising revenues from businesses in Anglophone countries have been through licensing which generate between 5% and 30% of internal revenues in urban councils. In many countries, however, the system has imposed huge costs on business, while generating relatively little money (Fjeldstad and Heggstad, 2012). Critical success factors lacking included, for example, taxpayer knowledge in Uganda, poor policy design and weak administration (Fjeldstad and Heggstad, 2012). Lack of proper business registers (Araujo-Bonjean and Chambas, 2004; Brun, Chambas and Fjeldstad, 2012) and poor collection and enforcement provisions also eroded the tax base and introduced inequities into the systems in Africa (Fjeldstad and Heggstad, 2012).

User fees/charges are another revenue source and are the best mechanism for matching demand and supply of public services (Fjeldstad and Heggstad, 2012). User charges for ‘trading services’, including water, electricity, sewage, and solid waste removal, are major sources of revenue in urban municipalities in Southern Africa, especially in Namibia and South Africa (Bahl and Smoke, 2003). User charges must ensure cost recovery. This was found to be absent in Namibia (Fjeldstad and Heggstad, 2012) and some local authorities South Africa (Bahl and Smoke, 2003).

#### **2.4.1.2 Income Generating (Commercial) Projects**

Commercial projects (income-generating projects) are another source of revenue in some local authorities. The success of income-generating projects was related to adequate finances, training, and markets (Rogerson, 2004). Also, in Free State, South Africa, it was found that observing economic and business management perspectives also enhanced the success of such projects. Fewer projects which were selected more carefully, with less direct government involvement in the management were preferred. The selection should make sense both in terms of business and poverty relief or community development (Marais and Botes, 2006).

Conway-Davy-Pty-Ltd (2010) also argued that for commercial projects to succeed, there should be no conflict of interest between the regulatory and ownership roles of local government. Also, the local government should have the capacity and competence to undertake such enterprises. The most efficient way to operate commercial enterprises was through the creation of an arms' length vehicle such as a wholly-owned company or an investment trust to hold and manage the commercial interests of a local government. This was successful in both Queensland and New Zealand (Conway-Davy-Pty-Ltd, 2010). However, a detailed process of reporting and accountability was proposed to ensure that an appropriate balance was maintained between transparency and commercial efficiency (Conway-Davy-Pty-Ltd, 2010).

#### **2.4.1.3 Institutional Challenges in Internal Revenue Mobilisation**

A review of the literature highlighted several institutional challenges that hindered effective internal revenue mobilisation in some African local authorities. The main challenge was that most of the systems were characterised by high levels of arbitrariness, coercion and corruption (Bahiigwa *et al.*, 2004; Fjeldstad, Katera and Ngalewa, 2008; Pimhidzai and Fox, 2011; Prichard, 2010). Also, too many taxes constrained businesses and caused economic distortions. Furthermore, arbitrariness and corruption eroded confidence in the systems (Brosio, 2000; Fjeldstad and Semboja, 2000). This was found to be the case in, for example, a study of small and medium-sized enterprises in Zambia (Misch, Koh and Paustian, 2011).

Another challenge identified was the lack of consultations and cooperation between the central government and the local government authorities. In Ghana, for example, national tax officials reported that local tax officials sometimes urged citizens to pay local taxes instead of national taxes (Prichard, 2010). Meanwhile, local officials complained that the national government had monopolized virtually all available tax bases and offered little if any administrative support. Also, firms often had to negotiate and provide similar information on their operations to several government bodies, imposing high compliance costs on the private sector (Fjeldstad and Heggstad, 2011).

#### **2.4.1.4 Intergovernmental Revenue Transfers**

In almost all local governments, internal revenue is inadequate to fund assigned expenditure functions and therefore transfers from central government are inevitable (Bird, 2010b; Boadway,

Roberts and Shah, 2000; Boex and Martinez-Vazquez, 2006). Also, differences between richer and more capable local authorities versus poorer and less capable ones create horizontal imbalances which are closed through transfers from the central government. This means that a system of local government taxation works simultaneously with an appropriate system of intergovernmental transfers (Bird, 2010b).

Transfers from the central government are usually in the form of revenue sharing and grants (Ahmad, 1997). Under revenue sharing, a local government receives a share of the revenues from particular taxes collected by the central government within its jurisdiction (McLure, 1999). Grants can be conditional or unconditional. Conditional grants are earmarked for specific purposes while unconditional grants can be used to fund any council expenditure. Grants are the main instrument for intergovernmental transfers in Anglophone Africa (Fjeldstad, Katera and Ngalewa, 2010; PEFA-Secretariat, 2016a).

In Africa, central transfers account for a greater portion of local government revenue. For example, in Uganda, Tanzania, Ethiopia and Kenya, central transfers were found to account for about 90% of local government revenue (World-Bank, 2010). Similarly, according to Jibao (2009), local councils in Nigeria received on average almost 78% of their revenue from transfers, in Sierra Leone they received 74% of their revenue from transfers, in Ghana 69%, and The Gambia 65%. In Liberia, local councils relied 100% on transfers from the central government since revenue collection is centralised (Jibao, 2009). On the contrary, in South Africa, on average, local authorities generated the bulk of the revenues from 'own' sources (89% in 2007) (Fjeldstad and Heggstad, 2012).

Central government transfers and grants should be predictable; done according to a clear and transparent policy, and following agreed-upon timetables and amounts (PEFA-Secretariat, 2016a). Several countries have adopted a formula-based recurrent grant system to determine grants for priority sectors, such as primary education, healthcare, and local road maintenance. The formula-based system considers factors such as the size of the population and the number of school-aged children. In Uganda, for example, the Constitution established a formula for determining the minimum unconditional grant paid to local governments to decentralised services. This is in addition to conditional and equalisation grants. Ghana uses a system where no less than 5% of the

total revenues collected by the central government are allocated to a ‘Common Fund’ for the disposal of subnational governments (Mugabi, 2004; Steffensen *et al.*, 2004).

Unpredictable transfers and lack of local autonomy in using the grants are rampant in developing countries. In Tanzania, for instance, the national guidelines and budget ceilings, including information on grants, developed by the Ministry of Finance were often not received by the local government authorities until very late in the budgeting process (Fjeldstad *et al.*, 2010). In Ghana, there were reported cases when District Assemblies received their first quarter allocation of the Common Fund in the third or fourth quarter of the year, with the rest of the three quarters overlapping into the following fiscal year and so on (Jibao, 2009). On the other hand, councillors interviewed in Uganda argued that the bulk of the grants were earmarked. This compelled the councils to give precedence to national level priorities over local ones (World-Bank, 2010).

Thus, although there was a general consensus on the importance of robust intergovernmental fiscal transfer systems, experiences and practices differed amongst countries. Thus, there was a need to establish the nature of the systems in fiscally decentralised local governments in a developing country like Zimbabwe.

#### **2.4.2 Public Budgetary Planning Systems, Institutions and Processes**

Although budgets are usually prepared for one financial year at a time, the recent trend has been to plan for three to five years as the basis for the annual budgets (Venkateswaran, 2014). As recommended by PEFA-Secretariat (2016a) this entails preparing medium-term budget estimates that are updated as part of the annual budget process. Annual budget estimates should be aligned with the medium-term budget plans and estimates based on the availability of resources in the medium-term perspective (PEFA-Secretariat, 2016a). A Medium-Term Expenditure Framework (MTEF) integrates policy, planning and budgeting within a medium-term perspective. It typically consists of a top-down resource envelope consistent with government policy and a bottom-up estimate of the current and medium-term cost of existing national programmes and activities. That leads to an iterative process of decision-making that reconciles these costs with available resources (Holmes and Evans, 2003). This encourages realistic budget practices and therefore limit the likelihood of risky budget commitments (Venkateswaran, 2014; Wynne, 2005).

However, the results of MTEFs have been mixed around the world. Medium-term expenditure budgeting in local authorities was successfully adopted in South Africa (Westhuizen *et al.*, 2017) and Croatia (Ott and Bajo, 2002). On the contrary, it was observed in Estonia that lack of general format and techniques and lack of training resulted in medium-term expenditure plans being merely letters of intentions (Ainsoo *et al.*, 2002). Flawed design and lack of resources in Albania were also found to be a challenge (Szalai *et al.*, 2002). Similarly, the medium-term expenditure planning process in and the related forms in Albania were not standardised in all local authorities. However, more concerted efforts were in place. These included support by foreign experts or assistance by Albanian organisations. The participatory nature of the process was also complimented (Gurraj *et al.*, 2002).

Several studies have pointed to the factors that limited the success of MTBFs in Sub-Saharan Africa. These challenges included multiple accountabilities, inadequate resource allocation, unreliable flows of external aid, weak institutional capacity (Brumby *et al.*, 2013; Hope, 2013; Saxena, 2013; Schiavo-Campo, 2009; United-Nations-Economic-Commission-for-Africa, 2010) and absence of political commitment (Collaborative-Africa-Budget-Reform-Initiative-(CABRI), 2013; Whitworth and Williamson, 2010). Empirical findings in ten African countries (Haruna and Vyas-Doorgapersad, 2016) also concluded that the MTEFs implementation failed to consider contextual realities. As a result, MTEFs in Africa had some notable successes but a greater share of failures (Le Houerou and Talierno, 2002). Similarly, inadequate forecasting methodologies and lack of local ownership of the reforms were argued to contribute to the failure of the MTEFs in Kenya, Namibia, South Africa, Tanzania, Uganda, and Zambia (Allen *et al.*, 2017).

Local authorities in different countries also successfully engaged in strategic planning. For example, in South Africa (Westhuizen *et al.*, 2017) and Hungary (Barati-Stec, 2015). However, financial dependency and a focus on short-term results compromised the process (Barati-Stec, 2015). Also, the financial implications of plans were often ignored in Hungary Szalai *et al.* (2002) and the professional skills needed for planning were still missing at the municipal level (Szalai *et al.*, 2002).

Another element of NPM found in LGAs in decentralised local government in Tanzania was the allocation of LGAs resources based on the agreed planning framework. Council Directors and

TMA members confirmed that it has been wise for council resources allocated to conform to the overall Council strategic plans which are a road map for implementation of LGAs activities. The study also found that departments and units are supposed to set and cascade objective, targets, and standards of performance from the overall organizational frameworks mission and vision and overall goals. In the eyes of reforms, strategic plans are found to be necessary guiding documents which show what the council is supposed to behave in five years. Also, the study revealed the importance of the Medium-Term Expenditure Framework (MTEF) where council departments and units are allocated resources to produce necessary service (output) to the community. Resource allocation based on MTEF and Council strategic plans conforms exactly with principle number three of NPM of *putting greater emphasis on output controls, resource allocation, and rewards linked to measured performance indicators and a break-up of centralized bureaucracy* (Yusuph and Guohua, 2017).

Similarly, in Italy's local government, it was pointed out that the municipalities would prepare their five- year strategic plans that involved the basic targets and the activities that are carried out to reach the determined targets. At that point, it was also added that the annual working program, budgets, and performance criteria would be formed according to this plan. It was asserted that the municipalities would form future-oriented policies that bring long-term solutions and have a result-oriented approach with those five-year strategic plans. This was argued to be in line with the NPM themes of strategic management, efficiency, effectiveness, and result-oriented approach (Çetin, 2015).

Thus, multi-year planning and budgeting have been widespread throughout the world. However, results have been mixed. This study needed to explore the nature of budgetary planning in the context of fiscally decentralised local government in a developing country, like Zimbabwe.

#### **2.4.3 Budget Formulation and Preparation Systems, Institutions and Processes**

The budget process is an important institutional component of local government budgeting. It entails several procedures which include; budget circulars and calendars, budget proposal preparation and scrutiny and also legislative approval of the budget proposal (PEFA-Secretariat, 2016a).

#### **2.4.3.1 Budget Circular and Budget Calendar.**

The budget formulation and preparation process require a clear timetable of events known as a budget calendar. It specifies the deadlines for the completion of budget tasks and stakeholders involved (National-Advisory-Council-on-State-and-Local-Budgeting, 1998; PEFA-Secretariat, 2016a). This enhances stakeholders' participation and keeps events on track (Venkateswaran, 2014). Apart from the budget calendar, a budget circular also specifies; budget instructions, an estimate of funds available and policy priorities from the executive leadership (National-Advisory-Council-on-State-and-Local-Budgeting, 1998; Venkateswaran, 2014).

Budget calendars and circulars are issued in local governments of different countries as standard practice. For example, in South Africa (Westhuizen *et al.*, 2017), Albania (Gurraj *et al.*, 2002), Croatia (Ott and Bajo, 2002), and Nigeria (Igbara *et al.*, 2016). However, a delay in sending out circulars in Nigerian local government, constrained local authorities as they would have very little time to prepare its estimates (Igbara *et al.*, 2016).

#### **2.4.3.2 Budget Preparation, Scrutiny and Approval**

PEFA-Secretariat (2016a) recommends that a government should develop and implement a set of procedures that facilitate the review, discussion, modification, and adoption of a proposed budget. These procedures should enable resolving conflicts, promote acceptance of the proposed budget by stakeholders, and assist in timely adoption of the budget (PEFA-Secretariat, 2016a). Therefore they should be done in such a time as would enable approval of the budget before the beginning of the new fiscal year (PEFA-Secretariat, 2016a).

Various procedures are followed in preparing and scrutinising a budget in local government (Venkateswaran, 2014). Generally, the mayor was responsible for presenting the budget proposal to the municipal body. This was the case in Hungary (Högge and Mcferren, 2003), developed Western countries (Venkateswaran, 2014), Croatia (Ott and Bajo, 2002), South Africa (Westhuizen *et al.*, 2017) and Nigeria (Igbara *et al.*, 2016). In one country, in Central and Eastern Europe, the budgeting process was further smoothed by the involvement of six consultants (each representing a particular field, for example, civil service, tax policy, economy, and so on). These consultants had various political party affiliations and worked out the budget proposal jointly with the mayor. In this way, most political disagreements were eliminated before the budget proposal was even submitted (Högge and Mcferren, 2003). Proposed budget review procedures included

public consultation arrangements, internal organisational and committee arrangements, technical support, and negotiation procedures (PEFA-Secretariat, 2016a).

Different institutional arrangements governed budget preparation and scrutiny in various countries. The mayor usually delegated the budget coordination function to the finance committee of the council or equivalent committee (Venkateswaran, 2014). This was the case in Estonia (Gurraj *et al.*, 2002), South Africa (Westhuizen *et al.*, 2017) and Nigeria (Igbara *et al.*, 2016). Budget committees were also found in Estonia. Their role was to discuss and harmonise the points of view expressed in numerous preparatory papers to the budget (Gurraj *et al.*, 2002). Various council committees also participated in the budget preparation process (Venkateswaran, 2014). This was the case in Estonia (Ainsoo *et al.*, 2002), South Africa (Westhuizen *et al.*, 2017) and Croatia (Ott and Bajo, 2002). Also, in South Africa, public and treasury participation was considered to be essential (Westhuizen *et al.*, 2017). All operations of the council had to be in line with the approved budget (Igbara *et al.*, 2016).

The body of councillors was also instrumental in scrutinising the budget in some countries. Empirical evidence found this to be the case in developed western countries (Venkateswaran, 2014), Estonia (Ainsoo *et al.*, 2002), Albania (Gurraj *et al.*, 2002), Croatia (Ott and Bajo, 2002) and South Africa (Westhuizen *et al.*, 2017). In Uganda and Tanzania, in particular, councillors were found to be very effective, providing a high degree of oversight and active participation. This even means refusing to approve a development plan because they would not have had enough time to scrutinise it (World-Bank, 2010).

Thus, different budget processes were done in local governments of different countries. This study thus also endeavoured to add to the body of knowledge by examining the systems, processes and institutions followed by local authorities in decentralised developing countries.

#### **2.4.3.3 Public Participation in Budgeting**

Participatory budgeting as an innovative approach to budget decision-making was initiated in 1989 by the city of Porto Alegre. In participatory budgeting, community members make budget decisions through an annual series of local assemblies and meetings. After initial experiments (1989-1995) it expanded rapidly to other Brazilian cities (1990-1995), then to other Latin American and European cities (1995-2000) and the rest of the world through the support of several

international cooperation agencies such as UN-Habitat and the World Bank (Matovu and Mumvuma, 2008). There has been some wide variation in the level of success in regions practising participatory budgeting. However, it has resulted in unprecedented political, social, economic and institutional achievements wherever it has been successfully implemented (Matovu and Mumvuma, 2008).

Several scholars have suggested that citizen participation plays an important role in the process of development management and accountability. In particular, citizen participation helps better identify and understand citizens' needs (Roberts, 2008), improves local planning and budgeting (Lu and Xue, 2011), enhances rational decision-making (United-Nations, 2008), eases the implementation of decisions (Yang and Pandey, 2011), produces equity-based decision-making and inclusive development (Mohanty, 2010), and helps to deliver better services and produces outcomes that favour the poor and disadvantaged (United-Nations, 2008). Specifically, Handley and Howell-Moroney (2010) found that a higher degree of participation had a larger impact on the improvement in local planning and budgeting. Diverse people brought different perspectives, knowledge, and information (Kweit and Kweit, 1981). Citizen participation also expands the scope of accountability (Blair, 2000; Gaventa and Barrett, 2012), is instrumental in the design of needs-based policies (Rocha-Menocal and Sharma, 2008) and makes local authorities more transparent and increases levels of trust felt by citizens (Irvin and Stansbury, 2004; Wang and Wart, 2007). Participation also bolsters the legitimacy of government decisions and actions (Farazmand, 2009; United-Nations, 2008). Participation is an important mechanism that can control the actions of government officials (United-Nations, 2008; Blair, 2000).

The design of participatory budgeting systems is very crucial since superficial or poorly designed efforts may simply waste valuable staff time and financial resources. It can also increase public cynicism if the public perceives that its input has not been taken seriously (Government-Financial-Officers-Association, 2016). This can also be worsened by politicians inhibiting and limiting transparency through political will and action (Lapsley and Ríos, 2015). Thus, participation should be at every stage to the budget cycle from planning to evaluation (National-Advisory-Council-on-State-and-Local-Budgeting, 1998; Venkateswaran, 2014). Feedback from participatory engagements was also viewed to be important (Government-Financial-Officers-Association, 2016). Various methods of soliciting information of citizens were also advocated for. These

include; surveys, either in person or via mail, phone, or internet, focus groups, interviews, comment (or point of service) cards, public meetings, such as public hearings, town hall meetings, community vision sessions, and interactive priority-setting tools (Government-Financial-Officers-Association, 2016). Furthermore, it was important to include minorities and diverse groups of people taking into account, for example, issues of gender, ethnicity, race, disability and age groups (Matovu and Mumvuma, 2008).

The results on the extent of the practice participatory budgeting in African local governments were mixed. Participatory budgeting was practised in Uganda (World-Bank, 2010), South Africa (Westhuizen *et al.*, 2017) and Tanzania (World-Bank, 2010). On the contrary, public participation was very little in Ethiopia and Kenya (World-Bank, 2010).

Empirical evidence revealed that participation in developing countries was hindered by several institutional factors. These included; closed-door budget processes, weak accounting and reporting systems, ineffective audits and exclusion of civil society from dialogue (Matovu and Mumvuma, 2008). There was also a lack of political will, technical capacity and other resources to engage citizens in policymaking, or providing accurate data on government performance (NDI, 2013). Also, absence of a known resource envelope meant that the villages essentially produced what amounted to wish lists which had no resource backing. This was found to be the case, in Tanzania (World-Bank, 2010). Lack of legal provisions in Kenya and participation in the planning phase only in Kenya were also found to limit the effectiveness of participatory budgeting (World-Bank, 2010). Furthermore, the unwillingness of the public to participate, in Estonia (Ainsoo *et al.*, 2002) and lack of support from the local authorities in Albania (Gurraj *et al.*, 2002) also hindered participation.

The use of information and communication technology was also found to enhance participatory budgeting in local authorities in some countries. For example, in Belo Horizonte, Brazil, at one stage the new digital participatory budgeting process managed to rally 200,000 voters (Matovu and Mumvuma, 2008). Similarly, National Democratic Institute (NDI) (2013) undertook a study to improve understanding of the underlying assumptions which are made about technology's ability to increase the quantity, quality and democratising influence of citizen participation in Burma, Mexico, Uganda, Egypt, Ghana and Peru. The study found that technology could be used

to readily create spaces and opportunities for citizens to express their voices. However, political will, leadership development and relationship management also mediated the effects of technology (NDI, 2013).

Several information and communication technology avenues were used in different countries. For example, social media in Arab Spring countries, interactive websites and text messaging systems in Uganda and crowdsourcing (obtaining needed services, ideas, or content by soliciting contributions from a large group of people online) and use of computers and phones in Haiti (NDI, 2013). A study of the role of citizen participation and the use of Social Media Platforms in the participatory budgeting process in the United States also found the following insights. Many jurisdictions currently lacked adequate infrastructure for participatory budgeting. Also, restrictive policies prohibited the successful use of social media platforms in the participatory budgeting process. Furthermore, social media platforms could be effective in participatory budgeting but were underused to date. Using a combination of traditional citizen engagement approaches with multiple social media platforms was recommended as the best approach (Gordon, Osgood and Boden, 2017).

In Italy's local government, one of the new arrangements under NPM was participation. This was determined as the participation to the municipal councils and specialised commissions; and submission of opinions to those local mechanisms. By those new arrangements; it was stressed that municipal council decisions will be announced to the public with the most appropriate way. The city councils were identified as a platform where everyone reaches the opportunity to explain their opinions with the support of the municipality (Çetin, 2015).

Mbate (2017) provided an overview of the theoretical debate on the relationship between decentralisation and governance. Using a case study of two local counties in Kenya, the analysis revealed that the positive effects of decentralisation are contingent on several preconditions such as inclusive and participatory systems that enable citizens to express their opinions and influence decision-making processes, a high degree of social capital which fosters mutual trust and solves collective action problems and strong local bureaucratic capacity in terms of physical, human and financial resources.

Thus, participatory budgeting was found to be the norm in many local governments. However, the process was plagued with many challenges and short-comings. This study also sought to examine the nature of the budgeting systems, processes and institutions in the decentralised local government of a developing country.

#### **2.4.4 Budget Format and Contents.**

The quality of a government budget also hinges on its format and contents. These depend on the approach to budgeting and the budget classification methods used.

##### **2.4.4.1 Approaches to Budgeting**

Budgets can be approached from a line item, program or performance perspective. This depends on the function of the budget that is prioritised. These functions include; mapping, controlling, coordinating, communicating, instructing, authorising, motivating and performance measurement (Harper, 1995). For example, a program budget approach is argued to prioritise on the decision-making function as compared to the line item approach which focuses on control (Northern-Ireland-Assembly, 2010).

###### **2.4.4.1.1 Line-Item Budgeting**

Line-item budgets help governments to exercise financial control over each item of expenditure (Venkateswaran, 2014). They focus on the source and amounts of revenues and the purpose and amounts of expenditures. The line-item budget is an essential foundation to ensure the financial integrity of a local government (Carlee, 2008). Line-item budgets are input-oriented and describe minute details (Venkateswaran, 2014).

Although it is the simplest budget to prepare and commonly used in the public sector, the line-item budget has several limitations. Firstly, it does not provide any information regarding activities, outputs or outcomes and functions of a program, department, or municipality. Thus, it does not reveal how much is being spent on the actual delivery of services (Schaeffer and Yilmaz, 2008). Besides, the use of the incremental budgeting method under this approach means that previous year inefficiencies might be built into the current budget (Northern-Ireland-Assembly, 2010; Schaeffer and Yilmaz, 2008). However, it enjoys the merits of simplicity and political acceptance.

Empirical results showed that it was used in Hungary (Szalai *et al.*, 2002), Northern Ireland, UK (Northern-Ireland-Assembly, 2010) and Croatia (Ott and Bajo, 2002) among other countries.

#### **2.4.4.1.2 Programme Budgeting**

According to Bellamy and Kluvers (1995), program budgeting focuses on budget objectives and programs to achieve them, appropriation of funds by program and performance indicators to measure program output. Revenues and expenditures are linked to multi-year community goals and objectives and thus establishes political accountability links. A programme budget identifies the anticipated results, outputs and outcomes of spending items (Schaeffer and Yilmaz, 2008; National-Advisory-Council-on-State-and-Local-Budgeting, 1998). It is output-oriented and gives the budget holder flexibility to manage resources efficiently while holding him/her accountable for outputs and outcomes (Venkateswaran, 2014). Unfortunately, lack of technical skills to handle program budgeting was a serious constraint to the implementation of programme budgeting in some countries, for example, in Croatia (Ainsoo *et al.*, 2002).

In the context of a developed country, a comparison of incremental versus program-based methodology in Ontario municipalities (Canada) revealed that successful management required the use of elements of both approaches (Tassonyi, 2002).

#### **2.4.4.1.3 Performance Budgeting**

Performance budgeting is similar to program budgeting but the emphasis is on monitoring program performance using quantitative indicators and using performance information to inform budget allocation decisions for those programs (Riverbank and Kelly, 2006). Thus, availability, coverage, and timeliness of performance information are key (PEFA-Secretariat, 2016a). Outputs and outcomes are important elements of performance measurement and budgeting system. Outputs focus on quantity while outcomes emphasize on results or impact (Melkers and Willoughby, 2005).

The design of the performance budgeting systems is considered essential for them to be effective. This includes; stakeholder input and performance reporting (Melkers and Willoughby, 2005). The provision performance information is an important aspect of accountability (Coy, Fischer and Gordon, 1998; Rutherford, 2000) since it allows an entity to demonstrate its internal and external

achievements (Barrett, 1997; Lee, 2008; OECD, 2004). Publicly reporting on current responsibilities and future intentions are also argued to be essential (Farneti and Bestebreur, 2004). Rewards and sanctions related to performance were also found to be essential in US local authorities (Melkers and Willoughby, 2005).

Despite its appeal to local government PFM, performance budgeting has its share of limitations. Programs often have multiple, overlapping goals that rarely enjoy stakeholder consensus. Also, reliable outcome measures of program performance are difficult to establish (Riverbank and Kelly, 2006). It also emphasizes on performance (operational) accountability which introduces internal politics, especially the politics of selecting performance measures, while adding nothing to operational accountability itself (Smith, 1999).

Performance budgeting was generally found to best practice in local authorities of developed countries. For example, a national survey of U.S. municipalities revealed that municipal governments measured program performance and used performance measures to evaluate budget requests (Riverbank and Kelly, 2006). However, survey respondents were less enthusiastic about measurement effectiveness (Melkers and Willoughby, 2005). Another study in the US also found that a handful of states had formally defined rewards or sanctions related to goal attainment (or lack thereof) specified in their performance-based budgeting systems (Melkers and Katherine, 1998). Similarly, in Malaysian local authorities, empirical results revealed that stakeholders showed a stronger interest in performance information such as non-financial performance and future-oriented information (Stuart, Jillian and Norida, 2010). In Africa, on the other hand, performance budgeting was commonly introduced in central government due to external pressure from donors (CABRI, 2013). Brusca and Montesinos (2016) compared 17 countries and found that performance reporting has been introduced by higher government levels as a mechanism to control local government activities to enhance performance (Brusca and Montesinos, 2016).

On the contrary, in terms of the actual generation of estimates, research evidence based on studies of the budgeting process in three local authorities showed that the budget-setting process in local authorities was incremental. Planned programmed budgeting systems and zero-based budgeting systems did not appear to have a place in local authority decision making largely because the process is a political one and is perceived to be overwhelmingly complex (Ibrahim and Proctor,

1992). Also, it was observed that some central governments did not make performance-related demands on local units. As a result, it was not possible to evaluate the efficiency of local units in the provision of goods and services for the population of their areas. This was observed in Croatia (Ott and Bajo, 2002) and Hungary (Szalai *et al.*, 2002).

Thus, approaches to local government budgeting are varied. In this regard, line-item budgeting was the traditional approach which was commonly used. However, programme budgeting and performance budgeting appeared to be emerging approaches. To contribute to the body of knowledge, this study sought to examine the approaches adopted by fiscally decentralised local governments in developing countries.

#### **2.4.4.2 Budget Classification**

Budget classification is one of the essential building blocks of a sound budget management system. It determines how the budget is recorded, presented and reported, and as such has a direct impact on the transparency and coherence of the budget. It is important for policy formulation, performance analysis, resource allocation, ensuring compliance with the budgetary resources approved by the legislature, day-to-day budget administration and inter-organisational comparisons (Jacobs, Héris and Bouley, 2009; Olden, 2009; PEFA-Secretariat, 2016a). Budget classification system adopted should ensure comprehensiveness (include all government entities and present a consolidated view of all operations), unity (include all revenues and expenditures), and internal consistency (coordinate recurrent and capital expenditure) (Jacobs, Héris and Bouley, 2009; Olden, 2009; PEFA-Secretariat, 2016a).

The budget classification system used is closely linked to the budgeting approach adopted and legislative provisions. For example, line-item budgeting favour an administrative classification which focuses on the organisations responsible for receiving revenues or incurring expenditures. On the other hand, program budgeting adopts a classification of expenditure by function and program. A performance budgeting system requires the classification of programs by activity or output because the operational performance of programmes and activities would need to be assessed (Jacobs, Héris and Bouley, 2009; Mikesell, 2011). PEFA-Secretariat (2016a) argues that the Government Finance Statistics (GFS) classification by the International Monetary Fund (IMF) provides a recognised international framework for the economic and functional classification of transactions. On the other hand, in some countries, the central government provided a standard

chart of accounts that all local budgeting units must adhere to. This facilitated consolidation and interregional comparison. This was found to be the case in Central and Eastern Europe (Högye and Mcferren, 2003), including, Albania (Gurraj *et al.*, 2002) and also in South Africa (National-Treasury, 2015). However, in Croatia, there was uniform, statutorily defined contents and structure for a local budget (Ott and Bajo, 2002).

In other countries, budget classification was based on votes and funds for control purposes. For example, in South African local authorities, votes were used. A vote is one of the main segments into which a municipality's budget can be divided to allocate money for the different departments or functions to be delivered by the municipality (Westhuizen *et al.*, 2017). Similarly, a fund provides a distinct accounting mechanism to keep public money designated for different purposes from being commingled (Carlee, 2008). Fund accounting is used as a reliable control technique to ensure that funds are used for their specified purposes (Kalsom, Rozainun and Y-Nurli, 2014). Such an approach was used in, for example, Hungary (Szalai *et al.*, 2002).

A synthesis of the literature above revealed that budget classification varied significantly across different jurisdictions. In addition, significant variations were also observed between national and subnational governments. This study, thus intended to explore the classification adopted by decentralised local governments in fiscally decentralised local governments of developing countries.

#### **2.4.4.3 Budgetary Forecasting Techniques in Local PFM**

Budget forecasts and estimates are vital in generating multi-year and annual budgets. This implies that forecasting techniques are an essential component in the budget planning and formulation systems. Forecasting methods generally fall into two categories; objective methods and subjective methods. Objective approaches are fairly easily explained and systematic while subjective approaches are based primarily on the forecaster's judgment (Schroeder, 2007). An example of a subjective method is judgmental forecasting while objective methods include time-series techniques, deterministic techniques (use variables other than time to determine future revenues and expenditures) and statistical methods (Schroeder, 2007).

The bone of contention has been whether to adopt subjective or objective methods of forecasting given the merits and limitations of the methods in each category. For example, Schroeder (2007) argues that judgmental methods (which rely on the forecaster's special expertise) has relatively low implementations cost as compared to objective methods but can yield accurate short term forecasts (Schroeder, 2007). In support, Stemaier and Reiss (1994) documented evidence that a panel of local experts can generate annual budget forecasts as accurate as forecasts resulting from objective methods. Some researchers identified judgmental forecasting as lacking accuracy (Hogarth and Makridakis, 1981) while others identified judgment as benefiting forecast accuracy even with the existence of forecast bias (Lawrence *et al.*, 2006).

On the other, while time-series techniques are simple to use and to explain, they rest on the assumption that the factors that have influenced a revenue or expenditure in the past will continue to exist (Schroeder, 2007). Deterministic techniques are easy to explain to policymakers, however the explicit assumptions regarding the variable(s) thought to drive the revenue or expenditure being forecasted may turn out to be erroneous (Schroeder, 2007). Statistical forecasting models (econometric models), are complex and require the most extensive amount of data despite being perceived to be relatively more accurate (Schroeder, 2007). Sanders and Manrodt (2003), found that quantitative models were more accurate than judgmental forecasts.

Little research has been carried out on the determinants of revenue forecasting practices at the central or local levels in developing and transition countries. In a survey of forecasting practices in 34 countries in developing and transitional economies, findings indicated that revenue forecasts were the product of the consensus of technical experts in 64 per cent of the countries. On the other hand, only 12.9 per cent of the responding countries relied on statistical (econometric) methods to produce their revenue forecasts (Kyobe and Danninger, 2005). Incremental forecasting was also used in many countries, for example, in Albania's local government (Gurraj *et al.*, 2002).

Varied empirical results were found in the context of local governments in developing countries. For example, researchers (Jung, 2002; McCollough, 1990; Rubin, Mantell and Pagano, 1999) found out that in local government revenue forecasting in the United States, judgmental and trend techniques were, by far, the most commonly used approaches. Only 20 to 33 per cent of the surveyed localities used statistical methods. In contrast, a study of revenue forecasting in a Florida

municipal government revealed that simple time series models outperformed deterministic models and the judgmentally derived forecasts of local officials (Frank and Wang, 1994). In practice, governments may use quantitative techniques mixed with other practices to arrive at final forecasts (Frank and Zhao, 2009).

The use of information technology in forecasting has also been proposed. This is achieved through the use of forecasting software (Williams and Kavanagh, 2016). However, Frank and Zhao (2009) noted that, despite the availability and cost of this software, few local governments employed them. Some researchers found that this was mainly because the software was not easy to use, and results were not easy to understand (Sanders and Manrodt, 2003).

Thus, forecasting techniques were also found to be varied across different jurisdictions. A visible competition being observed between sophisticated statistical methods and simpler judgemental and deterministic techniques. It would add to the body of knowledge to establish the approaches adopted by decentralised local governments of developing countries and the effectiveness of these approaches.

## **2.5 Budget Execution and Implementation Systems, Institutions and Processes**

After the budget has been approved and the new budget period commences, the next stage of the budget cycle involves executing and implementing the approved budget. Revenues are collected as budgeted, allocated funds are disbursed, and service delivery activities and projects are undertaken (Venkateswaran, 2014). Records of revenue collection, resource disbursements, transactions and other activities are kept and internal controls are implemented (Venkateswaran, 2014). Internal controls are the systems, institutions and processes put in place by management to ensure effectiveness, efficiency, compliance and reliable financial reporting in local government (GFOA, 1996). Thus, in terms of local PFM, budget execution and implementation are mainly concerned with the allocation and accounting for resources and internal controls to ensure; effective and efficient operations, safeguarding assets, reliable financial reporting and compliance.

### **2.5.1 Local Government Accounting Systems, Institutions and Processes**

Government accounting is the process of recording, analysing, classifying, summarising, communicating and interpreting financial information about a government (Ahonsi, 2002). It

provides financial information useful for planning, budgeting and to predict the impact of the acquisition and allocation of resources on the achievement of operational objectives. It also provides information for control, performance evaluation and accountability (Daniel, 1999).

### **2.5.1.1 Accounting Bases**

The basis of accounting refers to the method used in recording government financial transactions and the compilation of the financial statements (Oshisami, 1992; Ahonsi, 2002). An analysis of the international classification of local government accounting systems observed that three differentiated groups existed. The first one used a cash basis. The second model, where most of the countries are European with a continental tradition, had a Chart of Accounts and used a modified cash/accrual basis. In the third model, which could be called Anglo-Saxon, an accrual basis was used and one of the main objectives was to provide information about the economy, efficiency and effectiveness in the provision of public services (Benito and Brusca, 2007).

#### **2.5.1.1.1 The Cash Basis of Government Accounting**

The cash basis of accounting has been the mainstay of accounting and financial reporting in the public sector throughout the world (OECD, 2002). It recognises only cash receipts and cash disbursements. It has its own merits and demerits. Its merits include the fact that it; is simple, makes it easier to compare budget versus actual results for control, is factual and objective, and enables final accounts to be compiled promptly (Oshisami and Dean, 1984).

Despite these appealing arguments, the cash basis of accounting has attracted a lot of criticisms because of the following disadvantages. Firstly, it fails to take account of future commitments, guarantees or other contingent liabilities. Also, it fails to account for deterioration in fixed assets. Furthermore, it focuses on the control of inputs rather than outputs and efficiency (Ball *et al.*, 1999). It may also encourage short-termism and dysfunctional behaviour. For example, vote controllers may incur last-minute obligations just to deplete cash surpluses so that future budgetary allocations will not be reduced (Wildavsky, 1979).

### **2.5.1.1.2 The Accrual Basis of Accounting**

Accrual accounting recognises events and transactions when they occur, regardless of when cash changes hands (Ball et al., 1999). By recording accounts payable and receivable, and thus the change in the value of the assets and liabilities, it keeps a running tally of what an organisation owns and owes in economic terms. It is argued that a full accrual accounting system can provide more information than cash-based accounting in terms of quantity and quality (Yamamoto, 1999).

The proponents of accrual accounting cite the following advantages for its use. Firstly, it helps in assessing budgetary performance, such as government deficit and debt, and enhance the effectiveness of fiscal constraints. Also, accrual accounting is designed to provide critical information to owners and lenders. Furthermore, it results in accounting measurements based on the substance of transactions and events, rather than merely when cash is received and disbursed. Thus, it enhances the relevance, neutrality, timeliness, completeness and comparability of accounting measurements. Accrual accounting also provides a long-term perspective for judging the impact of policies (Ball *et al.*, 1999).

The use of accrual accounting has been criticised on the following grounds. Firstly, the implementation and operation of accrual accounting systems are expensive. Also, accrual accounting is less objective than cash accounting. Furthermore, there is a loss of comparability of fiscal settings across governments and through time because only very few governments have produced fully consolidated accrual amounts. It is also suggested that users of government accounts, such as debt-rating agencies are unfamiliar with the format and content of accrual accounts (Ball *et al.*, 1999). Also, critics of the accrual basis of accounting argue that there is no empirical evidence in support of the benefits derived from using the approach (Potter, 1999).

Empirical findings indicated that, although implementation experience has differed significantly between jurisdictions, the trend towards the adoption of accrual accounting in government was a global phenomenon (Carlin, 2005). For example, Portuguese Local Government accounting framework used double entry and accrual-based financial and cost accounting (Jorge, Carvalho and Fernandes, 2008). Similarly, a survey of 17 European countries by the year 2010 revealed that accrual accounting had been strongly adopted in Europe by both local as well as in central governments (Christiaens, Reyniers and Rollé, 2010). Similarly, there were a growing number of

developed countries, such as Australia, New Zealand, and the United Kingdom that had already transformed from input-based to outcome-based budgeting system and from cash-based accounting to some form of accrual accounting system (Kalsom, Rozainun and Y-Nurli, 2014).

Awasom (2019) examined the motivation towards the move to accrual accounting and the extent to which accrual data is used for financial reporting and decision-making in Cameroun's decentralised local government using qualitative research, with a case study, interviews and documentary analysis. The study found that normative and coercive isomorphic pressures influenced the adoption and practice of accruals in councils. To appear legitimate and for fear of being sanctioned, council authorities had to produce some accrual-based financial reports at all cost, even though these reports were hardly used for management decision-making (Awasom, 2019).

Hidayah and Zarkasyi (2017) examined the influence of human resources management competency and the role of culture on accrual accounting implementation effectiveness and the impact on the quality of accounting information. The study is applied research considering its aim, and descriptive-survey research, considering data collection method; a structured questionnaire is used for data collection. To measure the validity of the questionnaire, content validity is studied and the reliability is estimated as 0.7 using Cronbach's alpha. Data analysis was performed by using Partial Least Square (PLS). The results showed that human resources management competency affected the accrual accounting implementation effectiveness while the role of culture did not affect the quality of accounting information.

### **2.5.1.1.3 Modified Cash/Accrual Basis of Accounting**

The appropriate basis of accounting to use in government has always been a source of controversy in accounting literature. Even proponents of the cash basis of accounting have admitted the need for reform. Partial reforms have resulted in hybrid systems like modified accrual basis or modified cash basis (Venkateswaran, 2014).

Although most local governments in developing countries use cash-based accounting, several developed countries have been moving toward the use of an accrual basis. However, a strict accrual basis is not feasible for many local governments, and thus most of them have been using modified

accrual accounting. That generally means that they account for all expenditures, regardless of whether cash is paid out, but recognise revenue only when it becomes both available and measurable, rather than when it is earned. The reason for this choice is their limited ability or capacity to collect billed and due revenues, such as taxes, water or solid waste fees, and so on (Venkateswaran, 2014).

### **2.5.1.2 Fund Accounting and Double-entry**

In the United States, municipalities follow an accounting model called fund accounting. In this model, revenues and expenditures are reported under different funds (Venkateswaran, 2014). This system uses a self-balancing set of accounts, segregated for specific purposes following laws and regulations or special restrictions and limitations (Kalsom, Rozainun and Y-Nurli, 2014). Fund Accounting was used to promote control and accountability over restricted resources (Lynn and Freeman, 1983). Each fund has its own self-balancing sets of accounts from which separate financial statements could be prepared (Kalsom, Rozainun and Y-Nurli, 2014).

The following are however some arguments against Fund Accounting. First, it fails to describe the operating results of the government as a whole. Also, it is too complicated for external users to understand. It also focuses too much on legal compliance and too little on efficiency evaluation. Furthermore, it does not permit taxpayers to determine the need for taxes and it permits managers to distort the performance and thereby misappropriate resources and abuse funds (Ingram, 1986).

### **2.5.1.3 Computerised Accounting Systems in Government**

Computerisation of accounting systems has also become common in government accounting. It comes with its benefits and limitations. For example, in Botswana, it was found that the computerised Government Accounting and Budgeting System (GABS) in the public sector promoted efficiency in the public sector, as its introduction enhanced accountability and decision making in government institutions. This system had been effective since it resulted in improved service delivery and saved time. Similarly, in Tanzania, computerised accounting systems resulted in the ability to process a large volume of data at a high speed and greater accuracy (Minani, 2013).

On the downside; network connectivity, lack of skilled manpower and access of system by outsiders were the three major challenges experienced in the use of computerised accounting systems in Botswana (Tonkope, Baliyan and Tobedza, 2017). Similarly, computerisation equally increased the chance of manipulation and computer fraud and errors taking place without detection in Tanzania (Minani, 2013).

The adoption of Financial Management Information Systems (FMIS) is another NPM proposed reform. It helped local authorities in the decentralised local government of Tanzania to ensure prompt and efficient access to financial data, transparency, and accountability of the executives. Also, strengthened financial controls and has helped councils to trace all the essential stages of the transaction processing from budget releases, commitment, purchase, payment request, reconciliation of bank statements, and accounting of expenditure compared to the previous existed manual system. Also, the study found that reforms have increased the level of financial reporting and availability of comprehensive financial information on current and past performance hence it is a valuable tool for budgetary forecasting and planning (Yusuph and Guohua, 2017).

Another significant reform in this area was the introduction of information technology in revenue collection in Tanzania's decentralised local government. The introduction of Electronic Fiscal Devices reduced tax collection costs, enhanced integration of taxation system with other administrative systems, created standardisation among the taxpayers and bringing automation and innovation in the tax and revenue collection systems (Yusuph and Guohua, 2017).

Mchran *et al.* (2018) investigated the performance of Indonesian local governments by looking at social culture, politics, and administration through information technology as a moderating variable. The results of the study showed that (i) social culture does not affect the performance of the government but accounting information technology can strengthen social-cultural relations to government performance (ii) political culture does not affect government performance but accounting information technology can strengthen the relationship of political culture to government performance (iii) administrative culture influences government performance and

accounting information technology is also able to strengthen social-cultural relations to government performance.

Thus, government accounting was found to be predominantly cash-based. However, many jurisdictions were transitioning to accrual accounting and modified accrual basis. Also, computerised accounting appeared to a new phenomenon in the information age. Very few studies were however found on the adoption and effectiveness of computerised accounting in local governments. This study endeavoured to bring some insights into the debate of accounting bases and accounting information processing methods in decentralised local governments of developing countries.

## **2.5.2 Internal Control Systems, Institutions and Processes in Local Government**

Internal control is broadly defined as a process, effected by an entity's legislative body, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories; (i) effectiveness and efficiency of operations, (ii) reliability of financial reporting and (iii) compliance with applicable laws and regulations (COSO, 1992).

The following sections discuss the internal control systems, processes and institutions that apply to local authorities in their financial management activities. These controls are applied in local authority budget execution and implementation to ensure; effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations (Hughes, 2007). This review has been organised based on controls relating to assets, liabilities, procurement, expenditure controls, in-year budget adjustments and reports, financial data integrity and internal audit.

### **2.5.2.1 Asset Internal Controls**

#### **2.5.2.1.1 Public Investment Management Controls**

Internal controls are also essential in selecting, constructing and maintaining public investments (Miller and Mustapha, 2016). This includes expenditure on economic infrastructure such as roads, water and sewerage systems, and also social infrastructure such as schools and hospitals (IMF,

2015). It also includes spending on human capital or financial investments (Miller and Mustapha, 2016).

Public investment is technically different from other types of government spending (Fainboim, Last and Tandberg, 2013). This is because; significant costs are involved, it has long-term implications, it is hard to estimate costs accurately and there is an imbalance in the timing of costs and benefits (Fainboim, Last and Tandberg, 2013). It is also subject to relatively more political pressures and corruption (Miller and Mustapha, 2016). As a result, empirical evidence shows that public investment is often not managed well (Flyvbjerg, Holm and Buhl, 2002). For example, Rasul and Rogger (2015) found that 38% of planned Nigerian government projects were never even started, while Williams (2015) found that approximately one-third of municipal infrastructure projects started in Ghana was never completed. Local authorities in developing countries often selected projects based on political rather than financial and economic criteria. They also ignored other aspects related to the chosen projects. These included the impact of projects in the medium and long-term and other associated (contingent) liabilities such as repair and maintenance, energy costs, and labour costs (Freire and Kopanyi, 2018). For example, this was observed in Croatia (Ott and Bajo, 2002).

Various systems, institutions and processes are considered essential in managing the public investment. These include; fiscal rules (Balassone and Franco, 2000; Creel, Monperrus-Veroni and Saraceno, 2007; Schaechter *et al.*, 2012) and integrated strategic planning (OECD, 2014). There should thus be an economic appraisal, selection, costing, and monitoring of public investment projects by the government (Miller and Mustapha, 2016; PEFA-Secretariat, 2016a). Possible appraisal methods include; analysis of economic externalities through cost-benefit analysis, cost-effectiveness analysis, and multi-criteria analysis (Miller and Mustapha, 2016; PEFA-Secretariat, 2016a; Rajaram *et al.*, 2014).

### **2.5.2.1.2 Public Asset Management**

A country must have systems for managing, monitoring, and reporting on financial and non-financial assets (PEFA-Secretariat, 2016a). Financial assets include cash, securities, loans, receivables, foreign reserves and equity owned by the government. Non-financial assets include all other assets that are not financial assets; such as land and buildings. PEFA-Secretariat (2016a) recommends that a government should have an asset register that is updated and reported regularly following international accounting standards. For example, in Egypt and South Africa strategic decision making was based on comprehensive and updated asset registers. Similarly, Nairobi appointed a team in the Finance department to deal with current assets and liabilities daily and it was found to be effective (Freire and Kopanyi, 2018). Unfortunately, it was observed that the local authorities in many developing countries kept and published poor or no reports on financial assets and non-financial assets (Freire and Kopanyi, 2018). Besides, the procedures for transfer and disposal of assets should also be established through legislation, regulation, or approved procedures (PEFA-Secretariat, 2016a). An asset management strategy and policy was also considered to be essential (Andersson, 2014).

Varied practices and challenges with local public asset management have been observed across the world. For example, in Canada, UK and Australia asset management was assigned to a higher-level committee while in India and Pakistan, this was handled by an outside corporation (Andersson, 2014). In Hungary, the lack of local expertise was found to hinder effective asset management (Szalai *et al.*, 2002).

### **2.5.2.1.3 Revenue Collection and Debtors Controls**

PEFA-Secretariat (2016a) asserts that a government's ability to collect revenue is an essential component of any PFM system. Therefore, a government should have the systems, institutions and processes in place to ensure collection of revenue and to manage and control debtors (PEFA-Secretariat, 2016a). This entails mechanisms relating to billing, notifying payers of their obligations and rights, ensuring compliance, recording revenues and management of revenue arrears (PEFA-Secretariat, 2016a). Andema and Haas (2017) argued that this should centre around the four main areas of effective revenue administration, namely: better identification of taxpayers;

transparent process in assessing their liabilities; effective billing and collection; and facilitating and monitoring compliance as well as dealing with non-compliance (Bird, 2010a; Freire and Garzon, 2014). This was successfully applied in the Kampala City Council Authority (KCCA) in Uganda (Andema and Haas, 2017).

Several critical success factors have been proposed concerning effective revenue administration. These include; political support (Bird, 2010a), political will (Dzansi *et al.*, 2018) the attitude of local political leaders (Fjeldstad and Heggstad, 2012), qualified staff (Kopanyi, 2015), and regular training (Andema and Haas, 2017). According to Andema and Haas (2017) presence of such factors as above resulted in KCCA's revenue collection doubling over four years. Electronic management systems have also been argued to improve overall revenue management (Sserunkuuma, 2016). For example, the KCCA in Uganda introduced digitisation, and automated revenue collection through a revenue management software (Andema and Haas, 2017). On the other hand, low usage of electronic systems resulted in poor billing systems, outdated property valuation lists and outdated databases in Ghana (Dzansi *et al.*, 2018). In Ghana, adequate resources and legal capacity were also found to be essential (Dzansi *et al.*, 2018).

Another important aspect of revenue management is the management of revenue arrears. Revenue arrears should be minimised, recorded, analysed, reported and controlled (PEFA-Secretariat, 2016a). Revenue arrears has been a serious problem in many local authorities around the globe. For example, in South Africa (Auditor-General-South-Africa, 2018). Various strategies have been to be employed to manage revenue arrears. These included; allowing payments through instalments, a dedicated office for large taxpayers, communication campaigns in KCCA (Andema and Haas, 2017). Also, enhancing trust in government in South Africa (Fjeldstad, 2004) and trust that other citizen to pay their share (Fjeldstad, 2004; Slemrod, 2003) were found to be key. Surveys in both Uganda and Tanzania also revealed that trust in government was critical (Bahigwa *et al.*, 2004; Fjeldstad, Katera and Ngalewa, 2009). Communication and accountability were also found to be essential in Ghana (Dzansi *et al.*, 2018), Uganda and Tanzania (Fjeldstad and Heggstad, 2012). Audits, investigations, prosecutions and penalties were also proposed for compulsory compliance. It was thus essential to understand the factors underlying the individual's decision

whether to pay or evade taxes and charges and respond accordingly (Fjeldstad and Heggstad, 2012).

#### **2.5.2.1.4 Cash Management**

Internal controls related to cash management are essential because cash needs to be protected from theft, fraud and embezzlement. Also, budgetary units need to timeously receive cash to fund service delivery activities (PEFA-Secretariat, 2016a). Idle cash also needs to be invested to earn returns (Henning, Van -Rensburg and Smit, 2004; Minani, 2013). Thus, elements of cash management are identified as; establishing bank relations, preparing cash flow statements, estimating collection receipts, analysing cash flows, collecting and disbursing cash, recording and safeguarding cash (Fortuzi and Doda, 2016; Kumshe and Bukar, 2013).

Electronic cash management is now being increasingly implemented in many countries (Miller and Hadley, 2016). However, it has its strengths and weaknesses. For example, in Tanzania, Minami (2013) found that computerised accounting systems enhanced control over cash. However, the accountants' incompetence in computerised accounting environment was still a challenge (Minani, 2013). On the other hand, systems which involve actual physical moving and holding of cash still exist today in many developing countries (Minani, 2013).

Effective cash management systems also require; reasonable accurate forecast of revenues and expenditures, strong political commitment, controls on commitments and payments, established debt markets and established banking system (Miller and Hadley, 2016). Unfortunately, these critical success factors are absent in most developing countries (Simson and Welham, 2014). Cash flow forecasts help local governments to maximise investment returns whilst ensuring that there is an appropriate cash buffer set aside for unforeseen circumstances (Larson, 2007; PEFA-Secretariat, 2016a). The more serious the financial situation of the local government is, the shorter the period of the forecast (Larson, 2007). Cash forecasts should also be monitored against the actual cash flows (Miller and Hadley, 2016). Similarly; an effective investment policy should ensure; gaining the highest possible return without undue risk, proper authorisations, safeguarding investments assets and proper accounting, reporting and evaluation of investment returns (Larson, 2007).

Fixed asset management has been a challenge despite having government policies and procedures in decentralised Local Government Authorities. Assey, Kalegele and Chachage (2017) quantitatively investigated, using discriminant analysis, the factors which influence fixed asset management in Local Government Authorities. Through the analysis, physical counting versus record difference was found to be more critical followed by the scope of asset tracking. On the other hand, Ekayanti, Rifa'i and Irwan (2018) carried out a study to test and find empirical evidence about the influence of the quality of local human resources personnel, asset management information system, internal control system of government and organisational commitment to the effectiveness of fixed asset management in Indonesia. The study used a quantitative approach through using *Partial Least Square* approach. The results showed that human resource quality local apparatus, asset management information system, internal control system of government have a positive and significant effect on the effectiveness of management of fixed assets.

## **2.5.2.2 Liabilities Internal Controls**

### **2.5.2.2.1 Debt Management Controls**

Another pivotal internal control relates to systems, institutions and processes for managing government debt (PEFA-Secretariat, 2016a). This is crucial since debt issuance commits future government revenues and can limit government flexibility (National-Advisory-Council-on-State-and-Local-Budgeting, 1998). Thus a clear, and transparent debt policy should be available (PEFA-Secretariat, 2016a). Besides, the records for the contracted debt should be maintained and reported timeously. Debt obligations should be paid as per contracts (PEFA-Secretariat, 2016a). The use of debt proceeds is also crucial. Theoretically, the golden rule of borrowing and debt asserts that debt proceeds and proceeds from the disposal of capital assets should be used to finance capital expenditure rather than revenue expenditure (Freire and Kopanyi, 2018). The success of local borrowing in South Africa was attributed to local fiscal health, depth of the financial market and diversified debt portfolios (Freire and Kopanyi, 2018).

Another contentious issue in debt controls was whether local debt management should be regulated by national governments and legislation or grant full autonomy to local authorities (Freire and Petersen, 2004). The limits aim to prevent overborrowing by improving debt and fiscal

management (Freire and Kopanyi, 2018). However, they were also argued to hinder local fiscal autonomy. Senegal's constitution authorised local authorities to borrow for infrastructure without central government intervention (Freire and Kopanyi, 2018). On the other hand, Hungarian local authorities relied on market discipline, with no external approval needed or restricted use of borrowed funds. However, loan amounts were restricted to 70% of internal revenues (Szalai *et al.*, 2002). In contrast, in Estonia, local borrowing was regulated by legislation and central government (Ainsoo *et al.*, 2002). This was similar to Albania (Gurraj *et al.*, 2002). Complete centralisation of local borrowing by national governments was found to increase fraud and corruption in Cameroon (Gorelick, 2018).

#### **2.5.2.2.2 Monitoring of Expenditure Arrears**

A government should have systems, institutions and processes to prevent, minimise and manage expenditure arrears. Expenditure arrears are overdue debts, liabilities, or obligations. These may increase costs to the government such as an increase in price, delay in supply (PEFA-Secretariat, 2016a), interest and penalties (Flynn and Pessoa, 2014). Unfortunately, the management of expenditure arrears remained a huge problem in developing countries (Tripathi, 2016). For example, in some East African countries, these ranged between 1% to 3% of Gross Domestic Product (Tripathi, 2016). Similarly, in South Africa, huge sums were owed by local authorities for the provision of electricity and water (Auditor-General-South-Africa, 2018).

Various strategies and preconditions were essential to effectively manage expenditure arrears. These include; adequate revenues, predictability in budget releases, recording of commitments, and effective monitoring of multi-year contracts (Flynn and Pessoa, 2014; Tripathi, 2016), realistic budgets, commitment controls, sound cash management, timeous processing of payments and appropriate sanctions thereof (Flynn and Pessoa, 2014). Regular reporting of arrears and legal provisions were also essential (Tripathi, 2016). Budgetary units should be provided with timely information on how much they can commit in terms of planned expenditure. This facilitates planning and also prevents disruptions and unsustainable commitments which may generate expenditure arrears (PEFA-Secretariat, 2016a).

### **2.5.2.3 Procurement Internal Controls**

Public procurement controls are essential, especially for developing countries where procurement usually accounts for a high proportion of total expenditure. For example, 40% in Malawi and 70% in Uganda, compared with a global average of 12-20% (Development-Assistance-Committee, 2005). Objectives of public procurement include promoting; transparency and openness, economic efficiency, public confidence and equality and fairness (Komakech, 2016). Andrew (2008) mentioned that for decade's procurement performance has been attracting great attention from practitioners, academicians and researchers due to poor levels of performance. Poor procurement performance is a major hindrance to procuring entities growth since it causes the delay of delivery, increase of defects, delivery of low-quality goods or non-delivery at all (Gordon and Murray, 2009).

Key procurement principles include promoting competition as means to obtain fair and reasonable prices and overall value for money (PEFA-Secretariat, 2016a). Recording and reporting on procurement contracts and transactions is also essential (PEFA-Secretariat, 2016a). Transparent evaluation and comparison of bids, pre-contract review, contract execution, and post-contract evaluation are all critical (McCue and Prier, 2007). Procurement information should be accurate, timely and easily accessible by stakeholders (PEFA-Secretariat, 2016a). The complaint resolution system should also be independent and the complainants should be accorded adequate protection (PEFA-Secretariat, 2016a).

The other contentious issue in public procurement is whether subnational procurement should be centralised or decentralised. Research suggests that devolution and decentralisation of procurement are desirable (Gurgur and Shah, 2005). However, the delimitations of decentralisation are that there is lack of local expertise and it also makes bribes more accessible (Bardhan and Mookherjee, 2003). On the other hand, centralisation can bring inefficiencies and hinder transparency (McCue and Prier, 2007).

As a variant, some African countries such as Uganda, Tanzania and Kenya have adopted decentralised procurement practice (Agaba and Shipman, 2007). This was argued to provide operational flexibility within a national standard of good practice (Agaba and Shipman, 2007). Use

of websites, training, capacity building, compliance assessment; procurement audits and the investigation of complaints were also argued to enhance effectiveness (Agaba and Shipman, 2007). Basheka (2009) also found a significant positive relationship between procurement planning and local governance in Uganda. Furthermore, the involvement of councillors in procurement was argued to increase politicisation and corruption in Uganda, Kenya, Tanzania and Ethiopia (World-Bank, 2010). As a result, the councillors' procurement responsibilities were taken away and given to an independent body (Uganda, Ethiopia, Tanzania and Kenya). However, councillors still retained its oversight functions (World-Bank, 2010).

Empirical literature suggested that varied factors influenced the quality of public sector procurement systems. These include; regulations and procedures; competence, integrity and professionalism of procurement staff, autonomy, transparency and accountability, coordination, competition, internal controls, information technology, records management, management styles, sanctions for non-compliance and external pressure from citizens. For example, Juma (2012) found that poor procurement performance in the public procuring entities has been a problem due to lack of compliance to procurement regulations, lack of adherence to procurement procedures, lack of professionalism in undertaking procurement activities and lack of transparency in tendering process. Likewise, Gunasekaran (2005) pointed out that even though various studies focus on procurement performance many procurement activities suffer from neglect, lack of direction, interference, poor co-ordination, lack of open competition and transparency, differing levels of corruption and most importantly not having a cadre of trained and qualified procurement specialists, who are competent to conduct and manage such procurements, in a professional, timely and cost-effective manner. Matto (2017) assessed the factors that contribute to the poor performance of procurement functions in local government authorities in Tanzania using secondary data. The study revealed that Local Government Authorities (LGAs) procurement performance faces serious challenges about weak internal control, lack of staff capacity, and lack of integrity.

Shiundu and Rotich (2014) evaluated the factors influencing the efficiency of procurement systems at the City Council of Nairobi (CCN) in Kenya using a descriptive method and quantitative analysis. From the findings, employee competence, information technology, records management

and management styles influenced procurement efficiency at CCN (Shiundu and Rotich, 2014). Ngugi and Mugo (2012) also studied the internal factors affecting procurement process of supplies in the public sector, through a survey of Kenya Government Ministries using a descriptive design. The findings revealed that accountability, ICT adoption and ethics affected procurement process of health care supplies in the public sector to a great extent. On the other hand, Vluggen *et al.* (2019) focused on how external forces can hold municipalities accountable for sustainable procurement using semi-structured interviews in three mid-sized Dutch municipalities. The results showed legal guidelines and regulations were ineffective in the absence of penalties in case of non-compliance. Real pressure stemmed from lobbying by branch organisations and political pressure initiated by citizens. In addition, contrast with the New Public Management principles, municipalities appear to place more emphasis on legal and financial accountability, in contrast to performance accountability (Vluggen *et al.*, 2019).

Patrucco, Luzzini and Ronchi (2016) investigated the architecture of Public Procurement (PP) Performance Measurement Systems (PP-PMSs) in local governments, drawing on four case studies from Italy and four from Wales. They found that efficiency and cost Key Performance Indicators (KPIs) are predominant. Also, due to the regulative nature of PP, as well as the rigid policy and procedures set by local governments themselves, compliance is often included in PP-PMSs. They generally referred to the type of bidding process used for awarding a contract (for example, ‘number/value of procurement contracts awarded using non-competitive procedures/open/restricted procedure’) (Patrucco, Luzzini and Ronchi, 2016).

Quality and time dimension was not so diffused in Public Procurement Performance Management Systems (PP-PMS). Sustainability measures were not diffused either and usually referred to mandatory aspects to be monitored and reported (for example; %s of spending with local suppliers). Finally, innovation measures were not included in any PP-PMS explored, suggesting that, despite the emphasis given to this dimension, current PP-PMS are lagging (Patrucco, Luzzini and Ronchi, 2016).

Local governments usually set metrics for measuring procurement activities executed outside the procurement department in cases of hybrid and decentralised configurations, particularly for

monitoring the cost and the compliance area. Thus, the study concluded that cost metrics represent a relevant area of PP-PMS, but need to be placed aside other measures (especially compliance metrics, closely linked to internal procedures and external regulation) (Patrucco, Luzzini and Ronchi, 2016).

Kasisi, Benjamin and Mwangi (2015) carried out a study to establish the factors affecting the performance of the procurement function in government organizations and specifically, the National Oil Corporation of Kenya using both qualitative and quantitative research designs. The key findings of the study indicated that government regulations affected procurement performance such as following procurement rules and regulations. Open tendering is the most advocated method of acquiring goods and services in government organizations. The study established that there are various risks associated with e-procurement. For instance, hacking of confidential information. The recommendations entailed the need to employ procurement officers with professional qualifications, offer training to the workers and opportunities for further education, strong control of e-procurement system to improve flow and access of information.

#### **2.5.2.4 Expenditure Internal Controls**

Sound payroll internal controls are essential since the wage bill is usually one of the biggest items of government expenditure. This requires an integration of payroll and personnel records, updated personnel databases, and verifications (PEFA-Secretariat, 2016a). Changes to payroll records should be timeous, restricted and result in an audit trail. Also, payroll audits are essential (PEFA-Secretariat, 2016a). Computerised payroll has also been viewed as a catalyst in enhancing payroll administration in Nigerian local government (Elekwa and Eme, 2013). However, fraud and other frivolous activities by payroll officers resulted in workers losing confidence in the payroll systems (Elekwa and Eme, 2013). Lack of qualified staff was also found to hinder the implementation of sound internal controls in Croatia (Ott and Bajo, 2002).

Internal controls over non-salary expenditure were also essential. This entailed proper segregation of duties, commitment controls, payment procedures and controls (PEFA-Secretariat, 2016a). Manuals and instructions, routine reports, inventory checks, training and staff awareness meetings, investigations and corrective action were also crucial (PEFA-Secretariat, 2016a). Commitment

controls were also increasingly automated (Pattanayak, 2016). Proper authorisations, documentation, and verifications were found to be key in a successful payment control system in Albania's local government (Gurraj *et al.*, 2002).

#### **2.5.2.5 In-year budget adjustments and Reports**

To maintain budget credibility and ensure fiscal discipline in the management of resources, adjustments to the budget during the year should be restricted, controlled and done in a transparent manner (PEFA-Secretariat, 2016a). These in-year adjustments are done in the form of virements and supplementary or revised budgets (Venkateswaran, 2014). A supplementary budget is done when unforeseen events result in the need to include additional or remove expenditure items or revenue initially budgeted for. For example, in Estonia's local government, a supplementary budget could be adopted if actual revenue is higher than budgeted revenue (Ainsoo *et al.*, 2002). On the other hand, virements are simply a budget reallocation of funds between budget line ministries, programs, policy areas, expenditure categories, or line items. They do not affect the total level or composition of budgeted expenditure (Saxena and Yläoutinen, 2016).

In-year budget adjustments usually follow clearly defined rules and procedures. For example, in Estonia, supplementary budgets follow the same rules and procedures as the main budget (Venkateswaran, 2014). However, a review of PEFA assessments in 87 emerging and developing countries revealed that extensive, frequent, and opaque in-year changes of the approved budget continued to be the norm in many countries (Saxena and Yläoutinen, 2016). This was argued to undermine the budget's relevance as a government's principal policy and financial planning instrument (Saxena and Yläoutinen, 2016).

Regimes for managing budget virements also differed widely across countries. Most countries allowed the executive to make virements while a few required the changes to be authorised by the legislature (Saxena and Yläoutinen, 2016). On the other hand, nearly 75 per cent of the countries in the PEFA assessments reviewed, did not have clear rules in place for in-year amendments to the budget. Also, some countries allowed the expansion of total expenditure (Saxena and Yläoutinen, 2016). In South Africa, Virements were permitted within a vote from one program to another, subject to a limit of 8 per cent of the original allocation under the giving program (Saxena and

Yläoutinen, 2016). On the other hand, in Croatia, the percentage limit was 5 per cent (Ott and Bajo, 2002).

In-year budget reports are also required to facilitate performance monitoring and, to help identify the action needed to maintain or adjust budget plans (National-Advisory-Council-on-State-and-Local-Budgeting, 1998; PEFA-Secretariat, 2016a). Such reports contain information on budget execution that includes revenue and expenditure data. These, budget updates should be disclosed in a timely and regular basis (quarterly basis at a minimum) (Schaeffer, 2005). However, in-year budget reporting practices varied across the world. For example in Uganda's local government, the finance committee received and reviewed monthly financial statements (World-Bank, 2010). On the other hand, in Tanzanian local government, committees monitored the implementation of projects and service provision in their areas by meeting quarterly and reviewing reports presented by staff and also toured projects (World-Bank, 2010). In Ethiopia, there was monthly reporting and quarterly reviews. However, it was argued that the reviews were not through. Similarly, in Kenya, quarterly reports and reports by a full council (World-Bank, 2010). In Hungary, quarterly and semi-annual reports were prepared (Szalai *et al.*, 2002). This was also the case in Croatia (Ott and Bajo, 2002). In Albania, the reports were sent to various levels of government including the parent Ministry of Local Government (Gurraj *et al.*, 2002).

#### **2.5.2.6 Financial Data Integrity Internal Controls**

Data integrity is the overall accuracy, completeness, and consistency of data. Ensuring data integrity is an important part of internal control and a foundation for good information for management and external reports (PEFA-Secretariat, 2016a). This requires constant checking and verification of the recording practices of accountants (PEFA-Secretariat, 2016a). Reconciliation of bank accounts, suspense accounts and advance accounts is considered essential in ensuring financial data integrity (PEFA-Secretariat, 2016a). These reconciliations should be done regularly, for example, weekly for bank accounts and monthly for others (PEFA-Secretariat, 2016a). All outstanding items should be investigated and cleared. Also, access to information, including read-only, and changes to records by creation and modification should be restricted, recorded and controlled. Audit trails also constitute an important aspect of data integrity as they enable individual accountability, intrusion detection, and problem analysis (PEFA-Secretariat, 2016a).

### **2.5.2.7 Internal Audit**

The internal audit function is part of an organisation's management control structure. The internal audit office audits lower-level units on behalf of management. Among its most important functions, internal audits test the management controls themselves and assists senior management in assessing risks and in developing more cost-effective controls (Schaeffer, 2005). Such a function should use a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (PEFA-Secretariat, 2016a).

Internal audit function was considered to be an essential component of effective local administration despite various limitations. For example, in Tanzania, Tulli (2014) found that the Internal Audit General and internal audit units were perceived by local government actors to be the crucial institutions towards effective local authorities. Similarly, a study of the effectiveness of local government internal audit in Rwanda also revealed that there was a significant relationship (correlation) between internal audit and budget process and execution in the Musanze District Office (Harelimana, 2018). In concurrence, a study undertaken in the Nigerian local government found out that internal audit impacted positively and significantly on the financial management of the Katagum local government (Gololo, 2018). Unfortunately, in Estonia, the internal audit function, only existed in some local governments (Ainsoo *et al.*, 2002). Also, collusions, manipulations, absence of due diligence, low capacity, financial problems, personal interests and lack of independence were found to hinder the effectiveness of internal audits units in Tanzania (Tulli, 2014). Similarly, Mbewu and Barac (2017) found through a qualitative study in Vhembe district, in South Africa that resource restrictions, absence of quality assurance, and lack of support from management impaired the effectiveness of the internal audit unit. As a result, the participants held mixed perceptions of the effectiveness of internal audit function (Mbewu and Barac, 2017).

The issue of the effectiveness of internal audit is indispensable because it will create improvement in the government entities (Unegbu and Kida, 2011). Therefore, Arena and Azzone (2009), Chaveerug (2011) and Mihret, James and Joseph (2010) emphasized the need for future studies to examine the factors that influence internal audit effectiveness and the possible interactions among them. In this vein, many studies that have been conducted on internal audit effectiveness give more concerned in companies' hotels, banks and few public sectors within the state level which their

internal audit is a little bit more effective than those of local government (Badara and Saidin, 2013). Similarly, Johnsen and Vakkuri (2001) noted that local government auditing has been less studied and reported in the literature. The Institute-Of-Internal-Auditors (2012) defined the following nine elements as essential for an effective public sector audit activity: (i) organisational independence, (ii) a formal mandate, (iii) unrestricted access, (iv) sufficient funding, (v) competent leadership, (vi) objective staff, (vii) competent staff, (viii) stakeholder support, and (iv) professional audit standards.

Empirical studies found that auditor independence, auditor competence and stakeholder support were essential factors in internal audit effectiveness. For example, Musah, Gapketor and Anokye (2018) examined factors that determine internal audit effectiveness among State-Owned Enterprises (SOEs) in Ghana. Similarly, Shamsuddin, Manjieggar and Kirupanangtan (2014) qualitatively examined the factors that influence the effectiveness of the internal auditors' functions in public sectors in Malaysia using semi-structured face-to-face interviews conducted on eight internal auditors from three government ministries as well as an auditor from the Auditor General (AG) office. Both studies found out that the competency of the auditor, auditor independence and stakeholder support had a positive relationship with internal audit effectiveness. Nurdiono and Gamayuni (2018) also carried out a study to provide empirical evidence on how the internal auditor's competency can affect internal audit quality in local government in regency/city of Lampung Province in Indonesia, by using path analysis of Partial Least Square (PLS). The result of the study gave empirical evidence that internal auditor (inspectorate) competency (competent staff) positively and significantly affects internal audit quality.

In addition to independence, competence and stakeholder support, other studies also found that professionalism and size of the internal audit unit and local authority also positively correlated with internal audit effectiveness. For example, Ahmad, Othman and Othman (2010) examined internal and external factors influencing the effectiveness of the internal audit department (IAD) in the public sector, namely the Malaysian local authorities. Using survey data from heads of internal auditors and internal audit staff of Malaysian local authorities, the results of the study revealed that independence of IAD, competency, professionalism, size of the local authority, coordination between internal and external auditors, top management support have a positive

influence of effectiveness of IAD. On the other hand, audit committee reviews of internal audit proposal and audit committee reviews of the results of internal audit activities negatively influence the effectiveness of IAD. Similarly, Ariga and Gathogo (2016) quantitatively examined the factors that influence the county government of Nakuru (in Kenya)'s internal audit efficiency. The study found that the following factors influenced the effectiveness of internal audit; organisational independence of the audit committee, professional efficiency of auditors, management support to internal audit and size of the internal audit function. Ahmad *et al.* (2009) also analysed the effectiveness of internal audit in Malaysian public sector, using simple percentage for data analysis found the lack of audit staff is ranked as the major problem faced by internal auditors in conducting effective internal auditing.

In addition to the factors above, other studies also found that legislative support, application of professional audit standards, professionalism and auditor experience also positively correlated with internal audit effectiveness. For example; MacRae and Van-Gils (2014) analysed the condition of the public sector worldwide regarding the elements that are necessary to establish an effective internal audit activity. The study included responses from 2,824 public sector practitioners from 107 countries (out of a total of 13,500 individual respondents). The study found that legislative support, political interference, and relationship with the audit committee influenced the effectiveness of the internal audit. Similarly, adherence to auditing standards and code of ethics and regulations in force in carrying out the audit is a measure of the quality of audit for internal auditors (Zeyn, 2018).

Independence, experience, professionalism and internal controls were also found to be the key by some studies. For example, a study by Ziegenfuss *et al.* (2006) examined the determinants of internal audit performance. Internal audit performance was measured based on audit report timeliness and perceptions of internal audit function performance. The findings showed that administrative and to a less extent functional reporting arrangements appear to influence internal audit performance. Additionally, experience and professional certification seem to affect internal audit performance, particularly concerning auditee ratings. Similarly, Welay, Rosidi and Nurkholis (2019) quantitatively examined the effects of competence, independence, work experience and internal control systems on internal audit effectiveness in Maluku Provincial Inspectorate in

Indonesia. The results showed that competency did not affect audit quality. Independence has a positive effect on audit quality, the auditor who is always objective in carrying out the audit process will produce a quality audit. Work experience has a positive effect on audit quality, the more experienced the auditor, the easier it will be to detect audit problems. The internal control system can strengthen the relationship of competence, independence and job satisfaction with audit quality, this shows that a good internal control system will support the creation of quality audits.

The establishment of the Internal Audit Unit to control internal funds and other LGAs systems and structures signifies the reforms taken by the government in Tanzania. Also, the changes resulted from the creation of the Council Finances and Administration Committee as a watchdog of all financial and administrative activities of the Council conforms to principle number seven of NPM of Stressing on greater discipline and economy in resource use (Yusuph and Guohua, 2017).

A synthesis of the literature above reveals a consensus on the importance of internal controls in local government PFM. However, varied systems, processes and institutions were put in place in different jurisdictions to achieve this end. This study endeavoured to bring into perspective the experiences, practices and expectations of decentralised local governments in a developing country.

## **2.6 Budget Monitoring and Evaluation**

### **2.6.1 Local Government Annual Reporting**

Annual budgetary government financial reports are critical for accountability and transparency in the PFM system. Financial reports include both the annual financial statements and the budget execution reports produced by the government (PEFA-Secretariat, 2016a). These should be complete and consistent with generally accepted accounting principles and standards (PEFA-Secretariat, 2016a). One of the key contentious issues in public sector financial reporting has been the financial reporting framework or standards applicable (PEFA-Secretariat, 2016a). Certain countries have their own public sector financial reporting standards. On the other hand, others use accounting standards for the private sector, while some use international standards such as IPSASs (PEFA-Secretariat, 2016a). However, Wynne (2012) found no internationally accepted 'best practice' for government financial reporting which had been widely implemented. However, a

review of Sub-Saharan governments revealed the following key qualitative criteria of public sector financial reports; timeliness, understandability, openness and consistency (Wynne and Mear, 2016).

The International Public Sector Accounting Standards (IPSASs) form an authoritative set of standards tailored to the public sector (IPSASB, 2015). The benefits claimed for adopting IPSASs include; prestige and respect, cross-country and cross-entity financial statement comparability (Okolieaboh, 2013). Also in Europe, it was argued to be more efficient to make use of the knowledge of the IPSASB, rather than reinventing the wheel (Christiaens, Reyniers and Rollé, 2010). The downside was that the adoption was expensive in all material respects; so expensive that some experts have contended that its much-advertised benefits did not justify the cost of its implementation (Okolieaboh, 2013). Okolieaboh (2013) argued that IPSASs made a triumphant entry into Africa and Africa has, in turn, embraced IPSASs (Okolieaboh, 2013). For example, in Tanzania (Tulli, 2014), South Africa and Kenya (Okolieaboh, 2013).

In contrast to the positive effect of adopting accounting standards in the public sector, Pilcher (2011) found out that the adoption of IFRSs in local government in Australia was as a result of coercive isomorphism. The study also found out that the philosophy behind NPM, especially that espousing the benefits of public sector reporting in a private sector vein, may not be as relevant to Australian local government as the policymakers would have people believe (Pilcher, 2011). Similarly, BrusCa, Gómez and Montesinos (2013) clarified the situation of IPSASs implementation in the Latin-American context as well as the stimuli for and effects of their implementation. The analysis showed that there is an emerging international trend to adopt IPSASs in Latin-American countries although, at the same time, there were evident obstacles to achieving reform goals. In Colombia, reforms were still underway and the usefulness of IPSASs to improve decision-making at an organisational level could not be evaluated. Meanwhile, in Peru, the modernisation was more rhetorical than real and many efforts remained to be made for the effective implementation (BrusCa, Gómez and Montesinos, 2013).

Government financial reports assist governments in fulfilling the accountability function. Accountability, in a general sense, is a responsibility of stewards or agents to provide relevant and reliable information relating to resources under their control. For governments, accountability is the government's responsibility to justify to its citizenry the raising of public revenues and to account for the use of those public resources. Accountability information can be used to support decision making, but it also fulfils the citizenry's right to know how public resources have been spent (GASB, 2006). On the African continent, openness in budget processes is aimed at explaining the paradoxical situation where natural resources are abundant but poverty and donor support are increasing (United-Nations-Economic-Commission-for-Africa, 2005). Thus, the annual financial statements and budget execution reports should be timeously made available to all stakeholders (PEFA-Secretariat, 2016b). Chalam and Ng'eni (2017) assessed the role of financial reporting in enhancing financial accountability in local governments in Tanzania using quantitative methods. Among other things, the study found that the quality of financial reporting is very significant in enhancing the financial accountability of Tanzanian local governments.

Varied public sector reporting systems, institutions and processes have been established in various countries. For example, local authorities in Tanzania moved from manual accounting to a computerised accounting system and adopted the International Public Sector Accounting Standards (IPSAS). In Tanzania, the adoption of IPSASs was perceived to make local authorities produce more competent financial reports, accompanied by increased disclosure, which was very useful to users for their decision making (Tulli, 2014). Also, financial reports were supposed to be presented within three months from the end of the year to the Controller & Auditor-General for audit (Mzenzi and Gaspar, 2015). On the other hand, in Nigeria, late submission of accounts was one of the impediments that saddled the Auditor-General in the course of presenting audit reports (Ijeoma and Nwufo, 2015).

Dissemination of financial and performance information to stakeholders was also considered crucial. Formal mechanisms included; reports, brochures, newsletters, and newspapers (Schaeffer, 2005). For example, in the USA, annually, a local government produced an audited Comprehensive Annual Financial Report (CAFR) reporting on its financial status (Carlee, 2008). In Uganda, local government councillors played a critical role in enforcing reporting (World-Bank,

2010). Understandability of the information was more important than its quantity. This was observed in Albania (Gurraj *et al.*, 2002) and Estonia (Ainsoo *et al.*, 2002). In Estonia, stakeholders had easy access to performance information to effectively participate in the activities of the council. Some channels of publicity were prescribed by law; for example, websites while other channels were developed by the local authorities on their initiative (Ainsoo *et al.*, 2002). Similarly, in Croatian local government, the budgets and accounts of local units were published in the official gazettes of the units. Reports for the preceding year were also sent to the Local Government Ministry by the end of January (Ott and Bajo, 2002). It was also essential for performance indicators to be calculated and reported by the local authority (Gurraj *et al.*, 2002).

Gaspar and Mkasiwa (2014) investigated the use of performance information by local government stakeholders in Tanzania. The principal research findings revealed that some of the performance information may not be collected at all as advocated in the rules and regulations issued by oversight bodies; some may be collected for their intrinsic value, and some may be collected and used for legitimacy and efficiency purposes. It was also revealed that stakeholders' power and interest influence the collection and/or use of performance information for either efficiency and/or legitimacy purposes

Nkundabanyanga *et al.* (2013) state that compliance with legislation is directly proportional to the quality of financial statements; since the strong enforcement of regulations will reduce the occurrence of fraud in compiling financial statements that eventually will improve the quality of the financial statements. Inchausti (1997) assessed the influence of the legal framework on financial statements quality in Spain. The result showed a strong influence of the legal framework in disclosing financial statements information even before required by the law. The information required in a generally accepted accounting system has been used by several firms a year before the regulations related to the financial reporting is enacted (Inchausti, 1997). The results of the Torres and Pina (2003) emphasized that compliance with accounting standards improved the quality of local government financial reporting at the U.S. and Spain.

Several previous types of research have studied determinants in the form of variables that affect the quality of the financial statements of government entities. Nevertheless, the findings of those previous researches have not been fully consistent. Nkundabanyanga *et al.* (2013) examined the

effect of accounting standard, the legal framework on the quality of financial statements by government ministries in Uganda. The result mentions the occurrence of positive effects of the government accounting standard or legal framework on the quality of the financial statements of the Government of Uganda. Afiah and Azwari (2015) who conducted a study on the effect of internal control system on the quality of financial statements and its impact on good governance in the public sector have concluded that internal control provides a positive influence on financial statements quality and ultimately also brings positive impact on good governance. The results of the Nogueira and Jorge (2012) showed the important role of internal control in the adequacy of the local government financial reporting model in Braganca, Portugal. The results of the study by Agbenyo, Jiang and Cobblah (2018) showed that that risk assessment of the internal control system is a significant determinant of financial reporting quality in the Ghana Revenue Authority. Conversely, the results of Johnson et al. (2018) shows that internal control has no effect on financial reporting quality government in Florida, United States.

Yosefrinaldi (2013) has shown an empirical finding that human resources capacity factor, technology utilization factor, and internal control factor affect the quality of the financial statements of government entities. Inayati (2015) concludes her empirical finding in the work units of Public Service Agency of the education sector that factors of the internal control system, technology utilisation, accounting system, and organizational commitment have positive effects on financial statements quality. Those findings are not in line with empirical research done by Maladewi (2016) which concludes that only the application of standards and technology utilisation have effects on the quality of financial statements; whereas internal control reliability, organisational commitment, and human resources competence do not influence the government entities' financial statements quality. Likewise, Panasa (2015) also concluded that internal control and human resources competence do not affect the quality of government entities. The results of Christiaens (1999)'s study showed the effect of the quality of human resources accounting staff on the level of financial reporting compliance of local government in Belgium shows mixed results. Accounting staff quality as measured by indicators of graduates from provincial school or taking accounting training has a positive effect, but if measured by indicators of education level, professional organisational membership and experience have no significant effect. In contrast, the results of the study of Da Costa Carvalho *et al.* (2007) showed that the quality of human resources

that is proxied by the number of employees have a negative influence on the level of compliance of local government financial reporting in Portugal.

On the other hand, Ratmono (2019) analysed through questionnaires and quantitative analysis, the factors hypothesized to affect the quality of central government entities' financial statements in Indonesia. The results showed that compliance with state financial management regulations, quality of human resources, reliability of internal control systems, and utilisation of information technology provide positive effects on the quality of the financial statements of central government entities. This finding indicates the importance of those determinant factors to improve accountability in managing state finances.

There was consensus in the literature on the need for a government to report on the results of its budget execution and implementation. However, the experiences and expectations varied across jurisdictions. The central issues focused on the availability of the information to the public, reporting on performance, and also the adoption of IPSASs. This study sought to evaluate the experiences and expectations of decentralised local governments concerning these issues in government reporting.

### **2.6.2 Local Government External Auditing**

Audits are the final phases in the budget cycle. An audit is an examination of records, facilities, systems, and other evidence to discover or verify the desired information (Mikesell, 2011). The audit seeks to discover deviations from accepted rules and practices and bring out instances of any illegal or irregular transactions or decisions. Audits aim at holding management accountable and preventing a repetition of inappropriate actions in the future (Venkateswaran, 2014). Good governance requires regular financial and performance reporting that is validated for accuracy by an independent auditor (Rosa and Morote, 2015).

The discussion surrounding the significance of auditing in the public sector can be viewed from the dimension of the rational-instrumental perspective or the cultural-institutional perspective. Rational-instrumental systems theories are premised on the principal-agency perspective (March and Olsen, 1989). In this sense, auditing is a control system devised to ensure delegated tasks are carried out effectively with mutual benefits for both the principals and agents (Jacobides and Croson, 2001). In the public sector, the parliament is the agent of the people, the government and

the SAI are agents of parliament. The SAI controls public administration on behalf of parliament (Lægreid, 2014). However, overemphasis on compliance and rules in auditing might lead to gaming, defensiveness, excessive caution, discouraging innovation and ignoring results (Behn, 2001; Bemelmans-Videc, Lonsdale and Perrin, 2007). Some authors, therefore, argue that audits should, therefore, emphasize on learning (Bemelmans-Videc, Lonsdale and Perrin, 2007; Bovens, 2007; Gendron, Cooper and Townley, 2007; Mohan and Sullivan, 2006) and improved performance and results (Bemelmans-Videc, Lonsdale and Perrin, 2007).

On the other hand, cultural-institutional theories assert that the importance of auditing and audit recommendations depends on whether they fit into the norms and appropriate conduct in public sector organisations (March and Olsen, 1989). Auditing is important if it ensures survival and legitimacy of a public institution (Meyer and Rowan, 1977b). This assertion is based on institutional theory (Scott, 2008). Thus, assessments in the SAI reports must be compatible with the institutions' own opinion about changes that need to be made to have an impact; otherwise, the audited entity could be resistant to change (Christensen *et al.*, 2007).

The empirical findings on the effectiveness of auditing in the public sector have been mixed. For example, in Nigeria, Salawu and Agbeja (2007), found that audit in the public sector did not enhance accountability because internal controls were very weak, audit procedures were ineffective and there was political interference (Salawu and Agbeja, 2007). Similarly, in Tanzanian local government, (Mzenzi and Gaspar, 2015) also found out that external auditing had only marginally contributed to the enhancement of accountability. This was mainly attributed to the limited scope, failure to address audit recommendations (Mzenzi and Gaspar, 2015) and collusion between executives and external auditors (Tulli, 2014).

The effectiveness of external audit is influenced by several factors. According to empirical findings the challenges included; lack of qualified staff and another technical capacity; lack of financial resources; lack of political will or a lack of enforcement power and lack of demand on the part of civil society and the media (Lawson, Chiche and I., 2012; Migliorisi and Wescott, 2011; Mills and De Lay, 2016). For example, in the Hungarian local government, many external auditors had no professional background in budgeting and had only limited information on the special requirements of the public sector (Szalai *et al.*, 2002).

To ensure objectivity, the external auditor should be independent of the authority, control or influence of any individuals including government executives and their agencies. Independence is regarded as a fundamental and indispensable requirement since without it the objectivity and credibility of the auditor are undermined (Department-of-Economic-and-Social-Affairs, 1999; INTOSAI, 1998). Mautz and Sharaf (1964) advocated recognition of three dimensions of auditor independence, namely; (i) programming independence, (ii) investigative independence, and (iii) reporting independence. Programming independence means the auditor should have the freedom to determine audit programme and audit procedures. On the other hand; investigative independence encompasses; free access to all records, procedures, and personnel; active co-operation from the management; freedom to specify activities to be examined and acceptability of audit evidence; and absence of conflict of interest on the part of the auditor (Clark, De-Martinis and Kiraka, 2003; PEFA-Secretariat, 2016a; Vanasco, 1996). Lastly, reporting independence means freedom to report freely without; being required to modify the impact of reported facts, the pressure to exclude significant matters from the audit report, obligation to modify the impact or significance of reported facts. Also, clear language should be used in the audit report and there should be no attempt to overrule the auditor's judgement (Clark, De-Martinis and Kiraka, 2003; PEFA-Secretariat, 2016a; Vanasco, 1996).

In some countries, the Supreme Audit Institution (SAI) has the authority to act at the lower levels of government. On the other hand, in other countries, the local audit is performed by contracted private firms (Bac, 2007; Schaeffer, 2005). For example, in Estonia's local government, the auditor was selected at an open competition (Ainsoo *et al.*, 2002) while in Albania, it was performed by an arm of the central government (Gurraj *et al.*, 2002). Similarly, in Croatia (Ott and Bajo, 2002) and Tanzania (Mzenzi and Gaspar, 2015) every local authority was audited by the National Auditing Office.

The three main external audit models are first; the Westminster model, also known as the Anglo-Saxon or Parliamentary model. This is found in The United Kingdom and most Commonwealth countries including many in sub-Saharan African, a few European countries such as Ireland and Denmark, Latin American countries such as Peru and Chile. Secondly; the Judicial or Napoleonic model which is found in Latin countries in Europe, Turkey, francophone countries in Africa and Asia, several Latin American countries including Brazil and Colombia. Lastly, the Board or

Collegiate model which is common in some European countries including Germany and the Netherlands, Argentina, Asian countries including Indonesia, Japan and the Republic of Korea (DIFD, 2004).

Under a Westminster model, the work of the Supreme Audit Institution (SAI) is intrinsically linked to the system of parliamentary accountability. The basic elements of such a system are (i) authorisation of expenditure by Parliament; (ii) production of annual accounts by all government departments and other public bodies; (iii) the audit of those accounts by the SAI; (iv) the submission of audit reports to Parliament for review by a dedicated committee – normally called the Public Accounts Committee (PAC); (v) issue of reports and/or recommendations by the PAC; and (vi) government response to PAC reports (DIFD, 2004). On the other hand, under the judicial model, the SAI is an integral part of the judicial system operating independently of the executive and legislative branches. It is likely to have only a limited relationship with the national Parliament (DIFD, 2004). Under the collegiate or Board system, the SAI has several members who form its college or governing board and take decisions jointly. Collegiate audit bodies normally are part of a parliamentary system of accountability (DIFD, 2004).

Another essential consideration in public sector external auditing is the scope of the audit (PEFA-Secretariat, 2016a). It is recommended that government audit should be wide enough to cover both financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources. This is because of the special accountabilities attached to public money and the conduct of public business (Audit-Commission, 2010). Thus, there appears to be a paradigm shift from the previous focus on legal compliance and the prevention of fraud (English and Guthrie, 1991). The reason for expansion is closely related to changes in the structure of government and concern for more accountable and transparent governance (Salawu and Agbeja, 2007). Thus the scope of the audit is generally broader than for private sector entities (Bac, 2007).

Johnsen *et al.* (2001) found that in Finland and Norway, both auditors and auditees perceived performance audit to function as a useful, rational public management tool (Johnsen *et al.*, 2001). On the contrary; in Tanzania, Mzenzi and Gaspar (2015) found that although the Controller & Auditor-General (CAG) was mandated to perform; regularity audit, forensic audit, performance audit and other types of audit, it was only the regularity audit which was commonly conducted

(Mzenzi and Gaspar, 2015). Similarly, in Croatian local government, auditing of the budgets of local governments implied an audit of regularity and an audit of effectiveness. However, it was mainly regularity audits that were carried out (Ott and Bajo, 2002). In Hungary also, the main problem of the work of the Hungarian State Audit Office (SAO) was the infrequency of the compliance audit and the lack of the performance audit (Szalai *et al.*, 2002).

PEFA-Secretariat (2016a) also recommended that government entities should be audited using International Standards for Supreme Audit Institutions (ISSAIs) or consistent national auditing standards. ISSAIs are considered more authoritative in the public sector (INTOSAI, 1995) and can be applied to local governments as well as central government (Bac, 2007). Empirical findings indicated that for the audit of local governments, external auditors used both International Standards for Auditing (ISAs) issued by the International Federation of Accountants (IFAC) and International Standards of Supreme Audit Institutions (ISSAIs) issued by the International Organization of Supreme Audit Institutions (INTOSAI). For example, this was done by the Controller & Auditor-General of Tanzania (Mzenzi and Gaspar, 2015).

Systems, institutions and processes for external audit reporting are also considered essential in PFM (PEFA-Secretariat, 2016a). Government audit reports serve the interests of elected members representing the citizenry, higher-level government for supervision and the public in general (Bac, 2007). The audit report is in two forms; namely; short-form auditor's report (with an overall opinion) and the long-form auditor's report (with detailed findings) (Bac, 2007). The timeliness of submission of the audit report(s) on budget execution to the legislature, or those charged with governance of the audited entity, is also a key element in ensuring timely accountability of the executive to the legislature and the public (PEFA-Secretariat, 2016a).

To maintain and increase the audit quality, a variety of internal and external environmental factors need to be focused. Prior research work highlighted different factors which affect audit quality such as audit tenure, top management support, auditor's qualification, physical working conditions, job autonomy (Baron and Greenberg, 1990; Lowensohn *et al.*, 2007; Zahargier and Balasundaram, 2011). The competency, satisfaction and integrity of the auditor determine the level of audit quality (DeAngelo, 1981).

A study of 28 accounting firms in Indonesia revealed that independence, experience and level of accountability had a significant effect on the quality of audit (Suyono, 2012). Al-Khaddash, Al Nawas and Ramadan (2013) studied the determinants of audit quality in Jordan and found that the salary of auditor, independence, competency and qualification of auditor and the reputation of auditor significantly affected the audit quality. Adeyemi, Okpala and Dabor (2012) researched Nigeria in which educational level of auditors, length of tenure and extent of auditor's participation in advising auditee affected the audit quality. Baharud-din, Shokiyah and Ibrahim (2014) raised the importance of independence of auditors, objectivity and management support in increasing the audit quality.

A case study analysis of audit irregularities in South Africa indicated that auditor's ethics to report audit findings, active whistleblowing, and financial influence of auditee, adequate documentation and process, awareness of audit importance, personal commitment and sense of responsibility affected the audit quality (Maroun, 2015). Lowensohn *et al.* (2007) proved that the level of auditor's specialization in government auditing significantly affected the audit quality.

Besides these quantitative approaches, qualitative research work has been conducted on government auditors of Pakistan in which massive corruption, limited time available for audit, lack of human, financial, communicational and technological resources, lack of training for auditors, use of manual auditing system, lack of autonomy on the job, the unacceptable behaviour of audited bodies and lack of top management support were the key antecedents behind low audit quality (Masood and Lodhi, 2015).

In developed countries like Australia and the UK, lack of resources is a big antecedent behind poor audit quality of national audit offices (Hedger and Blick, 2008). Lack of training in national audit officers is another variable which affects audit quality in west Australian countries (Chong *et al.*, 2001). Like other countries, national audit offices of Estonia deprive of resources and top-level commitment without political influences (Van Zyl, Ramkumar and De Renzio, 2009).

The national audit offices of Israel, promotional and career development opportunities and top management support were found to have a significant effect on audit quality (Cohen and Sayag,

2010). Mihret and Yismaw (2007) regarded management to support an effective tool to enhance audit quality in Ethiopia.

A synthesis of the empirical literature on public sector auditing revealed that various factors affected its effectiveness. These factors included; resource availability, the competence and integrity of the auditor, professionalism, top management support, physical and institutional environment, political factors and institutional support. For example, Charles and Oluoch (2017) quantitatively examined the factors that influence the effectiveness of the auditor general's oversight role in Kenya's PFM system using questionnaires, descriptive and inferential statistics. The results indicated that the statutory position of the Auditor, institutional management of the Audit Office, resources availability and audit processes were significant in influencing the effectiveness of the external auditor. Similarly, in Kenya, Matendera (2013) assessed the factors affecting public audit institutions performance with a focus on the Kenya National Audit Office (KENAO). The study established that in trying to carry out its functions, KENAO was affected by various factors that included inadequacy of resources, inadequate knowledge on issues such as corporate governance, lack of adequate training and development, professionalism, and integrity issues.

Masood and Afzal (2016) explored the factors in the work environment which affect the audit quality in Pakistan's public sector using both quantitative and qualitative approaches. The study found out that the physical work environment, the performance of auditors and top management support were positively and significantly affecting the audit quality (Masood and Afzal, 2016). In Malaysia, Hussain (2011) reported that educational background, experience and professional competence are significantly related to the effectiveness of government auditing. On the other hand, in Eastern European countries, Bayou, Reinstein and Williams (2011) document that the mandate, independence and institutional environment of the state supreme audit institutions can exert a strong influence on their effectiveness. While Whittington and Pany (2004) demonstrated that both political competition and frequency of power alternation affect the independence of the audit bodies and thus are significantly related to the activism and autonomy of the latter.

A synthesis of the literature above revealed that external auditing was an essential component of local PFM. However, systems, processes and institutions varied across jurisdictions. The overarching issues were; the auditor, auditor independence, auditing standards, the scope of the audit, and timeliness and transparency of audit reporting. This study endeavoured to capture the experiences and expectations of fiscally decentralised local governments in developed countries concerning these issues.

### **2.6.3 Legislative Scrutiny & Oversight**

The legislature has a key role in exercising scrutiny over the execution of the budget that is approved. A common way in which this is done is through a legislative committee(s) or commission(s) that examines the external audit reports and questions responsible parties about the findings of the reports. The full chamber of the legislature should also scrutinise audit reports before the executive can formally respond (PEFA-Secretariat, 2016a). The timeliness and depth of the legislature's scrutiny, are also key factors in the effectiveness of the accountability function (PEFA-Secretariat, 2016a). Furthermore, legislative scrutiny of audit reports should be transparent in terms of public access (PEFA-Secretariat, 2016a).

#### **3.5.1.1 Audit (financial oversight) Committees & Council Oversight**

The audit committee (or financial oversight committee) is believed to be the most logical avenue for local governments to enhance auditor independence and satisfy the growing demands for services with limited resources (Vanasco, 1996). A survey of municipal officers of 164 cities revealed that the audit committee activities ranked highest by administrators involved: (i) facilitating the audit and (ii) helping to maintain auditor independence (Sharp and Bull, 1992).

The logic of financial-oversight committees (audit committees) is to mitigate principal-agent problems in PFM. From a principal-agent perspective, financial managers are self-interested agents who can exploit information asymmetries to shirk their duties (resulting in mismanagement) or sabotage the organisation (leading to opportunities for fraud) (Brehm and Gates, 1999). Financial-oversight committees are created to decrease information asymmetry and thereby improve the principal's control over financial agents. Financial-oversight committees are expected to decrease information asymmetry in two ways: (i) by increasing supervision of financial activities (monitoring function) and, (ii) by ensuring the accuracy of financial, auditing and

reporting to increase stakeholder confidence that financial reports are valid representations of the organisation's actual financial condition (signalling function) (Evans-III and Patton, 1987).

In their monitoring role, financial-oversight committees are responsible for evaluating accounting practices and internal controls, investigating allegations of financial mismanagement and monitoring criminal investigations into fraud. If financial-oversight committees are successful at performing their monitoring role, local governments should have a lower incidence of internal control problems (Matkin, 2010a). In their signalling role, financial-oversight committees serve the interests of various stakeholders who seek accurate information on the financial condition of the governments with which they associate. Such stakeholders include citizens, grant providers, business developers, and municipal bond investors. Financial-oversight committees perform their signalling role by ensuring the selection of competent and independent external auditing firms to conduct annual audits of government finances and, at times, participating in those audits (Denison, 2000).

The audit committee is an essential control mechanism in various local governments. For example, in Estonia (Ainsoo *et al.*, 2002), USA (Matkin, 2010a), Tanzania (Tulli, 2014) and Kenya (World-Bank, 2010). Municipalities with audit committees were associated with fewer internal control problems (Rich and Zhang, 2014). However, in the USA, West and Berman (2003) found that the use of audit committees in local government was very uneven. Most cities did not have audit committees and those that had varied considerably in the range of activities such committees performed (West and Berman, 2003).

The effectiveness of local audit committees is essential and also depends on several factors (Matkin, 2010b). Studies of the effectiveness of audit committees in the public sector governance are limited. Specifically, only a small number of research articles related to local government audit committees (Thomas and Purcell 2018). However, there is considerable support and guidance from the oversight agencies for public sector audit committees. Principles of audit committee effectiveness cited in literature include; composition, authority and resources (Thomas and Purcell 2018). In terms of composition; financial expertise, independence and diligence are important attributes for successful audit committees (Galvez, 2003). On the other hand; Gauthier

(2006) emphasized; independence, financial expertise or access to independent financial experts and the functions performed by the committee (Gauthier, 2006).

The composition of the audit committee should ensure independence and competence. The Government Finance Officers Association (GFOA) recommends that although audit committee members must be selected from the governing board of an entity; managerial staff should not be included (Government-Financial-Officers-Association, 2006). This ensures independence by preventing a conflict of interest in the monitoring and reporting of financial activities (Elder, Kattelus and Ward, 1995). Unfortunately, an evaluation of the audit committees in the government ministries in Namibia, also found that only one ministry consisted of independent members as well as an independent chairperson, while 3 ministries were chaired by members within their organisations (Kandandu, Beukes and Benedict, 2015). This resulted in chances of conflict of interest and complacency due to the lack of independence (Kandandu, Beukes and Benedict, 2015).

Also, to function properly, financial-oversight committees must have a basic understanding of the financial activities and reports that they seek to oversee (Krishnan, 2005). However, government officials often indicate that finding willing individuals with sufficient expertise is very challenging (Matkin, 2010b). As such, governments can also improve the financial expertise of these committees by allowing its members to consult with financial experts when necessary. Thus, an audit committee should have a good mix of audit members with the right skills, expertise and competencies (Richardson and Baril, 2003), including in accounting, internal controls and auditing (McMullen and Raghunandan, 1996). Furthermore, training should be offered where necessary (Rittenberg and Nair, 1993). Unfortunately, an evaluation of the audit committees in the government ministries in Namibia, found that there was clear evidence of lack of accounting / financial /auditing competence among the committee members which resulted in weak internal controls (Kandandu, Beukes and Benedict, 2015).

Empirical results on the composition of audit committees in local authorities are varied. On a positive note, in the Hungarian local government, most financial committees had external members, and many of them were financial or tax experts (Szalai *et al.*, 2002). On the contrary, in Estonia's local government, the biggest problem faced by the audit committees was the lack of

competence of its members, and as a result, the audit committees did not function properly (Ainsoo *et al.*, 2002). Similarly, in Tanzania, councillors' incompetence was also perceived to contribute to internal overseeing organs' inefficiencies because of low educational qualifications (Tulli, 2014). Also in Uganda, no academic qualifications were required for councillors and other political heads, except the district chairperson. Similarly, in Tanzania, Ethiopia and Kenya there was no educational requirement to become a councillor (World-Bank, 2010). In Estonia's local government, each council established an audit committee with at least three all internal members. However, the composition of the committee was political requiring coalitions and opposition parties to be represented (Ainsoo *et al.*, 2002).

On the other hand, in terms of authority; the audit committee also requires a supportive atmosphere from top management (Kalbers and Fogarty, 1998) and unrestricted access to auditors (Rittenberg and Nair, 1993). Thus, audit committees in the public sector should be given sufficient authority to perform activities that may improve the organisation (Matkin, 2010a).

Independence is also achieved by providing financial-oversight committees with adequate and appropriate resources. This enables them to sufficiently investigate and pursue all concerns; even those that are contrary to the interests of the supporting organisation (Hughes, 2002; Matkin, 2010a; Rittenberg and Nair, 1993). Unfortunately, empirical results found that councillors in Uganda, Tanzania, Ethiopia and Kenya were also found to be poorly facilitated with regards to finances and infrastructure facilities (World-Bank, 2010).

For financial-oversight committees to be effective, they must also engage in productive activities rather than members participating only in symbolic form for building resumes as was found by The 1999 Blue Ribbon Committee on Improving the Effectiveness of Corporate Auditing Committees (Gendron and Be´dard, 2006). The audit committee should also be diligent concerning their three domains of oversight; namely, financial reporting, external auditors and internal control (McMullen and Raghunandan, 1996). Furthermore, the audit committee should enhance the internal auditor's independence to provide unfettered advice (Purcell, Francis and Clark, 2014). Regular meetings (McMullen and Raghunandan, 1996) and review of the assessment process (Rittenberg and Nair, 1993) should be conducted.

Other personal, behavioural and institutional traits were also considered important in ensuring the success of audit committees. For example, diligence is enhanced by the effective leadership and style of the audit committee chairperson (Spangler and Braiotta-Jr, 1990). In support, a survey of American local governments explained that requirements on audit committees stressed positive character traits more than technical knowledge and professional certification (West and Berman, 2003). Furthermore, excessive administrative control and multiple uncoordinated oversight activities created undue transaction costs and diminished the discretionary space local governments operated in (World-Bank, 2010). Audit charters were also considered essential (GFOA, 2008; West and Berman, 2003). In South Africa, the Auditor-General of South Africa also attributed the accountability failure in local government to political infighting at council level, leadership's inaction, or inconsistent action and absence of rewards and sanctions; in addition to staff and resource shortage (Auditor-General-South-Africa, 2018).

It was also essential for local government councillors to oversee the work of local executives (technocrats)(World-Bank, 2010). World-Bank (2010) studied how local government councillors oversee local administration through a cross-country analysis of four East African countries, namely; Uganda, Tanzania, Ethiopia and Kenya. The study found that, except for Ethiopia, in the other three countries there was a clear separation of the legislature (elected councils) and the executive (bureaucrats). Also, in all four countries' local governments, councils had standing committees to oversee specific aspects of the administration (World-Bank, 2010).

Various avenues of social accountability also existed in local authorities in African countries although they suffered from many limitations. For example, village meetings were used in Uganda and Kenya, although they suffered from irregularity. Also, in Kenya, there was no legal requirement for local governments to provide citizens with information on council operations. In Ethiopia, there were periodic public assemblies held in villages. (World-Bank, 2010). Disseminating local government information through notice boards and newspapers seemed more common in Uganda and Tanzania compared to Ethiopia and Kenya. However, the use of the radio was common in all four countries (World-Bank, 2010). User committees, which were represented, supported and overseen by councillors also provided a link between local authorities and the stakeholders (World-Bank, 2010).

### **3.5.1.2 Parliamentary Oversight**

In some countries, Parliament oversees local authorities through a parliamentary committee commonly known as the Public Accounts Committee (PAC) or similar. Findings from statistical analyses show that effective Public Accounts Committees (PACs) correlate strongly and positively with a country's level of good governance. Also, PACs make a positive contribution to accountability and good governance. Statistical evidence also pointed to PACs being most successful when acting as catalysts for improving policy implementation and ensuring the availability of government information to parliament. They are less frequently catalysts for changes to legislation or for prosecuting officials who break the rules (Mills and De Lay, 2016; Pelizzo, 2011; Stapenhurst and Pelizzo, 2005).

Factors contributing to the success of PACs included focusing on governments' financial activity and accountability rather than evaluating the content of government policies. Also, a broad mandate and freedom to choose what to investigate also enhanced PAC effectiveness. Furthermore, the committee needed the power to follow up on whether the government had taken steps to implement recommendations and also have a close working relationship with Auditor-General. External demand for effective PACs, adequate technical support, nonpartisan functioning of the committee, media coverage and public involvement also enhanced effectiveness. Barriers to effective PACs included capacity constraints, principally in terms of the skills of PAC members and the size of PACs' staff; lack of legal powers to demand responses and pursue prosecutions; lack of political support to carry out the PAC's mandate; and internal political issues such as partisan behaviour on the part of members (Mills and De Lay, 2016).

To strengthen accountability and transparency, a Parliamentary Committee, the Local Authority Accounts Committee (LAAC), was reformulated to oversee the local authorities' accounts in Tanzania (Mzenzi and Gaspar, 2015). It also followed-up on the audit recommendations raised by the Controller & Auditor-General (CAG). It picked up on the Controller and Auditor General (CAG)'s report and tasked executives about the anomalies found (Tulli, 2014). The committee presented its findings to the National Parliament for resolution (Mzenzi and Gaspar, 2015). On the other hand, in South Africa, the effectiveness of the PAC was hindered by various challenges. These included; lack of implementation of resolutions made by the PAC and varying audit reports

(since some audits are done by the Auditor-General while others are done by third-party auditors contracted by the Auditor-General). Also, there was lack of effective monitoring and transparency of the public sector organisations, capacity constraints (shortage of staff and lack of appropriate skills and knowledge) and also financial constraints (Makhado, 2016).

It was also crucial to hold local government public officials accountable for their actions. Nyman, Nilsson and Rapp (2005) surveyed and analysed the chain of accountability to be reviewed by auditors. Their study used a principal-agent theory to understand and structure the complex accountability situation in local governments. They highlighted that it was the opinion of most people that an agent who failed in the performance of her/his mission should be held accountable. The study, however, identified the problems that may arise when holding persons accountable in complex accountability situations where there was more than one principal-agent link (Nyman, Nilsson and Rapp, 2005).

### **3.5.1.3 Handling of Audit Recommendations**

The legislature needs to issue recommendations and systematically follow up on their implementation. The responsible committee may recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors. 'Systematically' is defined as where a system for tracking recommendations exists and it is used to record recommendations and to record an action or lack of action taken on recommendations. Also, for every recommendation, the executive and the legislature should be notified during subsequent hearings whether recommendations have or have not been implemented (PEFA-Secretariat, 2016a).

Also, there should be an effective and timely follow-up on external audit recommendations or observations undertaken by the executive or audited entity. Evidence of effective follow up of the audit findings includes the issuance by the executive or audited entity of a formal written response to the audit findings indicating how these will be or already have been addressed, for example, a management letter. Follow-up reports may provide evidence of implementation by summing up the extent to which the audited entities have cleared audit queries and implemented audit recommendations or observations (PEFA-Secretariat, 2016a).

With regards to audit recommendations, in their studies in Nigerian Local government and Zimbabwean government ministries; Ijeoma and Nwifo (2015) and Gideon and Tawanda (2012) pointed out that public sector audit was very important. However, audit recommendations were not dealt with seriously by responsible management. Also, light punitive sanctions for the misconduct of public officials was identified as a factor impairing the effectiveness of the Auditor-General (Ijeoma and Nwifo, 2015).

Kwamena Aikins (2012) carried out a study to determine the impact of local government's internal audit process on the audit client management's adoption of audit recommendations. A survey of local government audit executives was conducted to determine various aspects of the local government internal audit process and their relationships with audit client management's adoption of audit recommendations. The findings showed that the local authority management's adoption of audit recommendation was determined by the auditor's professional designation, due diligence, client relations, documentation and tracking of audit recommendations, as well as of follow-up audits to verify the implementation of agreed-upon action plans.

In Norway, a study analyzed survey data from 217 civil servants of the auditees' tendency to make changes as a consequence of Supreme Audit Institutions' performance audits. The findings revealed that civil servants who had experienced performance audits responded that ministries and agencies tend to make changes as a result of performance audits, but instrumental, institutional, and political factors also have an effect on the institution's propensity to make changes (Reichborn-Kjennerud and Johnsen, 2015).

Thus, there is a consensus in the literature on the need for legislative scrutiny and oversight. However, systems, processes and institutions put in place to achieve these varied across jurisdictions. The overarching issues were; audit committees, the effectiveness of internal oversight through councillors and external oversight through parliament. This study sought to add the voice, experiences and expectations of experts in fiscally decentralised local governments of developing countries.

Kendie (2018) investigated the determinants of effective PFM in Agricultural Department of North Shoa Zone Administration, Amhara National Regional State, Ethiopia, using quantitative approaches through questionnaires, descriptive statistics, and inferential statistics (correlation and

regression). The study found that budgeting, accounting and reporting, internal control, external auditing, and leadership have a significant effect on the effective public financial management of the Agricultural Department of North Shoa Zone Administration. Based on the results of the study the researcher concluded that leadership is the most influential variable of effective PFM in this department followed by internal control and budgeting. The researcher recommended further research by the other researchers including other public organisations (Kendie, 2018).

Boex and Muga (2009) explored the relationship between local financial management performance on one hand, and local management practices and local governance in Tanzania's local government using quantitative approaches. The study found that councils with better financial management practices (for example, stronger internal audits), better planning and budget processes, and better project implementation practices achieve better local financial management outcomes. Also, the empirical analysis reveals that local political conditions and other local circumstances such as the poverty level and the urbanization rate also play an important role in determining local financial management performance in Tanzania.

Tsheletsane and Fourie (2014) analysed factors that affect the effectiveness of public financial management in South Africa. The study found that many factors hindered public financial management and accountability, including the high turnover rate of accounting officers and parliamentary committees such as the Standing Committee on Public Accounts (SCOPA), and a lack of political will.

Leiderer *et al.* (2007) examined how the Poverty Reduction Strategy Programme (PRSP) approach and decentralisation efforts interact with each other by studying constraining factors in Malawi's Public Financial Management at central and local government level using qualitative approaches. The study found that capacity issues (lack of adequately qualified staff in key positions for PFM, insufficient equipment and financial resources and shortcomings in organisational and human resource management) (Leiderer *et al.*, 2007), lack of resources for administrative PFM processes, poorly coordinated and unaligned donor activities, poor coordination between government ministries, departments, agencies and levels, and lack of political commitment to sound PFM (Leiderer *et al.*, 2007) negatively affected the performance of PFM systems.

## **2.7 Chapter summary**

This chapter presented a review of literature related to local government PFM systems, processes and institutions. Knowledge gaps were identified in the process. Chapter 3 discusses the theoretical framework of the study. The literature review discovered that mostly PFM systems operated based on best practice and a few studies have been done into the systems, institutions and processes that are ideal for specific types of government entities. The literature on decentralised local government was limited and most of the studies adopted quantitative approaches. Also, most studies specialised on single components of the PFM rather than taking a wholist approach.

## **CHAPTER 3: THEORETICAL FRAMEWORK**

### **3.1 Introduction**

Public Financial Management (PFM) is a multidisciplinary concept. Although it lacks a coherent theory of its own, its study has drawn theory from economics, business and political science. This chapter reviewed the policy implementation theories, modern management theories, and public expenditure management models. An analysis was made as to how these different theories try to explain the systems, institutions and processes that determine the quality of Public Financial Management (PFM) in general.

### **3.2 Policy Implementation Theories**

Public policy is the guide to action. A policy entails the broad statement of future goals and actions and expresses the ways and means of attaining them (Khan, 2016). The success of an adopted public policy depends on how successfully it is implemented. One of the problems of successful policy implementation is that it lacks in proper direction or guidelines or theory on how to implement it. There is a consensus amongst the scholars that the discipline of policy implementation suffers from viable, valid, and universally accepted grand or good theories (Hill and Hupe, 2014). One of the reasons why there is no such grand theory in implementation because as a discipline it is still in its infancy (Goggin *et al.*, 1990). Also, the theoretical development of the discipline of implementation has been restricted because research in that domain has been seriously overlooked (Khan, 2016). Furthermore, the implementation of a particular policy is very much context-specific as it depends upon political, social, economic, organisational and attitudinal factors (Stewart, Hedge and Lester, 2008), and it also varies considerably over time, across polices, and from one state to the next(Goggin *et al.*, 1990).

Implementation studies, therefore, emphasize understanding the success or failure of public policy by elaborating on factors that affect it. This concept of implementation helps to draw the attention of policymakers and implementers to study the processes that influence and establish the outcome of public policy (Bempah, 2017).

The first-generation studies were primarily concerned towards describing numerous barriers to effective policy implementation (Stewart, Hedge and Lester, 2008). However, first-generation studies have been criticised for being atheoretical, case-specific and non-cumulative (Goggin et al. 1990). Also, it is argued that theory building was not at the heart of first-generation research (Khan, 2016).

The second-generation implementation scholars, on the other hand, worked on the development of analytical frameworks to guide research on the complex phenomenon of policy implementation (Khan, 2016). The second-generation studies were thus more concerned with explaining implementation success or failure (Stewart, Hedge and Lester, 2008). Second generation studies are broadly classified into top-down and bottom-up approaches of policy implementation (Stewart et al., 2008).

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For example, Van Meter and Van Horn (1975)'s top-down model depicts six variables to shape the linkage between policy and performance. Firstly, there have to be clear policy standards and objectives from policymakers at the central government level, performance indicators and performance evaluation established from central government. Secondly, policy-makers should avail resources which facilitate the administration of policies. Thirdly, there should be proper intergovernmental/inter-organisational communication of policy objectives, standards and performance indicators from the top. Also, there should be adequate measures to enforce compliance by lower-level government officials. Technical advice, assistance, follow-up activities, sanctions and rewards are recommended in this respect. Procedural requirements, such as thorough reporting and accounting systems, management reviews, audits, and other feedback mechanisms can also be used (Van Meter and Van Horn, 1975).

The characteristics of implementing agencies (local authorities) are also argued to influence the success or failure of policy implementation. These include the size and competence of the local authority's staff, political resources and support for the local executives and networks of communication within the local authority and central government. Also, the economic, social and political conditions affecting the local authority are perceived to influence policy implementation, together with the disposition (or perceptions of the implementers) (Van Meter and Van Horn, 1975).

Conversely, the bottom-up approach emphasises the role of administrators at the local level who are directly involved in the implementation following their responsibility to accomplish the policy's aims and objectives (Birkland, 2005). The bottom-up advocates make a focus on policy implementers at the local level (street-level bureaucrats) (Lipsky, 1980). Lipsky (1980)'s concept views street-level bureaucrats as the real policymakers and enhance the understanding of how discretionary powers and decisions made by policy implementers affect its successful outcomes. Unlike top-down approach, the bottom-up approach starts by identifying the network of actors involved in service delivery in the local area and asks them about their goals, strategies, activities and contact (Stewart, Hedge and Lester, 2008). It favours a decentralised approach to public administration (Khan, 2016).

Again, scholars tend to unify the two approaches or provide a hybrid one and argue that policymakers should employ policy instruments based on the structure of target groups (Goggin *et al.*, 1990). According to the hybrid approach, the implementation outcome is influenced by the central and local level factors (Goggin *et al.*, 1990). Both the top-down and the bottom-up approaches are criticised for their limited explanatory ability of the dynamics of implementation from their respective analytical frameworks (Stewart *et al.*, 2008), and no one has been able to validate the propositions derived from the earlier perspectives including the hybrid or synthesised one (Goggin *et al.*, 1990).

Third generation research attempted to bridge the gap between top-down and bottom-up approaches by incorporating insights of both camps into their theoretical models (Bempah, 2017). The goal of third-generation research was simply to be more scientific than the previous two in its

approach to the study of implementation. Emphasis was put on specifying clear hypotheses, finding proper operationalisations, and producing empirical observations to test the hypotheses (Khan, 2016). Third generation research attempted to confront directly the conceptual and measurement problems that have impeded progress in the discipline (Goggin *et al.*, 1990). In the circumstances, it is evident that the discipline implementation lacks in producing grand theory rather it has been flourished to its present level based on few theoretical models, frameworks or approaches. Therefore, many scholars of policy implementation now agree that the future phase of research in an implementation must be directed towards theory development (Stewart, Hedge and Lester, 2008).

Najam (1995) for instance reviewed the literature on implementation and came out with the “5C” protocols of implementation studies, which are policy Content, Context, Commitment, Capacity and Client and Coalitions.

### **3.3 Modern Management Theories**

#### **3.3.1 Agency Theory**

The agency relationship is an ancient and common codified mode of social interaction (Ross, 1973). An agency relationship is a contract, under which the principal engages another person (the agent) to perform specific projects on its behalf, delegating decision-making rights (Jensen and Meckling, 1976). The entity participating in the principal-agent relationship can be a person, entire groups of people, the state administration or an enterprise (Chrisidu-Budnik and Przedanska, 2017). The principal-agent relationship exists in the public sector. Government is an agent of the public because it collects funds from the public in the form of taxes (Masood and Afzal, 2016).

Moe (1984) depicts the relationship of principal and agent from the democratic politics point of view. The government that acts as an agent (both central and local governments) manages the public funds through State Budget. Consequently, the government is required to account for the management of these public funds through financial statements. The public, as the owner of the funds manifested through the payment of taxes, acts as a principal who has the right and authority to request the agent’s (government’s) responsibility. In this context, public as the principal is the

general community represented by Parliament. Based on this principle, the law then requires the government to account for the management of public funds to Parliament as the public representation. The citizens and the voters are regarded as the principal whereas the politicians, bureaucrats and the policymakers are considered to be the agents. The voters elect leaders and politicians, put them in positions of power and delegate decision making authority on them. These leaders are expected to make decisions and formulate policies meant to increase the wealth of the citizens and implement such plans for the betterment of their living standards (Mathenge, Shavulimo and Kiama, 2017).

One of the assumptions of the agency theory is that the principal and the agent have conflicting objectives to some extent (Daly, 2015). It is assumed in the classic mainstream of the agency theory that the agent operating on behalf of the principal has the information advantage (Chrisidu-Budnik and Przedanska, 2017). The information advantage (asymmetry of information) and the assumption of the existence of a conflict of interests between the principal and the agent can generate opportunistic behaviour on the part of the agent. Opportunism was defined by Williamson (1985) as the desire to implement one's interests. This is the agency problem (Zimmerman, 1977). Thus, the agent may succumb to selfish, opportunistic behaviour and falling short of congruence between the aspirations of the principal and the agent's pursuits (Jensen and Meckling, 1976). Wheelen and Hunger (2002) argued that the agency problem arises when management is not willing to take responsibility for where they have directed funds to achieve the desired goals. Thus, according to Jensen and Meckling (1976) the conflict of interest between the trust holder namely the government and the provider of the mandate namely the community. Sometimes a conflict of interest arises when these leaders are elected or appointed in these positions but seek to maximise their wealth and serve their own interests rather than the interests of the citizens who they are supposed to be serving (Mathenge, Shavulimo and Kiama, 2017).

This leads to the focusing of attention on issues of monitoring the activities of one of the parties to the relationship (Chrisidu-Budnik and Przedanska, 2017). To curb agent opportunism; systems, institutions and processes should be put in place *ex-ante* (before the conclusion of the contract), *in tractu* (during the performance of the provisions of the contract), as well as *ex-post* (after the end of the contract) (Williamson, 1985).

This conflict of interest may be solved by constant monitoring of decision making, policy formulation and implementation by the citizens to ensure their interests are put into consideration throughout the process. It may also be solved by offering incentives to good performing agents through re-election, reappointment and general public support. The poor performers may also be punished through the threat of replacement, dismissal and lack of support which may be through riots and public demonstrations or picketing (Mathenge, Shavulimo and Kiama, 2017). For example, Leruth and Paul (2006), argued that the principal-agency theory justifies the use of ex-post audits and ex-ante controls by the central government, and other external stakeholders to deter cheating by local authorities.

Public sector accountability is then defined as the obligation of an agent to be responsible for presenting the reporting and disclosure of all activities to the principal (Mardiasmo, 2006). Agency relations in the government view the executive as the agent who is obliged to convey financial statements to the principal (the public) represented by the legislature (Chalam and Ng'eni, 2017). Disclosure of public finance information via the internet can also be described by agency theory (Pina, Torres and Royo, 2010). More disclosure can weaken the information asymmetry and decrease agency problems for citizens (Jensen and Meckling, 1976). Therefore, the principal-agent theory links more disclosure of budget information with better public-sector governance (Benito and Bastida, 2009). The external auditor, in this case, is the agent, where the community is the principal. Auditors are required by the public to use their professional proficiency fully in carrying out the tasks covered. So, what is done will be following all the resources owned by the Auditor-General and this is accountability that can be accounted for to the principal / community (Febriana, Wardayati and Prasetyo, 2017).

Based on the perspective for agency theory, the nature and implementation of accounting systems and approaches must be regulated (Bastian, 2009). The Regulation as a rule of practise should be stated in the standard, and be adopted in the form of accounting policies of the organization. Accounting regulations limit the emergence of agency conflict in the form of moral hazard and adverse selection (Scott, 2006). Regulations goal is to achieve the degree of usefulness of information for users which is useful for decision support, and reducing the imbalance of information or information asymmetry (Eisenhardt, 1989). Similarly, according to DeAngelo

(1981), it is necessary to maintain the quality of the audit because it helps to minimize the agency problem in the public sector. So, the audit quality is a mechanism to strengthen/weaken the public trust (Masood and Lodhi, 2015).

### **3.3.2 Institutional Theory**

The institutional theory explains how organisations are influenced by their environmental context (DiMaggio and Powell, 1983a; Meyer and Rowan, 1977a; Zucker, 1987). It can be a useful lens to explore current public management challenges, as it suggests that achieving legitimacy through conforming to key stakeholders' expectations takes primacy over achieving efficiency (Ashworth, Boyne and Delbridge, 2009).

Proponents of institutional theory, an advance that the behaviours of management and other stakeholders as well as organisational practices are influenced and shaped by the values and interests of the institutional environment (Adhikari and Mellemvik, 2011; Carpenter and Feroz, 2001; Collin *et al.*, 2009). Thus, organisations sometimes legitimise themselves by adopting rules and practices that are socially relevant from their institutional environment, sometimes regardless of their usefulness to the institution itself. The search for legitimacy persuades organisations to adopt those rules and practices that are being accepted. In doing so, organizations are rewarded with extended legitimacy, increased resources, and survival capabilities (Rahaman, Lawrence and Roger, 2004).

Organizations' tendency towards uniformity concerning their institutional environment was called by DiMaggio and Powell (1991) as "isomorphism". The process by which organizations tend to adopt the same practices and structures over time, in response to institutional pressures (to self-defence when facing problems for which they do not yet have their solutions), is named institutional isomorphism (Nogueira and Jorge, 2016).

Legitimated norms and practices are transported to organisations through isomorphic pressures categorised as mimetic, coercive, and normative (Connolly, Reeves and Wall, 2009; DiMaggio and Powell, 1983a). Coercive isomorphism results from formal and informal pressure exerted on organisations by other organisations and society's expectations, in a shared legal, economic and

political context. It also arises from formal and informal pressure exerted by the State, which leads organisations to decide to adopt a certain practice. Normative isomorphism arises from the professionalisation which forms a set of delimited norms and procedures for a specific occupation or activity. This type of isomorphism occurs as the result of shared values and ideas about suitable behaviour, often spread through professional and academic groups. On the other hand, imitative isomorphism occurs in conditions of uncertainty and diminished stability, when organisations imitate practices already tested and successful in other similar organisations (DiMaggio and Powell, 1991; Nogueira and Jorge, 2016).

Since organizational activities are strongly motivated by legitimacy seeking behaviour, the search for legitimacy has often proved more important than rational decision-making processes (Awasom, 2019). Meyer and Rowan (1977b) argue that by promoting legitimacy, institutional isomorphism increases the success and survival of organisations. For example, information disclosure becomes a symbol of trust and modernity to project an image of good governance and transparency (Rodríguez Bolívar, Alcaide Muñoz and López Hernández, 2013). This isomorphism is also performed to improve the quality of the financial statements carried out by the government (DiMaggio and Powell, 1983a). Determinant variables of financial statements quality such as compliance with financial management regulations, internal control reliability, human resources quality, and information technology are the forms of the isomorphism (Ratmono, 2019).

The neo-institutional theory also argues that legitimised structures and practices, transferred through one or more of the isomorphic mechanisms, have decoupled in actual organisational practices. The term “decoupling” explains a scenario where formal structure or practice is separated and distinct from actual organisational practice. The concern for legitimacy often encourages organisations to engage in “window dressing” by creating an institution for ceremonial purposes (Awasom, 2019). How and Alawattage (2012), for instance, demonstrate how organisations have used accounting technologies to appear legitimate and yet these accounting technologies have remained a ceremonial tool. The notion of decoupled accounting has become a key phenomenon in less developed countries (Simpson, 2012).

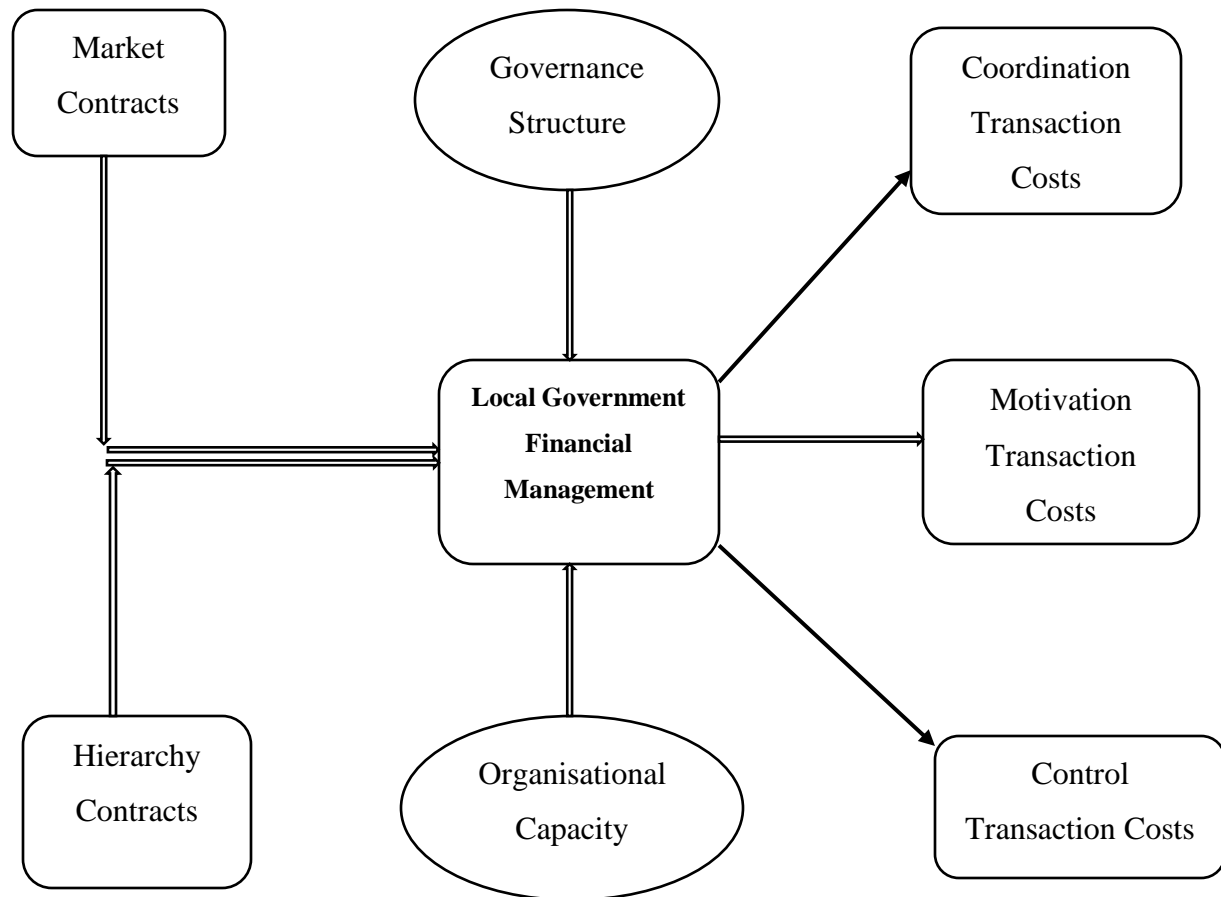
### **3.3.3 Contingency Theory**

The contingency theory is a theoretical perspective of organisational behaviour that emphasizes the way contingencies or restrictions, such as size, environmental uncertainties, technology and environmental pressures, affect organisations' development and functioning (Chenhall, 2003; Thomas, 1991). It tries to identify the relationships between an organization's internal and external characteristics and its management capacity (Ryan, Stanley and Nelson, 2002).

Thus, regarding PFM systems, the contingency theory is based on the argument that there is no universally appropriate system which applies equally to all organisations in all circumstances (Otley, 1980). Therefore, there is not a universal model of a PFM system suitable for and applicable to all organisations and circumstances (Anessi-Pessina, Nasi and Steccolini, 2008). Organizations will have to adopt PFM practices seeking a better adjustment between their administrative systems and contingency factors (Anessi-Pessina, Nasi and Steccolini, 2008; Woods, 2009). The design of a new PFM system will depend on the organisation's capacity to recognise and adapt to changes as a function of external and internal factors (Nogueira and Jorge, 2016). This theory is concerned with styles of management and situations of the environment (Brownell, 1982; Otley, 1980). Brownell (1982) described contingent factors to include: (i) cultural and legal factors, (ii) organisational factors, which include; stability, the environment, technology, uncertainty of tasks and organisational structure, (iii) interpersonal factors, which include styles of leadership, task characteristics, and group characteristics.

### **3.3.4 Transaction Cost Theory**

The transaction cost theory recognises that several costs are relevant in managing government finance, such as ordering, holding and outage costs in inventory management. There is a need to strike a balance in these costs to achieve the usually conflicting objectives associated with liquidity, security, and return in cash management (Bartle and Ma, 2004). The transaction cost theory of PFM is shown diagrammatically in Figure 3.1 below. This was followed by an explanation of the components of the theory.



**Figure 3.1: Components of the Transaction Cost Theory to Public Financial Management (PFM)**

*Source: Adapted from Bartle and Ma (2001)*

### 3.3.4.1 Contracting Issues in PFM

Any issue that can be argued to be contracting can be addressed using transaction theory. In this regards, PFM involves many contracting issues and can therefore be addressed using transaction cost theory (Williamson, 1993). In applying transaction cost theory to management, three basic management functions have been identified. These are coordination, motivation and control (Milgrom and Roberts, 1992). There are transaction costs associated with each management function.

#### **3.3.4.2 Coordination Transaction Costs**

The efficient management of financial transactions requires the application of specialisation and division of labour amongst different government agencies. This necessitates coordination between various government agencies, departments and the private sector. Coordination can be achieved through either a market mechanism or hierarchy mechanism. Each mechanism results in a different collection of transaction costs. A market mechanism is used when the government agency or department transacts with firms in the private sector. In this case, transaction costs associated with coordination problems arise from the need to determine prices and other details of the transaction, to make the existence and location of potential buyers and sellers known to each other, and to bring the buyers and sellers together to transact (Milgrom and Roberts, 1992).

The transaction costs of coordination in a hierarchy mechanism include the costs of transmitting up through the hierarchy the initially dispersed information that is needed to determine an efficient plan. They also include gathering the information to determine the plan to be implemented and then communicating the plan to those responsible for implementing it. In addition to the more common direct costs of compiling and transmitting information, these costs also include the time costs of delay while the communication is taking place and while the centre is determining the plan (Milgrom and Roberts, 1992).

Transaction cost theory postulates that coordination costs are determined by the attributes of contractors and the nature of financial transactions. For example, coordination costs will be higher in situations where; agent opportunism is greater, financial transactions are complex, uncertain or connected and when information distribution is asymmetric (Bartle and Ma, 2004). Sometimes coordination costs are determined by the nature of the institutions involved. For example, in a system of multiple principals where checks and balances and separation of powers exist, coordination costs are higher (McKinney, 1995). Insufficient or inaccurate information also increases transaction costs (Milgrom and Roberts, 1992).

#### **3.3.4.3 Motivation Transaction Costs: Ex Ante Incentive Alignment**

In PFM, motivation is very important because of the existence of opportunism and the need for coordination. Opportunistic behaviour occurs where one party takes advantage of his superior

knowledge, to further his/her interests, by failing to disclose such information to the other party (Bartle and Ma, 2004). First, contractors need to be motivated to behave honestly. Contractors will be inclined to behave opportunistically when; financial transactions involve information asymmetry, transactions are infrequent, there are difficulties in measuring output and performance, and asset specificity exist. In these cases, motivation will affect performance. Second, as a result of specialisation, different sectors of PFM have different interests; therefore, various parts of the administration must be motivated to coordinate (Bartle and Ma, 2004).

Unlike the private sector which relies on market forces to ensure coordination, the public sector has to devote ingenuity and resources to bring coherence between individual self-interest and the social or organisational objectives (Milgrom and Roberts, 1992). A control mechanism that attempts to cause the preferences of principals and agents to converge should be put in place (Huang, 2002). Thus, motivation involves several transaction costs of designing and running a motivation system: the costs of measuring effort and performance of financial managers, information costs of designing an effective incentive contract, information costs of linking managerial efforts with financial outcomes, and costs of enforcing agreements to ensure that financial managers and contractors will honour commitments (Bartle and Ma, 2004).

Transaction cost theory fully recognises that motivation costs are high and that it is impossible to address and resolve all of the relevant contracting issues in advance. It emphasizes that optimal incentive contracts are costly to design and implement, and *ex-post* (performance evaluation after-action) governance structures are necessary. On the contrary, the agency theory stresses designing optimal incentive contracts in advance and *ex-ante* (motivation before action) incentive alignment (Williamson, 1990). The *ex-post* approach of minimising motivational transaction costs appears to be more realistic (Bartle and Ma, 2004).

#### **3.3.4.4 Control Transaction Costs: Ex Post Safeguard**

The need for control is widely accepted in PFM, although there is no agreement on the degree of control. The need for control arises for two reasons. Firstly, financial managers may behave opportunistically by serving their interests instead of those of the stakeholders. Secondly, effective motivation systems may be difficult to design and implement. For a government agency or

department, controlling expenditures includes external and internal control. External controls are exercised by outside agencies like the legislature, the executive office, the central bank, or others. Ideally, internal controls are the operational controls that supplement the goals of the central financial agency. Once the expenditure plan is approved, the government agency will turn to management and operational control processes (Premchand, 1993).

Control does not cost-free. To effectively control opportunism in PFM, information about spending and revenue collection agencies' behaviours is required. Moreover, a system of control over the budgeting unit and the central treasury is also needed because financial managers at this level may also be inclined to behave opportunistically by shirking and colluding with subordinates. Shirking refers to a situation where authorities avoid doing their duties, especially when they perceive them to be difficult. In sum, transaction costs occurring in control are mainly information costs and monitoring costs. Where opportunism is prevalent, transactions are specific, information distribution is asymmetric, transactions are complex and uncertain, and output or performance is difficult to measure; transaction costs of control will be high (Bartle and Ma, 2004).

The challenge in PFM is to design a governance structure and management tools to simultaneously solve coordination, motivation, and control problems. In this regards, governance structures and organisational capacity have to be taken into consideration.

#### **3.3.4.5 Governance Structures in Transaction Cost Management**

The underlying hypothesis of transaction cost economics is to align transactions (which differ in their attributes) with governance structures (which differ in their costs and competencies) in a transaction cost economising way (Williamson, 1990).

According to transaction cost theory, certain mechanisms are efficient instruments for achieving cooperation. These instruments include centralised coordination (Milgrom and Roberts, 1992) and credible commitment (Williamson, 1983). Firstly, centralised coordination means that it is necessary to develop a strong and effective central treasury and budgeting unit to coordinate various revenue collection and expenditure activities. This is even true when revenue collection and expenditures activities are fragmented and dispersed (Bosher, 1970; Rubin, 1998) and when

various government agencies established their autonomous funds (Caiden and Wildavsky, 1974). Secondly, credible commitment is vital for effective coordination because when each actor honours his contract, coordination is easy to attain (Bartle and Ma, 2004).

In control-oriented governance structures, there are three basic mechanisms of control: markets, bureaucracies, and clans (Ouchi, 1980). Market control relies on prices and competition, bureaucratic control relies on rules, while clan control relies on an informal network and a relatively complete socialization process that effectively eliminates goal incongruence between individuals (Riahi-Belkaoui, 2002). All three mechanisms are at work in PFM. Market control works in the cases of procurement and debt management, whereas clan control may operate through informal organisation within government agencies. But, most often controls in PFM rely on rules. To implement rule-based control systems will result in information costs in designing rules, transaction costs of informational dissemination, and measurement costs to detect financial mismanagement and corruption in enforcing rules. Moreover, although rules in PFM contribute to reducing transaction costs when they help to protect the public funds from opportunism, at a certain point additional rules will increase transaction costs of organising and managing financial transactions (Bartle and Ma, 2004).

#### **3.3.4.6 Organisational Capacity in Transaction Cost Management**

To understand the cost and competency variation of governance structures, it is necessary to draw on the recent rebirth of organisational capacity theory. The emergence of a firm can be explained by two dimensions of costs, namely: transaction costs and qualitative coordination costs (Langlois and Foss, 1999). Qualitative coordination costs have been a central topic of organisation capacity theory. This theory states that production knowledge has two dimensions: (i) organisation capabilities, that is, the knowledge about how to produce; and (ii) qualitative coordination, that is, the knowledge about how to link together the productive knowledge of people and organisations (Bartle and Ma, 2004).

### **3.3.6 Resource Dependence Theory**

The Resource Dependency Theory (RDT) emphasizes that Public, private and not-profit organisations are not self-sufficient. They all operate as open systems and constantly interact with the environment. They need to acquire resources from the environment. The problem is uncertainty in the environment where the resources come from, for example, emerging competition, which may limit the access to resources (Pfeffer and Salancik, 1978).

Pfeffer and Salancik (1978) argue that the organisation is particularly susceptible to the influence coming from these external interest groups (social players) which have resources that are critical for the organisation. In compliance with the resource dependence theory, one of the motivations behind the organisation's attempts to build relationships with stakeholders is the necessity to obtain resources possessed by stakeholders (Mitchell, Agle and Wood, 1997). The more critical a given resource is, the more power stakeholders can exercise over the organisation by sheer refusal to make the resource available to the organisation (Frooman, 1999). Besides, organisations take action to manage external interdependencies (either to minimise their dependence on others or to maximise others' dependence on them). Furthermore, a manager who can reduce uncertainty, help the organisation to obtain critical resources, and manage important environmental dependencies has more power as a result of ensuring organisational survival and success (Malatesta and Smith, 2014). On the other hand, the strategy of public organisations should be based on identifying stakeholder expectations and determining what resources the organisation should build and enhance to create the highest possible value for the stakeholder (Bryson, Ackermann and Eden, 2007). The environment is likely to consist of many other organisations; in essence, a system of interdependencies (Malatesta and Smith, 2014).

## **3.4 Public Expenditure Management Models**

### **3.4.1 Weber's Bureaucratic Management Theory**

Weber's theory of Bureaucratic Management emphasized on competent bureaucracies subject to control by statute and by judicial institutions (Kalimullah, Alam and Nour, 2012). Organisations consist of civil servants who adhere to formal general rules and regulations, work in circumscribed

jurisdictional areas in a hierarchical organisation of offices, use written documents, have adequate means, have non-ownership of office and adhere to strict official discipline and control (Albrow, 1980; Raadschelders and Rutgers, 1996; Weber, 1978). It also emphasizes on hierarchy, uniformity, legitimacy, standardisation of procedures, and division of labour (Weber, 1946). Rules are prescribed and impersonal to eliminate any arbitrariness or favouritism, thereby achieving equality of treatment (Albrow, 1980; Weber, 1968). Bureaucratic organisations also presuppose channels of command and communication; while the command flows from the top to the bottom of the hierarchy, communication flows in the reverse direction and takes the form of written documents and file keeping (Weber, 1947).

Clear rules on how civil servants should conduct themselves are very essential in the bureaucratic arena since they influence performance (Weber, 1947). Clear decision-making rules are typically seen as enhancing efficiency. The risk of misuse of public office and poor decisions are seen as higher, where there are less clear rules (Klitgaard, 1988). Clear decision-making rules are typically seen as enhancing efficiency (Klitgaard, 1988). Rules are also important for holding officials accountable. Rules internal to the bureaucracy may not be enforced unless there are control mechanisms and watchdog organisations. Audits, ombudsman institutions, anti-corruption commissions, public censure or courts are mechanisms that have been used to hold civil servants accountable (Hyden, Court and Mease, 2003).

The bureaucratic model also underscores that civil servants should have training in their field of specialisation (Albrow, 1980; Raadschelders and Rutgers, 1996; Weber, 1978). Civil servants are allocated to their jobs according to the skills, merits and qualifications required to occupy the position (Albrow, 1980; Weber, 1968). Thus, objective employment entry requirements are based on competence, competition and merit rather than personal contacts or illicit payments (Hyden, Court and Mease, 2003). On the contrary, African governments, have been accused of being more preoccupied with securing public employment than promoting the quality of the civil service. This has resulted in public employment being maintained and even expanded at lower skill levels (Hyden, Court and Mease, 2003). Further, African governments have become employers of last resort and dispensers of political patronage, offering jobs to family, friends and supporters (World-Bank, 1997). This contravenes the Bureaucratic Management Theory.

Weber (1968) argues that the bureaucratic model is privileged over both the traditional model; which rests upon compulsion and force and the charismatic model; which is fleeting and contingent. Weber also mentions that bureaucracy eliminates the social differences among people by allocating positions to them based on their qualifications rather than on their loyalty to rulers. Heugens (2005) also emphasized that the bureaucratic model allows for an effective allocation of resources for the accomplishment of tasks. It also repudiates random and haphazard decisions by shifting to a framework of accountability and legitimacy, through which decisions are to be taken according to calculable rules. The rationality of bureaucracy resides in maximising production and minimizing deficiency through the efficient and best use of means to achieve particular ends. However, regarding the state-society relationship, these bureaucratic models were criticised for their limited citizens' involvement and weak social participation (Hughes, 2003).

Although there are varied opinions about the extent to which participatory approaches can be accommodated with bureaucratic decision-making (Schaffer, 1969), bureaucracies need a definite measure of autonomy from both politicians and the public. It cannot afford to be responsive to every demand placed upon it. A degree of autonomy, therefore, seems to be helpful when it comes to formulating and implementing development strategies. Better bureaucratic performance is associated with greater power and autonomy of agencies to formulate policies, good career opportunities in the public sector and good pay of public servants (Hyden, Court and Mease, 2003).

### **3.4.2 New Public Management Theory**

The New Public Management (NPM) (Barzelay, 2001; Hood, 1991; Lane, 2000) gained strong momentum during the 1990s. NPM backed the idea that public organisations should steer rather than row and favoured the transfer of entrepreneurial/managerial techniques from the market/private sector to public institutions (Batley and Larbi, 2004), viewing citizens as customers. New Public Management (NPM) theory aimed to achieve a more business-like and performance-focused public sector (Hyndman and Connolly, 2011; Ofoegbu, 2014). It intends to reinvent and reengineer state-centred, bureaucratic and failed governments that were alleged to be morally bankrupt, wasteful and inefficient (Barzelay, 2001; Hood, 1991).

The classic formation of NPM has seven directions (Hood, 1991). It focuses on hands-on and entrepreneurial management that is opposite to the traditional bureaucratic focus of public administration. NPM explicitly sets the goals, standards and measures performances. It also emphasizes on resource allocation and rewards that are linked to performance. Another direction is it emphasizes on output control. Alongside, it focuses on the importance of disaggregation and decentralisation of public services, with devolved budgets. Moreover, there is a shift to the promotion of competition in the effective delivery of public services. This emphasizes on public tendering procedures and the introduction of market disciplines in the public sector. There is need for debureaucratization and operating the public sector on business-like principles. It also emphasizes greater discipline and economy in the management and use of scarce resources. Underpinning these different recommendations is the important requirement that public service agencies must pay much greater attention to how they use the financial and human resources at their disposal (Hood, 1994; Kalimullah, Alam and Nour, 2012). Çetin (2015) noted that NPM emphasized on strategic planning and management (explicit standards and measures of performance).

Public administration, according to the NPM ideology, needs more professional management. Politicians have a legitimate role as responsible for the overall goals of public sector organisations, but the implementation should be more exclusively left to professional managers (Kalimullah, Alam and Nour, 2012). NPM emphasizes on decentralisation, that is, moving decision making closer to the service recipients. It also underscores the importance of debureaucratization, that is, restructuring government to emphasize results rather than processes (Hughes, 2003). According to Gruening (2001), the most common attributes of NPM include accountability, customer satisfaction, performance auditing and management, decentralisation, privatisation, strategic planning and management, flexibility, separation of politics and administration, personnel management, contracting out, changed management style, improved financial management, and more use of information technology.

Outputs and outcomes should be measured, compared with benchmarks, and verified by value-for-money audits (Olson, Guthrie and Humphrey, 1998). NPM emphasizes that government ought to be community-owned and that the role of government is to empower citizens and communities to

exercise self-governance. This notion stands in contrast to the notion that citizens are merely recipients of public services and do not have to be actively engaged in the process of deciding what those services would look like (Osborne and Gaebler, 1993). Thus, NPM is about maximising the participation of the broadest possible number of people and institutions in the decision-making process. In this sense, it is anti-hierarchy and anti-bureaucratic. It is also anti-uniformity in that the way a particular public service is delivered is a function of the local community of participants who decide how that service will be delivered (Osborne and Gaebler, 1993). NPM also focuses on the concept of management. In this context, management refers to a separate and distinct activity that brings together plans, people, and technology to achieve desired results (Pollitt, 1998).

The mechanism for measuring the performance of all staff in the public sector is essential under NPM (Yusuph and Guohua, 2017). Objectives, targets, and indicators for employee's performance are signed every year. Open performance management tools in the public sector also conform to principle number two of *NPM of imposing standards and measures of performance explicitly through clarification of goals, targets, and indicators of success* (Yusuph and Guohua, 2017). Staff training was also found to essential under NPM (Yusuph and Guohua, 2017).

Adams and Smith (2008) also asserted that researchers hypothesize that e-government implementation is the result of New Public Management (NPM) and ultimately NPM seeks to make government more efficient. In compliance with the New Public Management school of thought, e-government initiatives seek to make governmental transactions more consumer-friendly, cost-effective and increase inter-organisational communication.

Decentralisation and public participation are argued to be in tandem with the initiatives and principles of NPM (Çetin, 2015). The new paradigm of NPM has been supported by stressing on the entailment of a result-oriented, accountable, effective, efficient, open and transparent administrative system (Çetin, 2015).

The implementation of NPM was accompanied by a great deal of criticism. Such criticism was levelled against its short-term perspective primarily on cost-minimising and budget reduction issues to the detriment of quality standards, especially in policy fields with a long-term impact on society, such as education, health and the environment (Larbi, 1999). Concerns were also raised

regarding democratic accountability (Terry, 1998), corruption, self-interested attitudes and the risk of eroding the ethics and the cohesion of the public sector (Dunleavy and Hood, 1994).

### **3.4.3 Public Governance/Service Theory**

Following the ideas of Rhodes (2012), the New Public Governance (NPG) theory views public management as the management of networks. Governance relates to the interaction process and its guidance whether it is called network management (Agranoff and McGuire, 2001) or meta-governance (Sorenson and Torfing, 2007). Thus, governance networks are an indication of more or less stable patterns of social relationships (interactions, cognitions and rules) between mutually dependent (public, semi-public and/or private) actors, that arise and build up around complex policy issues or policy programs (Koppenjan and Klijn, 2004). Governance then refers to the interaction processes that take place within those networks (Klijn, 2012).

The key characteristics of NPG theory are; (i) a strong focus on the inter-organisational dimension of policymaking and service delivery and the interdependencies of organisations in achieving policy aims and service delivery (ii) horizontal types of steering that are supposed to be better able to acquire cooperation from societal actors (Agranoff and McGuire, 2001) (iii) using the knowledge from societal actors to improve the quality of policy and public services and to make better use of information dispersed by various actors (enhancing quality and innovative capacity). (iv) the early involvement of societal actors, stakeholders and citizens' groups so that the legitimacy of decisions is enhanced (enhancing democratic legitimacy)(Sorenson and Torfing, 2007). Thus, through partnerships and interactive decision-making, NPG acquires, different relations between societal and (semi) private actors and governmental actors (Klijn, 2012).

Thus, unlike NPM which focuses on contractual relations, NPG focuses on interdependent horizontal relationships. Vertical relationships are also present because of resource dependencies, information asymmetry and formal contacts between various layers of governmental levels (Klijn, 2012). But even in these, there is often mutual dependency. Thus, policy and service delivery is achieved in networks of actors who may be public only, inter-governmental networks or multi-level governance or mixtures of public and private actors (Klijn, 2012). Managerial effort in the sense of facilitating, mostly called network management (Agranoff and McGuire, 2001) or meta-

governance (Sorenson and Torfing, 2007) is then crucial to make these governance processes work (Klijn, 2012). Thus, whereas NPM is mainly Intra organizational, trying to improve the internal operation of governments, NPG is mainly inter-organisationally oriented, trying to improve coordination of governments with the other actors who are necessary to deliver services or implement policies. One could also say that NPM is more occupied with efficiency and improving existing services and policies while governance is more concerned with delivering new solutions for complex problems by improving coordination between the various actors (Klijn, 2012).

The New Public Governance (NPG) approach proposed by Osborne (2010) places citizens rather than government at the centre of its frame of reference (Robinson, 2015). According to Bourgon (2007), it calls for the shared interests of citizens rather than an aggregation of individual interests determined by elected officials (bureaucracy) or market preferences (NPM). It emphasizes the centrality of citizens as co-producers of policies and the delivery of services (Robinson, 2015). NPG asserts that public service delivery is undertaken by multiple interdependent actors and multiple processes and inputs shape policymaking (Robinson, 2015). According to Bourgon (2011), there is also growing interdependence between actors operating at local, national and global levels. The NPG approach emphasizes inter-organisational relationships and the governance of processes, in which trust, relational capital and relational contracts serve as the core governance mechanisms (Osborne, 2006). Robinson (2015) also argues that although NPG has been common in the United States of America and a few OECD countries, it might have wider application in providing a stronger foundation and conceptual reference point for public sector reform in developing countries than bureaucracy and NPM.

The New Public Governance/Service model approaches public management from the vantage point of democratic theory, premised on the notion of active and involved citizenship (Robinson, 2015). The role of public officials is to facilitate opportunities for strengthening citizen engagement in finding solutions to societal problems. Public managers need to acquire skills that go beyond the capacity for controlling or steering society in pursuit of policy solutions to focus more on brokering, negotiating and resolving complex problems in partnership with citizens. To achieve this, governments will need to be open and accessible, accountable and responsive, and operate to serve citizens (Robinson, 2015). Similarly, Bourgon (2007) emphasizes on; building

collaborative relationships with citizens; encouraging shared responsibilities; disseminating information to elevate public discourse; fostering a shared understanding of public issues and seeking opportunities to involve citizens in government activities.

Strengthened central oversight and increased horizontal collaboration are seen as necessary correctives to the problems of decentralisation generated by NPM (Robinson, 2015). Also, there is an emphasis on the transformative potential of digital governance (Robinson, 2015). That is efficiency gains that could be realised by the use of new technology to improve service delivery, which is consistent both bureaucracy and NPM (Heeks and Bailur, 2007; Yildiz, 2007). Technology also helps to generate genuine user and citizen engagement (Osborne, Radnor and Nasi, 2013). New technologies help to bring citizens closer to the policymaking process through new and improved channels of participation as well as citizen monitoring of government (Avila *et al.*, 2010). NPG also emphasizes on values and incentives that govern the behaviour of public officials and performance (Robinson, 2015).

### **3.5 Chapter Summary**

This chapter noted that PFM in general and decentralised local governance, in particular, lacked a comprehensive theory on the systems, institutions and processes that determine the quality of PFM. However, it was observed from practice that the discipline of PFM borrowed theoretical approaches from multiple disciplines which emphasized different aspects without any consensus. In this regard; policy implementation theories, modern management theories and public expenditure management models were analysed to provide a base for exploring the determinants of the quality of PFM in decentralised local government in Zimbabwe. It was also observed that the theories were mainly normative. This means they are rules drawn from best practice but lacked empirical evidence. This was what the study sought to establish within the context of fiscally decentralised local government in Zimbabwe, a developing country. Chapter 4 sets out the conceptual framework of the study.

## **CHAPTER 4: CONCEPTUAL FRAMEWORK**

### **4.1 Introduction**

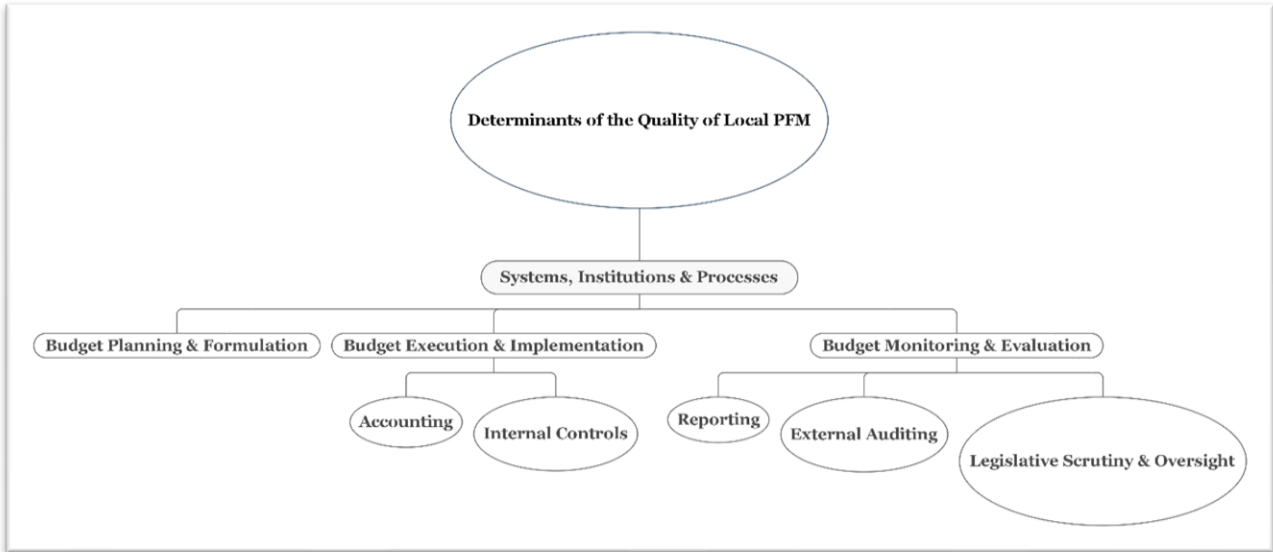
A conceptual framework is a system of concepts, assumptions, expectations, beliefs, and theories that supports and informs research (Miles and Huberman, 1994; Robson, 2011). Conceptual frameworks provide a model for relationships between variables that may or may not imply a particular theoretical perspective, to describe a phenomenon (Berman, 2013; Knight, Halkett and Cross, 2010). Miles and Huberman (1994) stated that a conceptual framework explains the main things to be studied; that is, the key factors, concepts, or variables and the presumed relationships among them. This can be done either graphically or in narrative form. Like a map, a conceptual framework guides and provides coherence to an empirical study.

The qualitative research's conceptual framework was developed based on the research problem, objectives and questions. The goal of the conceptual framework was to illustrate the research approach in some pictorial and text forms to ease the readers' understanding of the research approach (Fung, 2016). A diagram with bubbles, boxes and icons was drawn to represent certain constructs and some lines used to connect them for illustration and understanding purposes. Arrow-lines were not used as there conceptual framework did not intend to show causal relationship which might have implied a causal or correlational quantitative research (Fung, 2016).

This section provided the conceptual framework which represented the researcher's synthesis of the literature on how to explain the systems, institutions and processes that determine the quality of PFM in decentralised local government in Zimbabwe. It mapped out the actions required in the course of the study given the researcher's previous knowledge of other researchers' point of view and the observations on the subject of research. Thus, the conceptual framework identified the variables required in the research investigation and how they are connected. It was the researcher's map in pursuing the investigation.

### **4.2 Conceptual Framework for Local Public Financial Management (PFM)**

A diagrammatic representation of the conceptual framework adopted for the study is shown in figure 4.1 below. This is followed by a narrative and description of its various components.



**Figure 4.1: Determinants of the Quality of Local PFM Study Conceptual Framework**

*Source: Author's Conceptualisation*

As shown in figure 4.1 above, the study some insights from the **theories on policy implementation** (Bempah, 2017; Goggin *et al.*, 1990; Hill and Hupe, 2014; Khan, 2016; Lipsky, 2010; Stewart, Hedge and Lester, 2008; Van Meter and Van Horn, 1975), **theories of modern management, public expenditure management models** and **literature on local government PFM** described in Chapter 2 and Chapter 3, to conceptualise the broad pillars and variables of the research as described below.

Theories of modern management included the (i) **Agency Theory** (Chrisidu-Budnik and Przedanska, 2017; Daly, 2015; Jensen and Meckling, 1976; Masood and Afzal, 2016; Mathenge, Shavulimo and Kiama, 2017; Moe, 1984; Ross, 1973; Williamson, 1985; Zimmerman, 1977), (ii) **Institutional Theory** (Ashworth, Boyne and Delbridge, 2009; Awasom, 2019; Carpenter, Cheng and Feroz, 2007; Connolly, Reeves and Wall, 2009; DiMaggio and Powell, 1983a; DiMaggio and Powell, 1991; Meyer and Rowan, 1977b; Nogueira and Jorge, 2016; Zucker, 1987) , (iii) **Contingency Theory** (Anessi-Pessina, Nasi and Steccolini, 2008; Brownell, 1982; Chenhall, 2003; Nogueira and Jorge, 2016; Otley, 1980; Ryan and Ng, 2000; Woods, 2009), **Transaction Cost Theory** (Bartle and Ma, 2004; Huang, 2002; McKinney, 1995; Milgrom and Roberts, 1992; Ouchi, 1980; Premchand, 1993; Williamson, 1990; Williamson, 1993), and the **Resource**

**Dependency Theory** (Bryson, Ackermann and Eden, 2007; Frooman, 1999; Malatesta and Smith, 2014; Mitchell, Agle and Wood, 1997; Pfeffer and Salancik, 1978).

Public Expenditure Management models included; (i) **Weber's Bureaucratic Management Theory** (Albrow, 1980; Hughes, 2003; Hyden, Court and Mease, 2003; Kalimullah, Alam and Nour, 2012; Raadschelders and Rutgers, 1996; Weber, 1947; Weber, 1968; Weber, 1978), the (ii) **New Public Management Theory** (Adams and Smith, 2008; Barzelay, 2001; Batley and Larbi, 2004; Çetin, 2015; Dunleavy and Hood, 1994; Gruening, 2001; Hood, 1991; Hood, 1994; Lane, 2000; Olson, Guthrie and Humphrey, 1998; Osborne and Gaebler, 1993) and the (iii) **Public Governance/Service Theory** (Agranoff and McGuire, 2001; Avila *et al.*, 2010; Bourgon, 2007; Heeks and Bailur, 2007; Klijn, 2012; Osborne, 2006; Osborne, 2010; Rhodes, 2012; Robinson, 2015; Sorenson and Torfing, 2007).

#### **4.2.1 The Budget Cycle**

The study recognised that the budget is the principal, pivotal and most important document used in local government PFM. The budget document has evolved through several phases. In the current 21<sup>st</sup> century, the public budget is a multi-purpose document which aids public budgeting and financial management. The local government budget is now being used for control (Buck, 1920; Grizzle, 1986; Kahn, 1997), managerial decision making (Buck, 1920; Brown, Myring and Gard, 1999), planning (Grizzle, 1986), policy alignment (Schick, 1998), and integrating service delivery through public-private partnerships (Potter, 1999; Melkers and Willoughby, 2005).

Also, the study noted that the budget was organised, formulated, implemented and evaluated in terms of an annual budget cycle (Venkateswaran, 2014). Thus, the local government PFM systems, processes and institutions started with (i) budgetary planning and formulation, then the budget was (i) implemented and executed, after that, it was, (iii) monitored and evaluated. The process then resumed again in budget planning and formulation stage for the following year. These stages of the budget cycle are depicted in Figure 4.1 above as the main pillars of local government public financial management systems, processes and institutions.

#### **4.2.2 Budgetary Planning and Formulation**

This is the first stage in the budget cycle. The determinants of the quality of local PFM at this stage is assessed by looking at the budgeting systems, processes and institutions. In this regards, policy implementation discipline lacks concise theory on what determines the quality of public budget planning and formulation generally. However, the top-down approach hints on the significance of centralisation, clear rules and regulations from the top, supply of resources from the top, clear targets, policy outcomes and plans set from the top, and performance evaluation is driven from the top. On the contrary, the bottom-up approach emphasizes on decentralisation and local autonomy. On the other hand, the hybrid approach emphasizes a central control that considers local conditions.

In terms of modern management theories, (i) the agency theory emphasizes that the quality of budget planning and formulation is determined by the systems, institutions and processes that control agent opportunism and deal with the agency problem. On the other hand (ii) the institutional theory emphasizes on coercive, mimetic and normative forces from the environment. Contingency theory asserts, there is no best way to structure PFM systems, but depends on internal and external factors surrounding the organisation. The transaction cost theory emphasizes on organising coordination, motivation and control activities to minimise transaction costs. On the other hand, the resource dependency theory emphasizes the ability of the organisation to mobilise resources from the environment.

In terms of public expenditure management models, (i) NPM emphasizes efficiency, professionalism, entrepreneurship, decentralisation, performance targets, and adopting private-sector practices in the public sector. On the other hand, (i) Weber's bureaucracy emphasizes on formal rules, regulations and control. The Public Governance/Service Theory focuses on partnerships, networks, collaboration and stakeholder participation in solving societal problems.

#### **4.2.3 Budget Execution and Implementation**

The budget execution process includes the various operations involved in translating the budget statement into decisions and transactions using the budgetary resources (Venkateswaran, 2014). The agents (public officials) implement the plans and projects as per the agreed budget. A synthesis

of PFM literature reviewed that the quality of this stage of the budget cycle is influenced by two key components; namely, (i) accounting systems and (ii) internal control systems.

Different theoretical approaches emphasize different aspects. For example, the top-down policy implementation approach alludes to the significance of central control, formal rules and regulations set by central government and provision of necessary resources. This is also similar to Weber's bureaucratic theory. On the other hand, the bottom-up policy implementation approach underscores the need for decentralisation and allowing local authorities executives autonomy in designing their systems. This is similar to the approach by the NPM theory. Although in particular, the NPM emphasizes efficiency, resource control, discipline and adopting private-sector approaches in the public sector. On the other hand, the Public Governance/Service Theory focuses on partnerships, networks, collaboration and stakeholder participation in designing and operating accounting and internal control systems.

The principal agency theory underscores the need to design and operate accounting and internal control systems to prevent and monitor agent opportunism and manage the agency problem. In a similar vein, the transaction cost theory emphasizes designing and operating accounting and internal control systems that assist in minimising transaction costs. On the other hand, the resource dependency theory underscores the need to mobilise and allocate adequate resources during budget execution and implementation. The institutional theory asserts that the optimal accounting and internal control systems are determined by pressures from the environment. On the other hand, the contingency theory argues that there are no universal ideal accounting and internal control systems because they depend on both internal and external factors influencing the organisation.

#### **4.2.3.1 Accounting Systems, Processes and Institutions**

Government accounting is the process of recording, analysing, classifying, summarising, communicating and interpreting financial information about government in aggregate and in detail, reflecting all transactions involving the receipt, transfer and disposition of government funds and property. It is the recording and presentation of government financial transactions to comply with statutory requirements as well as to assist management in efficiently utilising government funds (Ahonsi, 2002).

The principal-agency theory recognises that public officials as stewards entrusted with resources by the citizenry, they need to keep a record of their stewardship. This help to give evidence to the principals that no agent opportunism was done by indicating that all resources were used for the best interests of the principals. Following transaction cost theory, the accounting systems record information on both hierarchical and market transactions. This enables effective and efficient decision making to minimise the various transaction costs. Also, it sets the stage for minimising information asymmetries between the public officials and the citizenry. Thus, accounting also helps to fulfil accountability and transparency requirements in local PFM.

The institutional theory explains changes in accounting choices and practice as fashioned by isomorphic forces (interest and values) of the environment of an entity (Baker and Rennie, 2012; DiMaggio and Powell, 1983a; Hyndman and Connolly, 2011). On the other hand, the NPM theory justifies the adoption of accrual as a reform tool for an efficient and effective (internal) management, while the institutional theory sees such adoption as pressured by (external) isomorphic forces that urge the organisation to legitimise itself within its existing environment. Such isomorphic external pressures could be coercive, mimetic or normative (Awasom, 2019).

Proponents of NPM reform argue that accrual accounting provides more appropriate information for decision-makers and ultimately leads to a more accountable and transparent, efficient and effective public sector (Hyndman and Connolly, 2011; Ofoegbu, 2014). In acknowledgement of accrual accounting as the best accounting method adopted from the private sector, Olson, Guthrie and Humphrey (1998) argue that without accrual accounting some of the NPM changes would be weakened. Consequently, there is an increasing tendency towards the adoption of private sector managerial and accounting techniques to make the public sector more accountable, professional and performance-focused. NPM justifies the new choice for accrual accounting as a rational and functional reason for supposedly efficient and effective management (Awasom, 2019).

Accounting-based tools figure prominently in "New Public Financial Management" (NPFM), a term coined by Olson, Guthrie and Humphrey (1998). NPFM takes several strong normative positions. It insists that accounting principles, preferably set by professional groups independent of government, should be used in budgeting. The double-entry recording should replace the single-entry system. Accrual accounting is offered as an alternative to the cash budget. The government's

financial picture should be presented as a whole to the public. The full costs of government services should be calculated as a basis for setting prices for both public and internal services (Olson, Guthrie and Humphrey, 1998). Hidayah and Zarkasyi (2017) asserted that the accrual basis of accounting is used for the measurement of assets, liabilities and equity funds which are an international best practice in modern financial management following the principles of New Public Management (NPM) that promote transparency and accountability of financial management.

#### **4.2.3.2 Internal Control Systems, Processes and Institutions**

Internal control is broadly defined as a process, effected by an entity's legislative body, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories; (i) effectiveness and efficiency of operations, (ii) reliability of financial reporting and (iii) compliance with applicable laws and regulations (COSO, 1992). Thus, internal controls are necessary to minimise agent opportunism as asserted by the principal-agency theory. The aim is to ensure that the public officials use all the available resources and assets for the best interests of the citizenry. Also, because of the information asymmetries between the public officials and the citizenry, controls have to ensure that the budget is implemented as agreed. Internal controls also help to reduce coordination costs by adhering to laid down processes and procedures that should be followed by all agents. Thus, internal control systems, processes and institutions should be implemented during budget execution to achieve the objectives stated above.

#### **4.2.4 Budget Monitoring and Evaluation**

This is the last stage in the budget cycle. It entails monitoring and evaluating whether the budget has been implemented following the plans, targets and objectives set in the budget planning and formulation stage. The key indicators of the quality of the local government PFM at this stage are; reporting, external audit and legislative scrutiny systems, processes and institutions. This is depicted in figure 4.1 above.

Different theoretical approaches emphasize different aspects. For example, the top-down policy implementation approach alludes to the significance of central control, formal rules and regulations set by central government and provision of necessary resources in designing and operating budget monitoring and evaluation systems. This is also similar to Weber's bureaucratic theory. On the

other hand, the bottom-up policy implementation approach underscores the need for decentralisation and allowing local authorities executives autonomy in designing their systems. This is similar to the approach by the NPM theory. Although in particular, the NPM emphasizes efficiency, performance reporting and evaluation, adopting private-sector approaches in the public sector. On the other hand, the Public Governance/Service Theory focuses on partnerships, networks, collaboration, stakeholder participation, transparency and access to information.

The principal agency theory underscores the need to design and operate budget monitoring and evaluation systems to assess if the agents acted in the best interests of the principals. In a similar vein, the transaction cost theory emphasizes designing and operating monitoring and evaluation systems that assist in minimising transaction costs. On the other hand, the resource dependency theory underscores the need to allocate adequate resources during budget monitoring and evaluation. The institutional theory asserts that the optimal monitoring and evaluation systems are determined by pressures from the environment. On the other hand, the contingency theory argues that there are no universal ideal budget monitoring and evaluation systems because they depend on both internal and external factors influencing the organisation.

#### **4.2.4.1 Reporting Systems, Processes and Institutions**

Annual budgetary government financial reports are critical for accountability and transparency in the PFM system (PEFA-Secretariat, 2016a). Reporting entails providing information to internal and external stakeholders on how the budget as agreed was executed and implemented. The agency theory recognises local government public officials as agents of the citizenry (principals). Also, the elected councillors are agents of the citizenry being elected to represent them in the council. The public officials are also agents of the councillors. Thus, the agents have to give an account of their stewardship and use of the resources entrusted to them by the principals. Reporting systems, processes and institutions have to be put into place to achieve this end. Agents have to give evidence that they did not engage in agent opportunism by acting in the best interests of the principals. They have to account for how they managed transactions costs. Thus, reporting helps to bridge information asymmetries between the local government public officials and the councillors, or between the councillors and the local government public officials, and also between the public officials and the citizenry in general. It sets the stage for ex-ante monitoring.

#### **4.2.4.2 External Audit Systems, Processes and Institutions**

Audits are the final phases in the budget cycle. An audit is an examination of records, facilities, systems, and other evidence to discover or verify the desired information (Mikesell, 2011). The audit seeks to discover deviations from accepted rules and practices and bring out instances of any illegal or irregular transactions or decisions. Audits aim at holding management accountable and preventing a repetition of inappropriate actions in the future. The goals of the audit process may vary depending on the purpose of the audit (Venkateswaran, 2014). Public sector auditing has been described as the independent examination of and expression of opinion on the financial statements of an entity, by an appointed auditor in pursuance of that appointment and compliance with any statutory obligations (Department-of-Economic-and-Social-Affairs, 1999).

Good governance requires regular financial and performance reporting that is validated for accuracy by an independent auditor (Rosa and Morote, 2015). Public auditing which provides transparency, accountability and value for money results in good governance (Curtin and Dekker, 2005). Thus, external auditing is necessitated by the existence of information asymmetries between the principals and agents in local PFM. The public officials possess some technical information which is only available to them, or which they do understand but cannot be easily accessed or understood by the citizenry or councillors. Thus, external auditing acts as an independent evaluation by an expert, of the information provided by the agents. It sets the stage for ex-post monitoring, ex-post monitoring and ex-post sanctions. Auditing costs can be viewed as control costs following the transaction cost theory.

#### **4.2.4.3 Legislative Scrutiny and Oversight Systems, Processes and Institutions**

The legislature has a key role in exercising scrutiny over the execution of the budget that is approved. A common way in which this is done is through a legislative committee(s) or commission(s) that examines the external audit reports and questions responsible parties about the findings of the reports. A report on the results of a review of the external audit report(s) by any mandated committee should be submitted for consideration (and ideally debated) in the full chamber of the legislature to constitute completed scrutiny. This is usually necessary before the executive can formally respond, though corrective action may be taken at any time. The operation of the committee(s) will depend on adequate financial and technical resources, and on adequate time being allocated to keep up-to-date on reviewing audit reports (PEFA-Secretariat, 2016a).

Thus, after the external auditors have closed the gap caused by the information asymmetries between the agents and the principals, the principals would then assess the performance of the agents. The principals would then assess whether the agents acted in the best interests of the principals. If the agents acted in the best interests of the principals, ex-post incentives are then given. On the other hand, if the agent engaged in opportunistic behaviour and advanced own interests at the expense of the principal's interests, ex-post sanctions are then imposed. Scrutiny would assess if the following PFM performance outcomes have been achieved; namely, aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. If the performance was sub-optimal, recommendations and resolutions are made for corrective action in the future. This would be incorporated in the next budget cycle.

#### **4.2.5 Chapter Summary**

This chapter presented the conceptual framework for the study which showed how the author approached the study. Since the study was qualitative and inductive, no attempt was made to show causal relationships between variables but rather key components of the study were shown. Insights were obtained from policy implementation theories, modern management theories, public expenditure management models and PFM literature. In this regard; the study was organised based on the stages of the budget cycle and research objectives, namely; budget planning and evaluation, budget execution and implementation and budget monitoring and evaluation. The focus was on exploring the systems, institutions and processes that determine the quality local PFM in Zimbabwean fiscally decentralised local government systems at each stage of the budget cycle. The sub-components of budget execution and monitoring identified were accounting and internal controls, while those for budget monitoring and evaluation were; reporting, external auditing and legislative scrutiny and oversight.

## **CHAPTER 5: RESEARCH METHODOLOGY**

### **5.1 Introduction**

This study focused on exploring the systems, institutions and processes that determine the quality of PFM in Zimbabwean fiscally decentralised local government. These determinants were explored at each stage of the local budget cycle; (i) budgetary planning and formulation, (ii) budget implementation and execution, and (iii) budget evaluation and monitoring. As a result of the problem statement stipulated in Chapter 1, the all-encompassing aim of this study was to contribute towards building a theory that explains the determinants of the quality of PFM in decentralised local government systems. The researcher endeavoured to generate new knowledge, which could make local government financial management more purposeful, efficient and sustainable. Consequently, this chapter strives to detail the theme of the research design and methodology in the current study, as well as to substantiate the choices made in the study.

The research design is applied so that suitable research methods are used to ensure the attainment of the goals and objectives set out in Chapter 1. The reason (rationale) for a discussion of the research design and methodology was to provide the plan or blueprint for the research. Research methodology referred to the researcher's general approach in carrying out the research study (Mouton, 2001; Leedy and Ormrod, 2010; Babbie and Mouton, 2008). It focused on the research process, research tools and research procedures used in the study (Mouton, 2001). Research methods involved data collection, data analysis and data interpretation (Creswell, 2003).

### **5.2 Research Paradigms**

Research paradigm has a major impact on the philosophy and methodology of the social sciences (Creswell, 2007; Babbie, 2010; Neuman, 2011). In general, a paradigm is best described as a whole system of thinking (Neuman, 2011). In this sense, a paradigm refers to the established research traditions in a particular discipline (Mouton, 1996). More specifically, a paradigm would include the accepted theories, traditions, approaches, models, the frame of reference, the body of research and methodologies; and it could be seen as a model or framework for observation and understanding (Creswell, 2007; Rubin and Babbie, 2010; Babbie, 2011). A paradigm is thus a

basic set of beliefs that guide a study. Thus, paradigms play a vital role in the social sciences and business research.

Research paradigms affect the practice of research; and therefore, they need to be stated (Creswell, 2009). There are two types of research paradigms, namely positivism and post-positivism (Wisker, 2008; Creswell, 2009; Rubin and Babbie, 2010; Lincoln, Lynham and Guba, 2011). Post-positivism (post-modernism) is characterised by two sub-paradigms, namely interpretivism and critical theory. This study adopted an interpretivism research paradigm and a qualitative research approach.

### **5.2.2 Interpretivism Research Paradigm**

Based on research questions and research objectives, the appropriate approach used in this study was using an interpretivism research paradigm with a qualitative research approach. This paradigm and approach intended to understand the phenomenon of the determinants of the quality of PFM in the decentralised local government in a developing country from what was experienced by the subject of research (local PFM key personnel and stakeholders) such as behaviour, perception, motivation, action, and others holistically by way of descriptions in the form of words and languages in a specific, natural context and by utilising natural methods (Moleong, 2014). The qualitative research process involved important efforts, such as asking questions and procedures, collecting specific data from participants, analysing data inductively from specific themes to common themes and interpreting the meaning of the data (Creswell, 2010).

Qualitative research allowed the researcher to interact with the study participants enabling the study to learn more details reflective of the participants' experiences with respect of the determinants of the quality of local PFM in decentralised local government in a developing country (Creswell, 2013). A qualitative approach was most appropriate because it yielded descriptive and individualised data that would not be collected through a quantitative study in which the focus is upon statistical results in the form of numbers. Through inductive research, abstractions, concepts, hypotheses or theories were built rather than tested (Merriam, 1998). As noted by Lincoln and Guba (1985) a qualitative research approach was most appropriate since the study examined multiple realities as related to the participants. Since truth for the participant evolved over time

and through the situation, only a qualitative study could understand the participants and their context. Thus, the study was concerned with the values and experience of the subjects not only their behaviour, and this was explained through rich descriptions (Merriam, 1998).

### **5.3 Research Design**

Research design can be viewed as a functional plan in which certain research methods and procedures are linked together to acquire a reliable and valid body of data for empirically grounded analyses, conclusions and theory formulation. The research design thus provides the researcher with a clear research framework; it guides the methods, decisions and sets the basis for interpretation. It can also be viewed as a set of defined operations to be performed, to test a specific hypothesis under given conditions (Bless, Higson-Smith and Kagee, 2006).

Research design can hence be viewed as the overall plan for selecting respondents and means of collecting or generating data for a proposed study (Welman, Kruger and Mitchell, 2009). The main function of a research design is to enable the researcher to anticipate what the appropriate study decisions are likely to be and to maximise the validity of the eventual study outcomes/results (Mouton, 1996). In the current study, the study adopted a phenomenological research design.

#### **5.3.1 Phenomenological Research Design**

This study used a qualitative approach with phenomenology research design. Phenomenology is a research strategy in which researchers identify the nature of human experience about a particular phenomenon (Creswell, 2009). This phenomenological study focused on experiences in the consciousness of local PFM players and stakeholders, called intentionality. Intentionality describes the relationship between the processes that occur in consciousness and the object of concern to the process. The phenomenology design considered that the determinants of the quality of local PFM in decentralised local government are a social phenomenon composed of awareness with the existence of social interaction between various parties. The experience of informants in implementing local PFM systems, processes and institutions in decentralised local government is what the study tried to explore further as to what determines the quality of budget planning and

formulation, budget execution and implementation and budget monitoring and evaluation in Zimbabwean local government and then look for solutions to the problem.

Wilson (2011) asserted that phenomenological research while relatively unused in finance research has much to offer. When there is a need to seek “what, how” and “why” questions, researchers often are unfulfilled with quantitative financial models that rely on positivistic assumptions. How people understand is context-bound, and this factor needs to be explored more in finance research. For example, the financial meltdown in the United States demonstrated the need to better understand how financial managers made sense of their world. Therefore, to explore the determinants of the quality of local PFM in decentralised local government, the study employed phenomenology to gain insights into the experiences and perceptions of local PFM players and stakeholders in their natural contexts and environments.

Phenomenological research design and an interviewing method of data collection (Smith, Flowers and Larkin, 2009) has evolved as a means for exploring participants’ perspectives of their interactions with other people and social situations (Crotty, 1998). The main goal was to provide a first-person experience on the systems, processes and institutions considered to influence the quality of local PFM in decentralised local government in Zimbabwe, a developing country. Phenomenology required the researcher to place his interpretations aside and present the raw descriptions provided by the subjects. It sought to isolate the researcher’s cultural impositions and at the same time not be suspicious of the participants’ interpretation of their experiences (Crotty, 1998). Nevertheless, as the researcher was responsible for reporting selected themes of the participants’ descriptions, it is noticeable that phenomenology had a degree of objectivity, that is, the selection of objects of the subjects’ experiences (Creswell, 2013; Maxwell, 2012). This was geared towards collecting and analysing data and in a way that minimized the imposition of the researcher’s presumptions.

As a philosophy, phenomenology sought to explore the hidden meaning embodied in the phenomenon of social actions (Djamhuri, 2011). Phenomenology was beneficial to examine and understand the response of individuals or groups of people (local PFM players and stakeholders) in interaction based on their understanding of social experiences encountered concerning local

PFM (Ocktavianto, Triyuwono and Purwanti, 2017). It was chosen for the main reason that phenomenologists believe that living things have the potential to interpret their experiences by looking at their interaction patterns with others (Moleong, 2011). The phenomenological approach was chosen because it involved intensive participant findings and face-to-face interaction through a natural order over some time, allowing the synergies to build a joint response between the researchers and the participants. The use of such a method was also considered to be highly effective because the results of the research can easily generalised (Ocktavianto, Triyuwono and Purwanti, 2017).

The phenomenological design was employed because it involved a holistic observation on the local PFM key players and stakeholders as characters who experienced local PFM. The phenomenal data explored included perceptions, feelings, memories, images, ideas, and other things present in consciousness (Ocktavianto, Triyuwono and Purwanti, 2017). Phenomenology was intended to yield a well-structured discourse of the behaviours and systems of actors' ideas within a decentralised local government culture, PFM profession, organisation or community in settings that include conceptions, practices, and interrelationships (Ocktavianto, Triyuwono and Purwanti, 2017). The purpose was to reveal the nature of the lived experiences of Local PFM Key stakeholders on the systems, institutions and processes that determine the quality of local PFM in Zimbabwean fiscally decentralised local government. Interpretive phenomenology, as outlined by Van Manen (2016) employed both interpretive and descriptive elements to gain a deeper understanding of the nature of the essence of everyday lived experiences. The reflections on the essential themes that describe and explain the local PFM phenomenon through the art of writing balanced the research context by viewing each piece as a whole (Van Manen, 2016).

Phenomenology was used to provide insights into the experiences of participants concerning their perceptions on the determinants of the quality of local PFM systems, institutions and processes in decentralised local government in a developing country. The focus of phenomenology was to study the essence or structure of experience. The study used phenomenology to understand and describe the experiences that individuals have lived as well as the nature of those experiences concerning the determinants of local PFM. It was important in this study to identify what experiences the participants had in common as they decided on the determinants of the quality of local PFM and

what those experiences meant. The phenomenological approach satisfied what Creswell (1998) noted as exploring the experience of the individual and providing a comprehensive description of the experience. To accomplish this, the study first approached the research to understand the experiences of the participants while not introducing one's personal bias into the interpretation of the experiences; wrote lines of inquiry that probed the experiences of the participants; collected data from the participants that outlined their experience; analysed the data through grouping common themes together into clusters that outlined the experiences, and writing the narrative that allowed the reader to better understand the essence that singularly united the experiences of the participants (Creswell, 2013).

#### **5.4 Study Population**

To explore the determinants of the quality of PFM in decentralised local government in a developing country, the study used data for local governments in Zimbabwe. Although Zimbabwe is among the poorest developing economies in Sub-Saharan Africa, local governments deliver key pro-poor government services (including primary education and basic health services) as the country has been pursuing decentralisation since the early 1980s. Besides, the country enshrined devolution in the new constitution of 2013. This phenomenological research endeavoured to understand the experiences of the local PFM stakeholders in Zimbabwean decentralised local government concerning key systems, processes and institutions that determine the quality of local PFM. This research was conducted in five Provinces in Zimbabwe, namely; Harare, Bulawayo, Mashonaland West, Manicaland and Midlands.

Adebayo, Dada and Olarewaju (2014) found that in the decentralised local government of Nigeria, effective financial management at local government is the responsibility of all and sundry. That is the executives, legislature and employed staff and the entire local community at large. Based on that observation, the target population of this study was 325 participants which comprised of both internal and external participants from 15 local authorities in Zimbabwe who were involved in local PFM. Internal participants consisted of 15 chief executive officers, 60 heads of departments, 75 finance, procurement and accounting staff, 90 councillors, and 45 internal auditors. External participants consisted of 5 central government (Ministry of Local Government) financial advisors and 20 external auditors.

This study was conducted in 5 of the 10 Provinces in Zimbabwe; namely, Harare, Bulawayo, Mashonaland West, Manicaland and Midlands. The selection of the provinces (setting) encompassed geographical and ethnic variations and dispersion. The objects of analysis entailed several local authorities, the Ministry of Local Government and the Auditor-General's Office. The study chose these institutions as the research objects because they were directly involved with local PFM issues.

### **5.5 Sample and Sampling Methods**

Determination of key informants in this study was done using the technique of "purposive sampling". Purposive sampling is a technique of retrieving informant data source with certain considerations. These considerations are the people who are considered the most knowledgeable and have the required information in the research area (Campbell, 2018). In this case, 65 senior personnel in local PFM were purposively selected based on their extensive experience and knowledge in local PFM systems, institutions and processes.

Purposeful sampling in which participants were deliberately chosen due to their possession of extensive knowledge and experience about local PFM systems, institutions and processes was used in this study. It was essential in this phenomenology study to use purposeful sampling to ensure that all participants had the experience that was being studied (Creswell, 2013). The focus of the study was upon personnel who were directly involved in local PFM systems and processes. Key Informants in this research were Town Clerks, Town Secretaries, Finance Directors/Accountants, Senior Internal Auditors, and Councillors. Informants from outside local authorities that were chosen were staff from the Auditor-General's Office and Financial Advisors from the Ministry of Local Government. The reason the study also interviewed outsiders was to reinforce the fact that the phenomenon raised was indeed happening and experienced by the local PFM stakeholders. Specifically, these included; chief executive officers (15), finance directors/chief finance managers (15), senior/chief internal auditors (15), chairpersons of audit and finance committees (councillors) (15), external auditors from the Auditor General's Office (3) and finance advisors from the Ministry of Local Government (2).

Although 65 respondents were chosen as the sample size, 36 respondents participated. These were considered sufficient based on Lincoln and Guba (1985)'s principle of *informational redundancy*. This means that sampling was terminated when no new information was elicited by sampling more units. The purposive sample of the respondents provided more *information power* and therefore a relatively smaller the sample size was sufficient (Malterud, Siersma and Guassora, 2016). The sample size was considered sufficient based on the principle of saturation. This is undoubted, the most widely used principle for determining sample size and evaluating its sufficiency in qualitative research (Glaser and Strauss, 1967). The idea was to check if new themes were being generated and become evident when gathering fresh data. Where an additional interview no longer sparked new theoretical insights, nor reveals new properties of the study's core theoretical categories sampling was stopped (Charmaz, 2006). Saturation means no new data, no new themes, and no new codes. It has emerged as the 'gold standard' in qualitative inquiry and the most frequently invoked 'guarantee of qualitative rigour' (Morse, 2015).

Qualitative analyses typically require a smaller sample size than quantitative analyses (Glaser and Strauss, 1967). The qualitative sample size drawn was large enough to obtain enough data to sufficiently describe the phenomenon of interest (determinants of the quality of local PFM in decentralised local government) and address the research questions. The goal of this qualitative research was the attainment of saturation. Saturation occurred when adding more participants to the study did not result in additional perspectives or information (Glaser and Strauss, 1967). Glaser and Strauss (1967) recommended the concept of saturation for achieving an appropriate sample size in qualitative studies. Other guidelines have also been recommended. For an ethnography, Morse (1994) suggested approximately 30 to 50 participants. For grounded theory, Morse (1994) suggested 30 to 50 interviews, while Creswell (1998) suggested only 20 to 30. For phenomenological studies, Creswell (1998) recommends 5 to 25 and Morse (1994) suggests at least 6. These recommendations helped the researcher to estimate how many participants were needed for the study, but ultimately, the required number of participants depended on when saturation was reached.

65 respondents were approached to take part in the interview study. 50 agreed and 36 were interviewed before data saturation was reached. These were all available for analysis. No new

topics were identified following analysis of approximately 30 of the interviews; however, all interviews were coded to develop a better understanding of how characteristic the views and reported behaviours were, and also to collect further examples of unusual/deviant observations. Theoretical saturation was conceived as being when no further recurring themes emerged from the analysis. Recruitment continued until data saturation was reached, defined as the point at which no new themes emerged. It has previously been recommended that qualitative studies require a minimum sample size of at least 12 to reach data saturation (Braun and Clarke, 2016; Fugard and Potts, 2015; Guest, Bunce and Johnson, 2006). Therefore, a sample of 36 was deemed more than sufficient for the qualitative analysis and scale of this study. These were considered to be sufficient as saturation was reached since ongoing analysis revealed similar themes with no variedly new information (Creswell, 2013; Maxwell, 2012). This homogeneity in the participants' responses, which were outside of the researcher's control, provided an in-depth understanding of the group's experiences

## **5.6 Validity and Reliability (Establishing Credibility)**

An important aspect of establishing the credibility of the study was to generate validity. This study incorporated three measures of verification to prove validity. Member checking was utilised, which entailed the participants examining the transcriptions of their interviews and ensuring that their expressions were accurately reflected. Additionally, rich-thick descriptions provided details that were concise and conveyed the experiences of the participants. Throughout the interviews, the participants would inevitably repeat and expand upon certain areas of their experience, further enriching their prior responses. Finally, peer reviews were utilised, which entailed having research experienced peer ask challenging questions about the research, ensuring that the study was sound (Creswell, 2013).

Several measures were taken to preserve the pureness of the participants' perspectives (Creswell, 2013; Maxwell, 2012): (i) participants were able to freely express the perspectives of their experiences. Furthermore, the participants' perspectives were directly quoted, and when observations were made by the author, the referred comments were also directly quoted. (ii) The

author kept a rigorous audit trail of reflective memos throughout the data analysis, to isolate/bracket his perspectives from those of the participants (Creswell, 2013), (iii) Member checking was conducted by sharing analytical categories, findings, and interpretations of the findings with participants through email, who were able to suggest changes and clarifications. (iv) An experienced qualitative researcher was asked to review the interview transcripts, analytical memos and notes, and the findings of the study as a means of confirming the researchers' analyses. Triangulation of sources also enabled the testing of the validity of internal data through checking data that has been obtained through several sources (Campbell, 2018).

### **5.7 Data Collection Instruments**

This study relied upon interviews with participants who had experienced the phenomenon of interest, which was the determinants of the quality of local PFM systems in decentralised local government in Zimbabwe. The data was obtained through semi-structured interviews and triangulated through documentary analysis. An interview guide and a documentary analysis were used. Face-to-face interviews had a distinct advantage of enabling the researcher to establish rapport with potential respondents and therefore gain their cooperation (Clausen, 2012). They also allowed the researcher to clarify ambiguous answers and when appropriate, seek follow-up information (Shamsuddin, Manjieggar and Kirupanangtan, 2014). The interviews aimed to know the feelings and thoughts of the subject, that is, the informants, so the researcher needed to build good personal relationships with the informants. The researcher also observed documents that could support the progress of the research in the form of documents obtained online and archives of related documents available in the research objects. The documents in question included budget documents, financial reports, strategic plans, policy and legal documents and manuals (Ocktavianto, Triyuwono and Purwanti, 2017).

During the interviews, the researcher interacted with the Local PFM key stakeholders naturally and not prominently so that the researcher got pure subjectivity and understood the point of view and direct experience of the informants (Maritafitri and Achadiyah, 2018). Therefore, the study separated the researcher's assumptions and puts them in the preliminary research, then forgot them for a moment during the data collection phase. This stage, called *epoche*, was to let the reality as the original to rule out the experience and knowledge of the researcher (Kuswarno, 2009). The

ability of the researcher to probe more deeply into the experiences of the participants through interviews provided a richer and clearer description of the experiences when compared with the other approaches (Creswell, 2013). Triangulation of sources also enabled testing the validity of internal data (Campbell, 2018).

## **5.8 Data Collection Procedures**

Approval to collect data was obtained from the Ministry of Local Government, the Auditor-General's Office and the respective local authorities. E-mails and phone calls were made inviting the respondents to participate in the study. After the respondents had provided written informed consent and completed a demographic survey, meetings were scheduled and a semi-structured interview was conducted in person. The interviews were audio-recorded and notes were taken as a back-up. The recordings were later transcribed verbatim by the researcher. The interviewer wrote a brief reflective memo after each interview as a first impression (Campbell, 2018).

The data collection process began with the researcher sending an e-mail invitation to participants who qualified to be part of the study. Those who replied by e-mail expressing interest were then called by telephone. During the phone calls and in the e-mails, the participants were provided with an overview of the purpose of the study and how the study would be conducted. The respondents who maintained an interest in participating were screened again to ensure that they met the criteria to participate. The e-mails outlined the purpose of the study and expressed the importance of the research. Those who expressed interest in participating in the study were provided with an informed consent document that explained the purpose, scope and details of the study. They were assured of privacy and the ability to exclude themselves from continuing in the study at any time.

The participants were then provided with a series of times and a potential location for the interviews. The interviews were scheduled at the times convenient to each participant, outside of the participants' work times so that it was convenient for them. Participants were reminded of the interviews through phone calls and e-mails. Each interview lasted for approximately one hour. This amount of time allowed the participants to present detailed recollections of their experiences. Extending the time beyond one hour may have led to participant fatigue. The in-person interviews took place in the office, boardroom or any other places chosen by the participant. The place chosen

ensured preventing disrupting others in the building while also providing a feeling of security for the participants through meeting in a familiar public space. Dexter (1970) noted that interviews have three variables which affect the quality and outcome of the interview. These are the personality of the interviewer, the attitudes and orientation of the interviewee and the definition of the situation. It was important that the participants felt comfortable with the interviewer. Providing the participants with the focus of the study and reiterating it when reviewing the consent process helped provide the scope and tone, putting the interviewees at ease and establishing a level of comfort with the interviewer. Establishment of a comfort level helped enable the conversation to become richer, and likely provided more detail, both essential in a phenomenological study.

The structure of the interviews encouraged storytelling by the participants. Interviews were recorded using a digital recorder. Handwriting notes during an interview is difficult and there is the potential to miss recording important information when using this technique. The researcher wrote down significant factors as noted by the participants through the interviews to complement the data captured in the recordings. These notes acted as signifiers that there was a topic of interest that needed to be focused upon when the data was analysed.

The interviews were semi-structured in that there was an initial list of open-ended questions which allowed the participants to tell their stories about what systems, institutions and processes they perceived to determine the quality of local PFM in their decentralised local government systems. The researcher examined the responses and followed-up with additional interviews and more probing questions to gain a better understanding of the participants' experiences.

Pilot questions allowed the researcher to reword the questions to best generate a response which addressed the question (Merriam, 1998). The questions needed to allow the participants to respond which were not overly confined by the scope of the question. The questions also could not be so vague or general that they did not capture the data which was of interest to the study. Probing questions were utilised throughout the interview to follow-up on points already discussed with the participant. Such questions were generally not possible to prepare ahead of time, as they were dependent upon previous responses and evolution of the interview.

## 5.9 Data Presentation and Analysis

Interpretative phenomenological analysis (IPA) was used to analyse data. An emergent analysis strategy was used to abstract explicit and implicit themes from the interview transcripts. Throughout the analysis, care was taken to use only narratives that maintain the meaning of the original text (Campbell, 2018). A computer-assisted qualitative data analysis (CAQDAS) program, NVivo 11 was employed. However, it is important to emphasize that the software did not assist with code selection and decisions on findings; it was merely a data organisation tool. The stages of analysis included a repeated reading of the text to identify the pure perspectives of the participants (coding process); making reflective comments and memos on a line by line basis if necessary, to identify essential components of the text; mapping interrelationships and patterns between data segments; and tabulating key themes (Campbell, 2018).

NVivo 11 enabled the hierarchical organisation of identified codes and the automatic retrieval of all data associated with the codes. The researchers created and linked reflective memos to selected segments of the data. From the list of codes, the researcher was able to search, highlight, group, and modify codes across transcripts. The researcher was able to click on a particular code or group of codes and simultaneously identify memos and original segments of the data. Furthermore, the software enabled the researcher to attach participants' demographic, work, and education characteristics for cross-tabulations, and also identify codes and key data segments (Campbell, 2018).

As with all qualitative data, phenomenological data analysis involved such processes as coding (open, axial, and selective), categorising and making sense of the essential meanings of the phenomenon. As the researcher worked with the rich descriptive data common themes or essences emerged (Elliott, 2018). Coding involved total immersion for as long as it was needed to ensure both a pure and a thorough description of the phenomenon. During **open coding**, the researcher read through the raw data several times and then started to create tentative labels for large amounts of data that summarised he saw happening. This was not based on existing theory but on the meaning that emerged from the data. Participants' words and properties of each code were recorded. This was followed by **axial coding** which consisted of identifying relationships and connections among the open codes. Lastly, **selective coding** then figured out the core variable

that includes all of the data. Thus the researcher reread the transcripts and selectively coded any data that related to the core variable identified (Elliott, 2018).

Thus, to analyse data for this phenomenological study the following process as described by Kleiman (2004) was followed; (i) the researcher read the interview transcript in its entirety to get a global sense of the whole, (ii) the interview transcripts were then read the second time, this time more slowly, to divide the data into meaningful codes, sections or units (open coding). (iii) Those identified sections/units were then integrated (axial coding) based on similar focus or content. This was done through **free imaginative variation**. This was a process to seek possible meanings through the utilisation of imagination, varying the frames of reference, employing polarities and reversals, and approaching the phenomenon from divergent perspectives, different positions, roles, or functions. This entailed describing the essential structures of the determinants of the local PFM phenomenon and recognising free play, in the sense that any perspective is a possibility and is permitted to enter into consciousness (Moustakas, 1994).

The findings were elaborated through descriptions of the essential meanings that were discovered through the process of free imaginative variation to establish the general structure (selective coding). The raw data was then revisited to justify the study's interpretations of both the essential meanings and the general structure. This was done to prove that the study could substantiate the accuracy of all the findings by reference to the raw data. This was finalised through a critical analysis of the work within the objectives of the research study to verify (i) concrete, detailed descriptions have been obtained from the participants, (ii) the phenomenological reduction has been maintained throughout the analysis, (iii) essential meanings have been discovered, (iv) a structure has been articulated, and (v) the raw data has verified the results (Kleiman, 2004).

## **5.10 Ethical Considerations**

The ethics of science concerns what is wrong and what is right when conducting research (Mouton, 2001). To this end all researchers, regardless of research designs, sampling, techniques and choice of methods, are subjected to ethical considerations. Several ethical aspects were adhered to in this study. An application was made to the Ministry of Local Government for the permission to carry out the study in local authorities and approval was granted. The ethical considerations related to

this study also included acquiring approval from the University of Lusaka Panelists, consent of the participants, arrangements to ensure confidentiality, and secure storage of the data. The employers provided the researcher with the names and e-mail addresses of potential participants. The e-mail addresses were used for the initial e-mail request soliciting volunteer participation in the study. Those who responded and expressed an interest in participating were then asked for their phone number which was used to confirm the scope of the study and to establish interview appointments.

Participants were presented with the Consent to Participate form and were reminded at that time and immediately before the interview that their participation was completely voluntary and that they could opt-out at any time. The researcher reviewed each line of the consent form with each participant. The consent forms were then locked in a filing drawer, with the folder unmarked, in the office of the researcher. No information which could be associated with the identities of the participants was kept. The interview transcript notes utilised a pseudonym for each participant. The researcher maintained a confidential code which provided a manner with which to determine which pseudonym belonged to each participant.

On the digital recordings of the interviews, each participant was introduced only job title and type of organisation. In this study, only pseudonyms were used to represent each participant. Data on the digital recordings were transcribed by the researcher. This enhanced confidentiality and also facilitated familiarisation with the data for data analysis. The digital recorder was secured in a locked cabinet and the written transcriptions were saved on a password-protected disk which was locked in a separate secure cabinet which could only be accessed by the researcher.

## **5.11 Chapter Summary**

This chapter presented the research methodology. An interpretivism research paradigm, phenomenological research design and qualitative research approaches were outlined and justified. The study population, data collection instrument and procedures, sample size adequacy and sampling methods, data analysis methods and procedures, and ethical considerations were also explained and justified. Chapter 6 was a presentation and analysis of data collected.

## **CHAPTER 6: DATA PRESENTATION & ANALYSIS**

### **6.1 Introduction**

The phenomenological design was applied in this research study to acquire an experiential overview of the systems, processes and institutions of public financial management in selected local authorities in Zimbabwean fiscally decentralised local government systems. A qualitative research approach was employed to gather more comprehensive responses to provide for unexpected developments and to clarify peculiar circumstances.

In this chapter, the captured data from the qualitative research was presented, analysed, described and interpreted in a systematic manner. The documentation and analysis process aimed to present data in an intelligible and interpretable form to identify trends and relations following the research objectives. In turn, the identified trends and relations following the research objectives enabled the study to develop some theoretical insights on the determinants of the quality of PFM in fiscally decentralised local government. The study results were presented as an analysis of the qualitative data obtained from the individual semi-structured interviews and related documentary analysis.

### **6.2 Background Information about Participants in the Semi-structured Interviews**

The interviews were conducted with the Head of Finance, Head of Internal Audit and Chairperson of the Finance Committee (Councillor) or their alternates in the selected local authorities. Also, senior staff from the Auditor-General's office and Local Government Financial Advisors from the Ministry of Local Government were included. A total of 50 interviews were planned but 36 interviews were conducted. This constituted a 72% response rate. This was considered to be adequate given that the point of saturation had already been reached. There was an appropriate representation of local authorities of different sizes and geographical location. There was also an appropriate representation of technocrats, councillors, internal and external stakeholders. All interviews were conducted in a friendly and cooperative manner. The distribution of the respondents was as shown in Table 6.1 below:

**Table 6:1 Distribution of interviewees**

	Head of Finance		Head of Internal Audit		Chairperson of Finance Committee		Total	
	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual
<b>City</b>	5	4	5	4	5	3	15	11
<b>Municipality</b>	2	2	2	2	2	1	6	5
<b>Town</b>	3	2	3	2	3	2	9	6
<b>Local Board</b>	2	2	2	1	2	1	5	4
<b>RDC</b>	3	3	3	3	3	1	9	7
<b>External Auditor</b>							3	2
<b>Financial Advisor</b>							2	1
<b>Total</b>	15	13	15	12	15	8	50	36
<b>%</b>	100%	86%	100%	80%	100%	53%	100%	72%

*Source: Own elaboration*

### 6.2.1 Participants' Demographic Characteristics

To ensure the anonymity of the participants, the researcher used a code to identify each participant. However, there was also a need to indicate the variability in the position of the respondents and the type of local authority they were affiliated to. Therefore, the codes were based on the type of position held by the respondent. There were 35 participants in the qualitative phase of the study. The demographic variables adopted for the study were gender, age, current job title, years of experience and academic qualification.

It is essential to note that all participants considered for the study were senior officers in finance, accounting and audit in local authorities in Zimbabwe. The demographic characteristics of the participants who met the criteria are presented in Table 6.2 below:

**Table 6.2: Demographic Characteristics of Interview Respondents**

Code	Age Range	L/Authority	Gender	Work Experience	Position	Highest Academic qualification
A1	41-60	City	Female	more than 10 years	Director of Finance	Postgraduate Degree
A2	41-60	City	Female	more than 10 years	Director of Finance	Postgraduate Degree
A3	41-60	City	Male	5-10 years	Director of Finance	Postgraduate Degree

A4	41-60	City	Male	more than 10 years	Director of Finance	Postgraduate Degree
A5	41-60	Municipality	Male	more than 10 years	Acting Director of Finance	Undergraduate Degree
A6	26-40	Municipality	Male	more than 10 years	Director of Finance	Postgraduate Degree
A7	26-40	Town	Female	5-10 years	Acting Director of Finance	Undergraduate Degree
A8	41-60	Town	Male	more than 10 years	Director of Finance	Postgraduate Degree
A9	41-60	Local Board	Female	more than 10 years	Director of Finance	Postgraduate Degree
A10	26-40	Local Board	Male	5-10 years	Acting Director of Finance	Undergraduate Degree
A11	26-40	RDC	Female	more than 10 years	Treasurer	Postgraduate Degree
A12	41-60	RDC	Female	more than 10 years	Treasurer	Postgraduate Degree
A13	41-60	RDC	Male	more than 10 years	Treasurer	Postgraduate Degree
B1	41-60	City	Female	more than 10 years	Chief Internal Auditor	Undergraduate Degree
B2	26-40	City	Male	5-10 years	Senior Internal Auditor	Postgraduate Degree
B3	26-40	City	Male	5-10 years	Chief Internal Auditor	Postgraduate Degree
B4	26-40	City	Male	more than 10 years	Acting Chief Internal Auditor	Postgraduate Degree
B5	41-60	City	Male	5-10 years	Senior Internal Auditor	Undergraduate Degree
B6	26-40	Municipality	Male	5-10 years	Senior Internal Auditor	Postgraduate Degree
B7	26-40	Municipality	Male	5-10 years	Senior Internal Auditor	Undergraduate Degree
B8	26-40	Town	Male	less than 5 years	Acting Senior Internal Auditor	Undergraduate Degree
B9	41-60	Town	Male	5-10 years	Senior Internal Auditor	Undergraduate Degree
B10	41-60	Local Board	Male	5-10 years	Senior Internal Auditor	Undergraduate Degree
B11	26-40	RDC	Female	5-10 years	Senior Internal Auditor	Undergraduate Degree
B12	41-60	RDC	Male	more than 10 years	Senior Internal Auditor	Undergraduate Degree
B13	26-40	RDC	Male	5-10 years	Senior Internal Auditor	Undergraduate Degree
C1	26-40	City	Male	5-10 years	Finance Committee Chairperson	Undergraduate Degree
C2	26-40	City	Female	5-10 years	Finance Committee Chairperson	O' Level
C3	41-60	City	Female	more than 10 years	Finance Committee Chairperson	Postgraduate Degree

C4	41-60	Municipality	Male	more than 10 years	Finance Committee Chairperson	Undergraduate Degree
C5	26-40	Town	Male	5-20 year	Finance Committee Chairperson	No Qualification
C6	41-60	Town	Male	more than 10 years	Finance Committee Chairperson	No Qualification
C7	41-60	Local Board	Male	more than 10 years	Finance Committee Chairperson	O' Level
C8	41-60	RDC	Male	more than 10 years	Finance Committee Chairperson	No Qualification
D1	41-60	External Auditor	Female	more than 10 years	Auditor-General	Postgraduate Degree
D2	26-40	Ministry of Local Government	Male	5-10 years	Financial Advisor	Undergraduate Degree

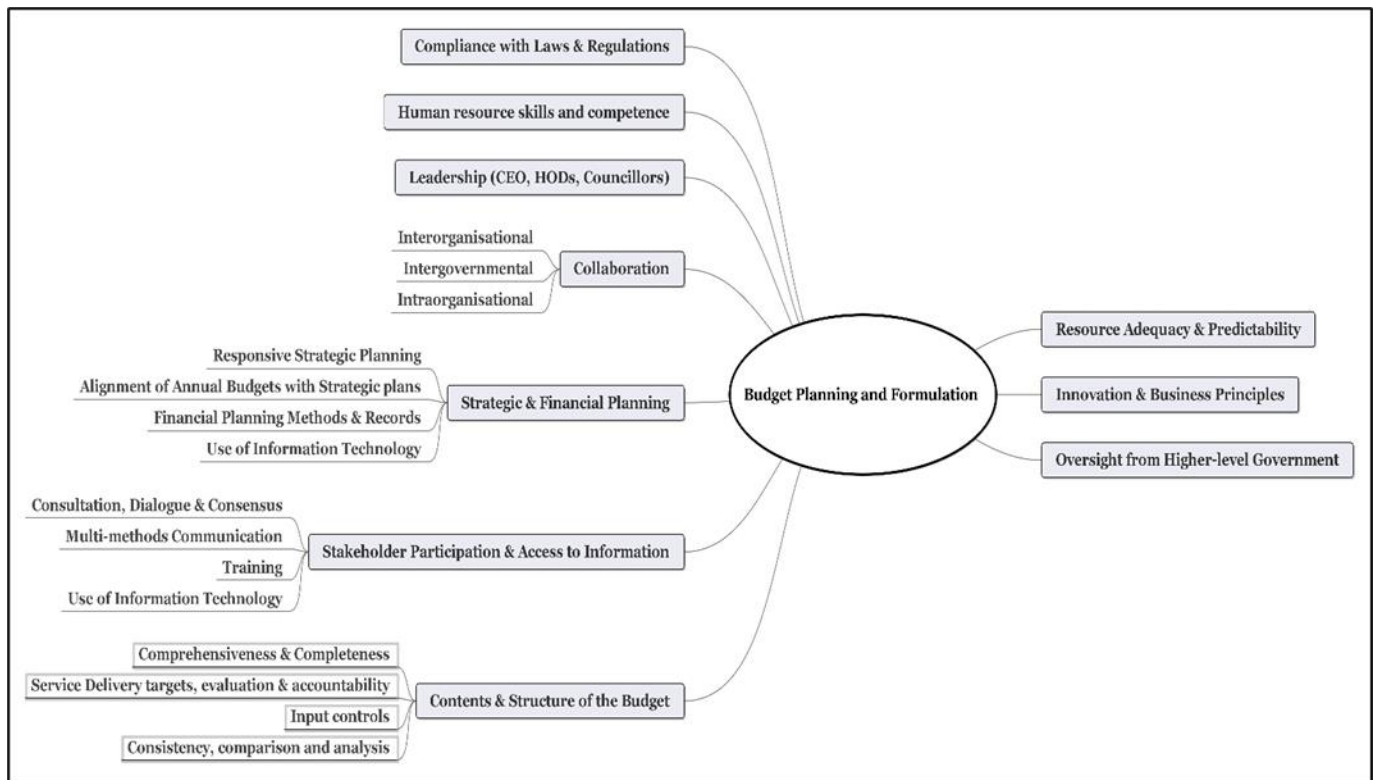
*Source: Primary Data*

### **6.3 Presentation and Discussion of the Semi-Structured Interview Data and Documentary Analysis**

The study analysed PFM related documents and legislation in Zimbabwean fiscally decentralised local government systems in line with the above research objectives and questions. The study found out that in Zimbabwe, the management of public finances by local authorities is governed by; The Constitution of Zimbabwe Amendment (No.20) Act of 2013, Urban Councils Act [Chapter 29:15], Rural District Councils Act [Chapter 29:13], Public Financial Management Act [22:19], The Public Procurement and Disposal of Public Assets Act [22:23] and the Audit Office Act [22:18]. Outlined in these Acts are some guidelines, rules and procedures relating to the stages of the budget cycle which are; budget planning, budget formulation, budget execution and control, budget evaluation and external scrutiny. Audit reports and policy directives were also content analysed. The interview responses and document extracts are presented and analysed below in line with the research objectives and questions, presented in Chapter 1.

### **6.4 Determinants of the Quality of Budget Planning and Formulation**

**OBJECTIVE 1: To describe the systems, institutions and processes that determine the quality of budget planning and formulation in Zimbabwean fiscally decentralised local government budget and budgetary control systems.**



**Figure 6.1: Budget Planning and Formulation Themes**

*Source: Own elaboration*

As shown in figure 6.1 above, the themes that emerged as the determinants of the quality of budget planning and formulation in fiscally decentralised local government were; (i) **resource adequacy and predictability**, (ii) **innovation and business principles**, (iii) **oversight from higher-level government**, (iv) **compliance with laws and regulations**, (v) **human resource skills and competence**, (vi) **leadership skills**, (vii) **collaboration**, (viii) **strategic and financial planning**, (ix) **stakeholder participation access to information** and the (x) **contents and structure of the budget**.

#### **6.4.1 Resource Adequacy, Innovation and Business Principles**

For example, Participant C2 emphasized on **resource adequacy** and **innovation** as follows;

*“The council’s revenue comes mainly from rates. We also have business licenses, water charges, sewer, street light levy and roads levy. The second component is the land sales, which they call estate funds. Estate funds mainly finance capital expenditure. The council needs to have adequate*

*revenues to finance service delivery. More sources of revenue should be given to local authorities. At the same time, we try to be as innovative as possible in mobilising and collecting revenue.”*

Similarly; Participant A4 underscored the importance of **resource adequacy** and **innovation** as follows;

*‘We have billed income and non-billed income. Under billed income, we have mainly owners’ rates in the low-density suburbs and supplementary charges in the high density. Supplementary charges are still rates, but we call them supplementary charges in the high density because they are not based on the value of the property but the number of rooms. We also have water. We also have to refuse removal. We also have a sewerage charge. We also have rentals. For non-billed income, we have bus charges at the rank, ambulance charges, clinics, shop licenses, spraying income. Its sundry income. Income from land sales is capital income. The challenge is that our revenue is too little, and we end up failing to deliver essential services. The economic environment is hindering us from becoming as innovative as we would want in mobilising and collecting revenues from various sources.’*

Participant A11 also underscored the importance of **viability and business principles** and also **autonomy and efficiency** as follows;

*‘We do have income-generating projects; we have a Timber plantation. We have it as a private company to divert from the system of the council where there is a lot of bureaucracy involving meetings, resolutions and waiting periods. It has to operate on sound business principles. The project is getting on quite well. It is very viable. The council resolved that it should recapitalize so the profits have not yet been transferred to the council.’*

In support, Participant B2 also hinted on the importance of **viability and business principles**, and **autonomy** as follows;

*‘We have Ingwe Breweries; we are the sole shareholder in that undertaking. Initially, the Brewery was under council and then the council decided to make it a stand-alone entity. The idea was to make it operate on business lines different from the bureaucracy that is associated with local*

*authorities. It would then generate revenue in the form of dividends paid to the council. Right now, we are on the verge of privatizing into a private company, because it is still an undertaking of the council. Once that is done, the council is expecting it to generate substantial revenue.....'*

The notion that privatising income-generating projects in local authorities makes them more successful concurs with the recommendations by Marais and Botes (2006) in South Africa. This was also successful in both Queensland and New Zealand (Conway-Davy-Pty-Ltd, 2010).

#### **6.4.2 Compliance with Laws and Regulations & Oversight from Higher-Level Government**

In concurrence, Participant B6 echoed the importance of *viability and business principles*, *adequate controls* and *oversight from the higher-level government*. Also, the interviewee hinted on the importance of *compliance with laws and regulations*, as follows;

*'.... the Act permits income-generating projects, but in 2011, the Ministry directed local authorities to stick to their core mandate of service delivery. The problem was that income-generating projects were not loss-making per se but there were no proper controls. They were being abused. So, for income-generating projects to be viable, there should be less interference from the council and they should operate on business principles just like any private company.'*

Interviewees also underscored on the need for local authorities to embrace *viability and business principles*, ensure *adequate controls* and *oversight from the higher-level government*.

For example, participant D2 had this to say;

*'We are discouraging income-generating projects because most of them are loss-making and end up being subsidised by the council. 2 or 3 local authorities are running successful beerhalls.... Competition, from private sector players, has been a hindrance for some projects. Some council officials have also abused these projects because of lack of proper controls and sound business principles. Income-generating projects are allowed but local authorities are required to have Ministerial approval.'*

The respondents also implored that *oversight of local government from the higher-level government* was essential.

For example, Participant D2 affirmed;

*'Before budgets are crafted, we write a circular of the issues that we think need guidance and that circular goes with a checklist of how we will assess their budget before approval. The checklist looks at things like; assets and liabilities, the proportion of salaries, capital expenditure, budget consultations, objections etc. If any tariff reviews were done, what were the considerations?'*

### **6.4.3 Collaboration**

As shown in figure 6.1 above the study also found that the quality of local PFM systems was also influenced by the *collaboration and support* that a local authority obtained from internal stakeholders (*Intra organisational*), other organisations (*inter-organisational*), and other government levels (*intergovernmental*).

For example, Participant D2 alluded to *intergovernmental collaboration and support, resource adequacy and predictability*, and *compliance with laws and regulations*, as follows;

*'The 5% revenue sharing stipulation for subnational governments by the New Constitution of 2013 have never been attended to. This has caused a lot of challenges because the internal revenue generated by local authorities is not enough to fund all service delivery activities. However, the allocation for this year is available and there is an intention to distribute it. There is a proposed formula for distributing the funds to local authorities which have been crafted with input from local authorities themselves. The formula is now awaiting treasury concurrence. If Treasury concurs, the Constitution says that an enabling Act should be crafted. The ZINARA grant is specifically for road maintenance. Complaints from local authorities indicate that sometimes it does not come in time, maybe be too little for road maintenance activities'*

Similarly, Participant A11 also affirmed the significance of *intergovernmental collaboration and support, resource adequacy and predictability*, and *compliance with laws and regulations* as follows;

*'At the moment there are no transfers from the central government except for funds from ZINARA for road maintenance. But I understand that we should be receiving a share of national revenues from the central government, according to the constitution, which is a very good thing. There is no year when the ZINARA disbursements came sufficiently. Sometimes you see the funds being transferred as late as November and December during the year, yet it is the allocation for that year, and the year will be almost over. Sometimes they give you less than promised. This causes most of the projects to remain unattended for long periods'*

Participant B9 also underscored the importance of collaboration of players within each local authority (*intraorganisational collaboration*) as follows;

*'Firstly, what happens is that we start by having a budget calendar. It is prepared by the Town Secretary and the administrative personnel. It is sort of a roadmap which itemizes the processes up to approval. After the budget calendar has been done, the first thing is to call for a finance committee meeting. The finance committee would meet to start the process for the budget....'*

#### **6.4.4 Strategic Planning, Financial Planning and Human Resource Skills and Competence**

As shown in figure 6.1 above, the study also found that *strategic and financial planning* systems also influenced the quality of local PFM budget planning and formulation systems. The sub-themes that emerged were; (i) *responsive strategic planning*, (ii) *alignment of annual budgets with strategic plans*, (iii) *financial planning methods and records*, and use of (iv) *information technology*.

For example, Participant D2 affirmed the *importance of strategic planning, resource adequacy*, and *service delivery targets* as follows;

*"Most Local authorities do plan on a 5-year horizon except for maybe .... which have a longer-term time horizon of 20-25 years, and ..... which had 10 years. The problem is meeting set targets has been that of poor revenue collection. A medium-term plan is very good for evaluating performance. But if there are no adequate resources, the plan becomes useless because most projects in the plan will remain undone"* (Participant D2).

Similarly, Participant A9 also alluded to the significance of **responsive strategic planning, alignment of annual budgets with strategic plans** and **service delivery targets and evaluation** as follows;

*“We do have a strategic plan. I am sure every local authority has one because when we submit our budget, we also supposed to submit the strategic plan which is valid in terms of time-frame. The strategic plans are working because when I do my budget, I can’t just pick projects from the air, I have to extract them from the strategic plan. We should align our projects with the strategic plan. Those which deviate should have an explanation. So, a strategic plan is important in helping us to assess how we are performing against our targets. For example, deviations might arise because of unforeseen events like the outbreak of cholera.”*

Similarly, Participant A12 supported the importance of **responsive strategic planning, alignment of annual budgets with strategic plans, resource adequacy** and **service delivery targets and evaluation** as follows;

*“Yes, we do have a strategic plan. It’s a 5-year plan. Every year we have to extract the annual plan from the strategic plan. Each year when we prepare the annual budget, we refer to what is in the strategic plan. The annual projects are extracted from the strategic plan. Some projects in the strategic plan are being implemented but others are not; because of financial constraints. So, you might find that after 5 years you might only have completed 1 or 2 projects in the strategic plan. Each year we have to assess our performance against the strategic plan and take corrective actions where appropriate. Sometimes we might need to adjust the strategic plan because of changed circumstances.”*

Participant B8 also emphasized on responsive **strategic planning, service delivery targets and evaluation** and **stakeholder participation** as follows;

*“We have a strategic plan, which was done about 2 years ago, which is supposed to run until 2020. But I think it’s not practical to have a 5-year strategic plan in our turbulent economic environment because things change rapidly. The strategic plan should be at most 3 years. Still, the plan needs to be reviewed now and then. The strategic plan is essential because it enables all stakeholders to*

*agree on the service delivery needs of the community and how they will be achieved. Performance can then be assessed against the strategic plan each year.'*

Other participants also emphasized the importance of **information technology**. For example, Participant A3 said;

*'The process is good, but I recommend that we move with times to a paperless process; it should be possible to submit budgets and financial statements electronically.'*

All the respondents also emphasized on the importance of sound (i) **hybrid and systematic financial planning methods**, (ii) **keeping updated records (accounting system)** and (iii) **human resource skills and competence** in financial planning. This entailed using various methods in budgeting and keeping updated and appropriate records to be used in making projections. Also, human resource expertise from the internal staff was essential in the financing planning process.

For example, Participant D2 indicated;

*'Local authorities use a hybrid of methods; both zero-based budgeting and incremental budgeting. We have encouraged local authorities to come up with databases of statistics for properties, tower lights etc, in the local authority area, estimate growth in following years, and then use those forecasts to budget.'*

In support, Participant C3 also said;

*'I will give an example, let's say we are talking of rates. The first thing is that the council should have a database of rateable properties. The rates per every property are known, because the council in every ten years, should have a valuation roll. .... If there is no known addition to that database, what we expect in the coming year, can be ascertained. As for water, there is a benchmark that so many people live in a particular house, and there is an estimate of the number of kilolitres to be supplied per day to each household which is multiplied by the number of households. At the same we expect variations, and these are also catered for. So, the budget estimates for expenditure will be based on the amount of water to be produced. Other expenses are easy to determine based on the underlying variables.'*

On the other hand, Participant C7 also emphasized on the importance of **human resource skills and competence (expertise)** in financial planning, in addition to **hybrid financial planning methods**. The interviewee stated;

*'I would like to think that the two methods are used in forecasting. Expert judgement comes in, for example, the Engineer in terms of the experience that he has in terms of water consumption. Deterministic techniques also come in. The council compiles the expectations of the stakeholders through consultations to come up with a budget, and I think that is zero budgeting. So, it depends on the type of revenue or expenditure. Even for one item, several methods should be used.'*

Similarly, Participant A9 also emphasized on **systematic and hybrid financial planning methods, updated financial planning records (accounting system)** and **human resource skills and competence** (expertise) as follows;

*'As for income, the properties are already in the system. So, we already know how many ratepayers we have. We do a small estimate in terms of the growth rate. We might have approved plans that we already know. That is also factored in in terms of growth. For expenditure we let each department estimate. If it is a project, we let the Engineer or the relevant person dealing with that project lead us in coming up with the related costs. For ordinary supplies, the departments provide an estimate of their quantities and someone else from finance does the costing. For uniforms of police officers, we would already know the number of police officers we have. That is used to determine the cost of their uniforms.'*

#### **6.4.5 Leadership Skills, Stakeholder Participation and Access to Information**

Participant A12 elaborated the importance of effective (i) **leadership skills from councillors**, (ii) **strategic planning**, (iii) **stakeholder consultation, dialogue and consensus**, (iv) **intraorganisational collaboration**, (v) **oversight from higher-level government** and (vi) **compliance with laws and regulations** as follows;

*'The process should start from the villages, where every councillor should hold meetings in their particular villages where they come up with their plans. Those plans should also be used in the*

*strategic plan. But sometimes, some councillors do not hold those meetings. So, sometimes the executive is forced to decide for some wards. So, after that respective committee deliberate on the findings from the consultations and everything is now brought to the finance committee which will do a consolidation of all the deliberations. After consolidating the budget, we do the final consultations. Before we do consolidation, we also do some consultations here and there. .... After the final consultations with the stakeholders, the final budget proposal can now be sent to the full council for adoption. When we do the final consultations, the chairpersons of all committees will be present. The Ministry does not normally approve the budget before the end of the year. For example, we haven't received any notice to the approval of the budget for 2018, so whatever we are doing is still illegal.'*

Similarly, Participant A7 reiterated on the significance of (i) **leadership skills from councillors**, (ii) **strategic planning**, (iii) **stakeholder consultation, dialogue and consensus**, (iv) **stakeholder access to information** (v) **intraorganisational collaboration**, (vi) **oversight from higher-level government** and (vii) **compliance with laws and regulations** as follows;

*'Generation of estimates on a budget is a long process. We operate participatory budgets. We don't prepare them while seated in offices but we consult the stakeholders. The first thing is that departments come up with their proposals. They come up with activities and projects considering what was happening during the year. Then we come up with proposed tariffs for the coming year. We do a cost-build up for all services, then we take those proposals to the council. The council makes its contributions and any necessary adjustments are made before we go to the stakeholders. After that, we go to consult the residents. We put dates and venues for the meetings. The residents make their contributions and comments on the draft budget and we discuss. So, after the discussion and consensus, we come back and consolidate their objections and other changes which would have arisen. Then it's submitted to the policymakers (councillors) so that they can decide on which projects and activities they want to implement, take up from the stakeholders or impose. After that the proposed budget is published in a public newspaper; for example, the Sunday Mail for 30 days. During that period, stakeholders can come to see the budget at the council offices, lodge their complaints and objections. If there are objections, they are retaken and brought to council. If there are no objections, the proposed budget is brought to the council for final adoption. It is then*

*submitted to the Ministry for approval. Yes, the Ministry is approving the budget before the beginning of the year if your things are in order. Some councils are facing challenges.... Those who leap into the following year, it's not the Ministry's fault but it's because they would have some things which they would need to rectify in their budgets. So, it's the process of correction that can take time.'*

#### **6.4.6 Contents and Structure of the Budget**

As shown in figure 6.1 above, the study also found that the *contents and structure of the budget* also influenced the quality of local budget planning and formulation systems. The sub-themes that emerged were; (i) *comprehensiveness and completeness*, (ii) *input controls (fiscal discipline)*, (iii) *service delivery/performance targets and evaluation*, and (iv) *consistency and comparability*. This means that the budget should include all items of revenue and expenditure for the local authority. Also, service delivery targets should be included in the budget and their achievement should be evaluated. Input controls should also ensure fiscal discipline in that money should be used only for its intended purpose.

For example;

Participant B9 pointed to the significance of *input controls (fiscal discipline)* and *comprehensiveness and completeness* as follows;

*'Our budget is fund based. It is classified following funds. For example, we have the Rate fund, income that is supposed to be accruing revenue and the related expenditure. And then we have the Housing Fund; incomes to accrue and expenditures to be made and so on. So, it is fund based. The purpose of funds is to ensure that money is used for its intended purpose. We also have line items that are classified as Votes in terms of expenditure. Different departments have their votes based on funds allocated to them. This helps to make sure that departments do not overuse funds allocated to them. It also ensures that all council activities are covered during budgeting.'*

In support, Participant B4 also emphasized on the importance of *input controls (fiscal discipline)* and *completeness and comprehensiveness* as follows;

*'Our expenditure is classified into votes. We have a vote for engineering, a vote for central administration, a vote for finance, a vote for housing, etc. The council is run on committees. There is a housing committee, works committee, engineering committee, finance committee, etc. So, the votes are aligned to those committees. If you want to spend anything related to Housing, a report is presented to the Housing Committee. The housing committee will have to pass the expenditure as okay. This is essential for control purposes.'*

Similarly, Participant A8 emphasized on (i) **comprehensiveness and completeness**, (ii) **input controls (fiscal discipline)**, and (iii) **consistency and comparability** as follows;

*'Each line item stands on its own in terms of revenue no matter how minute it is and everything has to be included. For example, we have shop licenses, waiting list, land survey, land sales, water, land development, refuse collection etc. This helps in budget analysis. That is how it is supposed to be done according to the Urban Councils Act. Water is supposed to be ring-fenced. This means revenue collections for water are supposed to be used for water provision expenditure. This is vital for critical services. But I have seen that budget classification is not consistent across different local authorities, some have more detailed budgets than others. This makes it difficult to accurately compare different local authorities.'*

Participant C7 also emphasized on **comprehensiveness and completeness** as follows;

*'It's a combination of both program and line-items. But mainly we have capital expenditure listed and recurrent expenditure listed as well. So, it's mainly to do with line items. All items of revenue and expenditure should be included.'*

Participant B8 commented on the importance of (i) **service delivery targets**, (ii) **training**, (iii) **strategic planning**, (iv) **leadership skills of department heads (HODs)**, and (v) **intraorganisational collaboration** as follows;

*IRBM we talk of Integrated Result Based Management. I happen to be one of the trainers who were training local authorities in this province. The strategic plans are prepared based on client needs and programme analysis. We try to articulate the problems and needs of our community.*

*These include the construction of nearby schools, construction of clinics, roads, water etc. As we then budget, first from the strategic plan we prepare the Council Integrated Performance Agreement (CIPA). This is a plan of action of what we are going to do in the current year. And then, once the CIPA has been prepared, the HODs would then prepare their departmental work plans from the CIPA. They are then factored into the budget as programs. For example, a programme for the construction of roads, street lights, etc.’*

Participant D2 similarly highlighted the importance of (i) **performance/service delivery targets and evaluation**, (ii) **plans for continuous improvement and accountability**, (iii) **oversight from higher-level government**, as follows;

*‘They provide budget performance for the current year and estimates for the following year. For example, for the 2018 budget, they provide budget performance for 2017 and estimates for 2018. All the information on the checklist should be in the budget.’*

*‘.... when they bring their budgets, they also bring what is called a PIP (Performance Improvement Plan). This shows where the current performance is and how they want to improve it towards what is required. Benchmarks are there are most service delivery areas. PIP is an accessory to the budget proposal. There is the PIP and there is also a Performance Agreement (PA) for the CEO (Town Clerk). The Town Clerk shows how he/she will implement what has been budgeted. The PA is used to rate the CEO. For example, if the council budgeted to construct a bridge, the percentage of completion has to be assessed at the end of the year. Targets in the PIP and PA should have been allocated funds in the budget. Therefore, the PIP and the PA are accessories to the budget proposal.’*

Participant B8 also emphasized on (i) **intraorganisational collaboration and support**, (ii) **service delivery targets and evaluation**, (iii) **human resource skills and competence**, by saying;

*‘Yes, we go to different departments, each department will outline its targets in terms of service delivery. The financial estimates in the budget should be backed by the targets for service delivery. For example, the engineering department should know the number and lengths of roads to be constructed. Even the RBM contract of the head of each department should specify outcomes and*

*outputs expected. Such information might not be made available to the public because the budget is a broader document for an organisation. But it is contained in strategic reviews of a council. Departmental Heads also do Departmental Performance Agreements with the Town Clerk.'*

#### **6.4.7 Stakeholder Participation and Access to Information**

Figure 6.1 above also showed that the study found that *stakeholder participation* positively influenced the quality of local budget planning and formulation systems. The sub-themes that emerged included; (i) *consultation, dialogue and consensus*, (ii) *multi-methods communication* (access to information), (iii) *training* and (iv) *use of information technology*.

For example, Participant D2 emphasized on the cost-effective *use of information technology*, *inter-organisational collaboration and support*, and *multi-methods communication with stakeholders* as follows;

*'All local authorities have been encouraged to have websites. They might not be active but they have them. They have been encouraged to have a text message (SMS) platforms. We also introduced a platform called U-Report. This platform uses the contacts they have been supplied by the clients to send budget messages. The platform was developed by UNICEF. The challenge is that it's a very expensive platform. However, under UNICEF the tariffs were lower.'*

Participant B1 also underscored the importance of *multi-methods communication* (stakeholder access to information), *leadership skills of councillors* and *use of information technology* as follows;

*"We prepare some flyers, to compliment that, our Municipal Police will also move around with a loudspeaker, announcing the dates, times and venues of meetings. The councillors will also disseminate the information to their wards. The council has a website, and we also have a platform to communicate with residents; known as MDATA. Residents can send SMS on issues that need the attention of the council.'*

Similarly, Participant A11 supported the importance of the (i) **leadership skills of councillors**, (ii) **intraorganisational collaboration and support**, (iii) **use of information technology** and (iv) **stakeholder access to information** as follows;

*'We expect the council to communicate with the residents through the councillors. They should hold meetings in their wards, from time to time. But in our case, the councillors and the executive hold joint meetings with the stakeholders. Our website was set up recently, November or December. We are still working on it, sourcing for more information to put there. Very soon you will see a lot of information there.'*

Participant D2 affirmed the importance of (i) **active stakeholder participation**, (ii) **stakeholder consultation, dialogue and consensus**, (iii) **stakeholder access to information**, (iv) **compliance with laws and regulations**, and (v) **oversight from the higher-level government** as follows;

*'Local Authorities are making sure that the public is included in the budgeting process. But the problem is that the public does not want to be included. Our circulars and the Constitution require consultation of the public on anything. The UCA and RDCA say that you advertise for a full month, and you have to put in at least two issues of a newspaper. This is done so that the public knows that you are working on a budget. We encourage them to have public meetings which start around August. These enable them to get input into the budget. They come up with a draft budget and they advertise that draft. People are free to go to the meetings; they give their input. When the budget draft has been advertised, they should at it so that they see if their contributions have been incorporated. If it's no there, they should indicate. The Act stipulates that if objections are more than 50, the budget draft cannot go through. In that case, the process has to address the issues. Even if the objections are less than 50, the budget can go through but the council should document that and how it addressed the objections. So, the process is fully participatory, but people want to talk about the issues later into the year when they have been affected.'*

Participant A11 affirmed the importance of (i) **leadership skills of councillors**, (ii) **strategic planning** (i) **active stakeholder participation**, (ii) **stakeholder consultation, dialogue and consensus**, as follows;

*'The process should start from the villages, where every councillor should hold meetings in their particular villages where they come up with their plans. Those plans should also be used in the strategic plan. But sometimes, some councillors do not hold those meetings. So, sometimes the executive is forced to decide for some wards. .... we also do some consultations here and there. We started that last year; when we started a programme known as civic engagement. We do that throughout the year. We move around consulting and discussing with the stakeholders what they expect from us, and what we expect from them. We do that interaction throughout the year. For example, last week on Friday we went to ward 1' process start from the villages, every councillor hold meetings in the village, come up with their plans.'*

Similarly, Participant A5 underscored the importance of (i) **leadership skills of councillors**, (ii) **strategic planning** (iii) **active stakeholder participation**, (iv) **stakeholder consultation, dialogue and consensus**, (v) **stakeholder feedback** and (vi) **performance evaluation** as follows;

*'We do have councillors who represent wards, and in those wards, they have ward development committees who are on the ground. We also have a Budget Committee that comprises members from different stakeholder groups, for example; transport, the business community, informal traders, representative of the residents and also financial institutions. The committee will be on the fore-front in budget consultations. The DA is also a member of the budget committee. The committee will also be in the fore-front when reporting back to the stakeholders on what we have achieved, challenges and the way forward. We also take the input from the stakeholders on what they want to be incorporated in the budget.'*

In concurrence, Participant A7 also emphasized the importance of (i) **stakeholder consultation, dialogue and consensus**, (ii) **leadership skills of councillors**, (iii) **stakeholder access to information**, and (iv) **oversight from the higher-level government** as follows;

*'.... the council makes its contributions and any necessary adjustments are made before we go to the stakeholders. After that, we go to consult the residents. We put dates and venues for the meetings. The residents make their contributions and comments on the draft budget and we discuss. So, after the discussion and consensus, we come back and consolidate their objections and other changes which would have arisen. Then it's submitted to the policymakers (councillors)*

*so that they can decide on which projects and activities they want to implement, take up from the stakeholders or impose. After that the proposed budget is published in a public newspaper; for example, the Sunday Mail for 30 days. During that period, stakeholders can come to see the budget at the council offices, lodge their complaints and objections. If there are objections, they are retaken and brought to council. If there are no objections, the proposed budget is brought to the council for final adoption. It is then submitted to the Ministry for approval....'*

Similarly, Participant B4 underscored the importance of **active stakeholder participation** as follows;

*'The Ministry requires that as a local authority we should consult residents so that they have an input in the budget. So, before the budget is crafted, we undertake consultations throughout the city. ....But unfortunately, people do not seem to appreciate that it is their budget. It is not different from the past when the council used to do it without consulting anyone. If even we advertise, they respond just sometimes and it is not always favourable.'*

On the other hand, Participant A12 emphasized the importance of the (i) **use of information technology**, (ii) **multi-methods communication with stakeholders**, (iii) **inter-organisational collaboration and support**, and (iv) **human resource expertise** as follows;

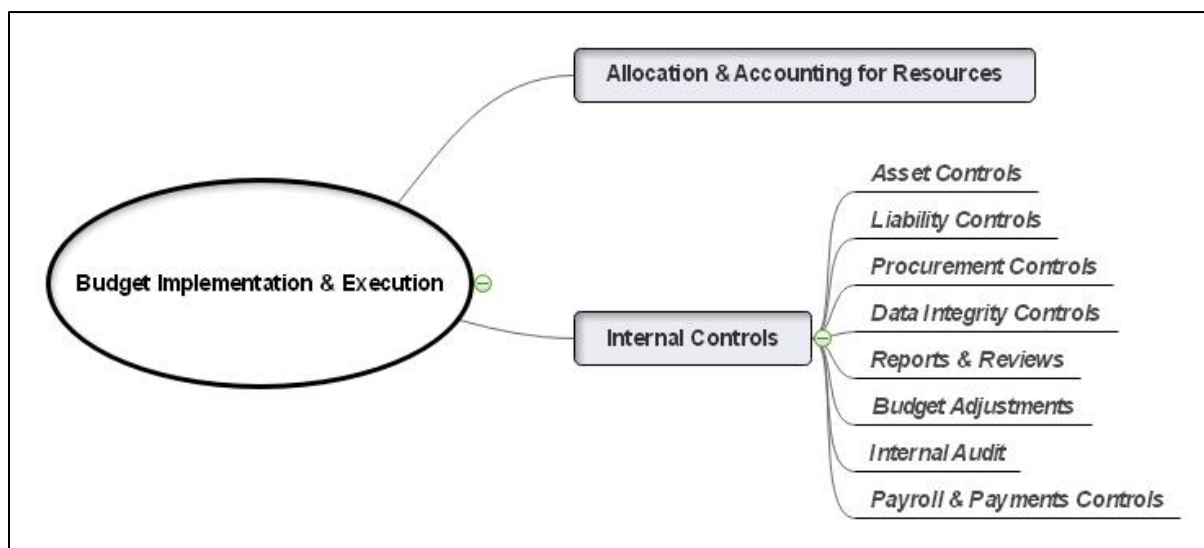
*'We do review meetings. But people do not want to come to meetings. Even if you check with the minutes, meetings are poorly attended. But people do post on our website. On the 2017 budget, I had more than 6 000 responses on the questionnaires, WhatsApp platforms and the website. We have U-report, a computer-based report which was created for us by UNICEF. I had more than 6 000 responses on U-report discussing my budget. On WhatsApp, we have groups for different residents. We have a group called; '.....', this has professionals who would want to give you advice on specific issues.'*

Similarly, Participant B7 supported (i) **inter-organisational collaboration and support**, (ii) **training**, and (iii) **consultation, dialogue and consensus**, as follows;

*'I think this year stakeholder participation was almost 100%. Because we managed to have facilitators from LACERP those guys, they trained us. They first trained the management and after that, they trained the councillors. They trained again those people who represent the residents, the Resident Associations. So, after getting the problems from Resident Associations, Management, and Councillors, they conducted a meeting that included all the parties. For example, the residents were saying the council is not doing its core business of providing service, like refuse collection and water. On the other side, management was saying residents are not paying. So, there was now a roundtable, and I think it was well attended. So, it was not an issue of pointing fingers, but of saying you, as an individual, what are u doing, are u paying? But you still need service from the council. So, I think the assistance of the independent organisation managed to make our work easier.'*

## 6.5 Determinants of the Quality of Budget Execution and Implementation

**OBJECTIVE 2:** To describe the systems, institutions and processes that determine the quality of budget execution and implementation in Zimbabwean fiscally decentralised local government budget and budgetary control systems.

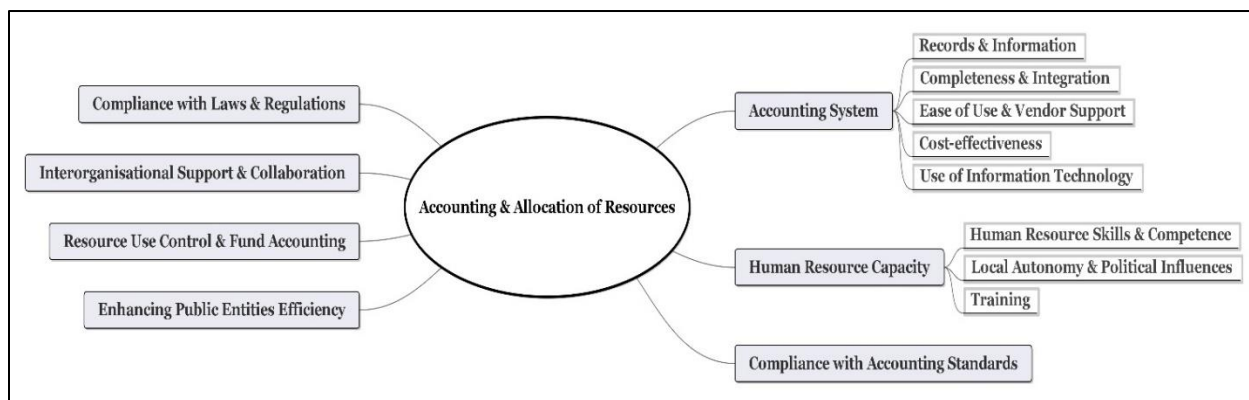


**Figure 6.2: Budget Execution and Implementation Themes**

*Source: Own elaboration*

Figure 6.2 above shows that the determinants of the quality of budget execution and implementation can be classified into two broad categories namely; (i) *allocation and accounting for resources* and (ii) *internal control of resources*. The sub-themes that emerged under *internal controls* were (i) *asset controls*, (ii) *liability controls*, (iii) *procurement controls*, (iv) *data integrity controls*, (v) *reports and reviews*, (vi) *budget adjustments*, (vii) *internal audit* and (viii) *payroll and payments controls*.

### 6.5.1 Allocation and Accounting for Resources



**Figure 6.3: Allocation and Accounting for Resources Themes**

*Source: Own elaboration*

Seven sub-themes were identified under accounting as depicted in figure 6.3 above. These were; (i) *accounting system*, (ii) *human resource capacity*, (iii) *compliance with accounting standards*, (iv) *compliance with laws and regulations*, (v) *inter-organisational collaboration and support*, (vi) *resource use control and fund accounting* and (vii) *enhancing public entities efficiency*.

Thus, the study found that the systems, processes and institutions for allocating and accounting for resources influenced the quality of local budget execution and implementation. In this regard, the accounting system; the capacity of human resources; compliance with laws and regulations and accounting standards; a collaboration between the local authority and other organisations; control of resource use and enhancing public entities efficiency emerged as important sub-components.

Furthermore, an *accounting system* was expected to (i) *keep records and provide information*, the different records in the system should be (ii) *integrated or connected* and should be (iii) *complete*. The accounting system should also be (iv) *easy to use* and have (v) *adequate support from the vendor*. The accounting system should also be (vi) *cost-effective* and the (vii) *use of information technology* is vital.

Similarly, *human resource capacity* was found to be enhanced by (i) *human resource skills and competence*, (ii) *local autonomy* and the (iii) *absence of political influences* in recruitment, and (iv) *training*.

#### 6.5.1.1 Accounting System & Human Resource Capacity

For example, Participant A9 underscored the importance of the *accounting system*, the need for it to (i) *keep records, provide information* and to be (ii) *complete*. Also, the interviewee emphasized (iii) *adequate vendor support*, (iv) *ease of use, cost-effectiveness*, (v) *training*, (vi) *human resource competence and skills*, (vii) *inter-organisational support and collaboration*. Thus, the respondent remarked;

*'The accounting system is vital because we need to record all our transactions for decision making, measuring costs, evaluating performance and accountability. We use PROMUN as the accounting package and we have a lot of challenges. I have been with local authorities for the past 29 years or so. With Pastel, you would do your accounts to the end. Since the introduction of PROMUN, we have only seen 5 local authorities who can effectively use PROMUN. The five have been supported by GIZ. You would want a package which you can use to the fullest. If PROMUN was effective, why are local authorities still behind in terms of producing final accounts?? It shows that the package is not user-friendly. My accountants are still struggling with it right now. To me, it is not a user-friendly package. It also suffered a lot of support problems. Some training has been provided but it has always lacked support. When it was introduced, the only company that dealt with it was Becko. Becko was not giving it a priority because at one time they had only 1 person supporting all the 32 urban local authorities. They tried to set up the Bulawayo office, but the young man who was there was also struggling with it. Hwange once dropped it and did manual for 2 years. So, it lacked support. Even now, Becko closed down. The franchise was given to*

*another indigenous known as Access Solutions. But even Access Solutions has young inexperienced personnel. If you tell our IT admin to call Access Solutions, they will laugh at you because they won't help you that much. As local authorities, I am sure you can use the accounting package you want. Just that we have been stuck because of also the costs. It is difficult to justify to the council the need to buy another package which might cost say \$100 000. They will ask why not just use the PROMUN that others are using. So, we are stuck with PROMUN.'*

Similarly, Participant B4 echoed the same sentiments in supporting the need of the **accounting system** to be (i) **complete**, (ii) **provide information**, have adequate (iii) **vendor support**, be (iv) **easy to use**, and the importance of (v) **training**. Thus, the respondent remarked;

*'We use PROMUN accounting system. It originated in South Africa. It is being used by most local authorities. When it started, it was like a government contract. The government entered into a contract with the company on behalf of local authorities. It covers all modules. But the support here is lacking. When it was introduced, it was supported by Becko. They later changed the contract, now it's being supported by Access Solutions. But seems like the people were not trained well in South Africa. So the support so far is not very satisfactory. For example, this December they had a software upgrade and we were in real trouble. It was failing to bill or even print statements. They would prefer you to R-Data, the original company. The support is weak. This is a big problem because the accounting system is the backbone of information provision. So if it is not functioning properly, it affects all other business processes.'*

On the other hand, Participant B6 hinted on the importance of; **human resource skills and competence**, **council autonomy** and **political influences** in recruitment as follows;

*'..... The only challenge we have is the capturing of the Cash Book. Political influences can come into play in recruitment which results in the recruitment of someone who lacks the necessary skills required for a particular job. You can come up to January 2018 before the Cash Book for July 2017 have been updated.'* (Participant B6).

Participant B3 also supported the importance of (i) **human resource skills and competence**, (ii) **inter-organisational collaboration and support**, (iii) **training** and (iv) **use of information technology** as follows;

*'Most local authorities are behind in terms of their financial reports. In most circumstances, it's because of incompetent personnel. ...In other instances, there is a lack of appreciation of the accounting packages that are being used..... Most of the accounting personnel are not aware of the outcome of the transactions they enter..... So, they had to hire outside external auditors to assist in terms of training. But still, you can see that they are not trainable. There seem to be no trainers who are well vested with this package. There is a need for thorough training for most local authority personnel.....However, computerised accounting systems are the way to go, we should move with technology.'*

Similarly, Participant B10 underscored the importance of the (i) **accounting system**, (ii) **completeness of the accounting system**, (iii) **vendor-support**, (iv) **use of information technology** and (v) **human resource skills and competence**, as follows;

*'The accounting system is critical in recording and providing information for various decisions and processes of the council. We have moved to computerised systems to take advantage of efficiencies associated with advances in technology. The council uses what it calls the PROMUN system. That PROMUN system has not been effective. It is very good when it comes to billing. But when it comes to other modules, it's a bit weak. The reason could be; people are not trained or the system itself has some deficiencies. The vendor of PROMUN was Becko, which collapsed I think 2 years ago. So, for some time, the system had no vendor in Zimbabwe. Because PROMUN is from South Africa. Then another vendor took over later but is not yet accustomed to the software. Of late, we have moved to a higher version of the system, however, still, it has some deficiencies. The challenges emanate from the system and the people as part of the system.'*

Participant B7 also emphasized on the importance of (i) **use of information technology**, (ii) **integration of accounting records** and (iii) **completeness of the accounting system** as follows;

*'We use PROMUN. PROMUN would be more effective if all sections of the accounting system were to be computerised. But at the moment, it is only the billing, payments and partly stores. The rest is not. So, it is difficult to tell if it is being overall effective. But the sections where it is being used, it is being effective. Other sections are on manual. For example, with Housing we have been insisting that it becomes computerised. This would avoid problems of double allocation, or even situations where someone pays for a stand and then loses a receipt, only resulting in the council writing a letter to that person saying he has not paid. Since these receipts are not linked to housing, these receipts have to be manually recorded.'*

Participant D2 underscored the importance of (i) **compliance with accounting standards**, (ii) **compliance with laws and regulations**, and the (iii) **need to efficiently account for activities** of the local authority, the need to (iv) **control resource use and ensure accountability** and the (v) **completeness of the accounting system**. The participant thus remarked;

*'Single entry is not accounting. Local authorities use double entry. They need to recognise both sides of a transaction according to accounting principles. It also affects the preparation of final accounts, recording liabilities and assets. All transactions should be properly recorded. Accruals accounting enables local authorities to efficiently account for their activities. Also, accounting standards require accruals and double-entry accounting. The UCA and RDCA also require the separation of specific accounts. This is essential for accountability.'*

Similarly, Participant B6 emphasized the need to **comply with accounting standards** as follows;

*'We use the double-entry system. It's more appropriate than single entry because it enables a recognition of the two sides of every transaction. IPSASs also require us to use double entry.'*

Thus, Participant A4 also underscored the need to **comply with laws and regulations** as follows;

*'With the guidance of the UCA, we use the accruals approach. We also run the cash accounts on a parallel basis to monitor the cash movement.'*

Similarly, Participant B7 said;

*'We use the accruals basis because we prepare our accounts using IPSASs.'*

Accruals accounting approach helped local authorities to account for public entities more effectively;

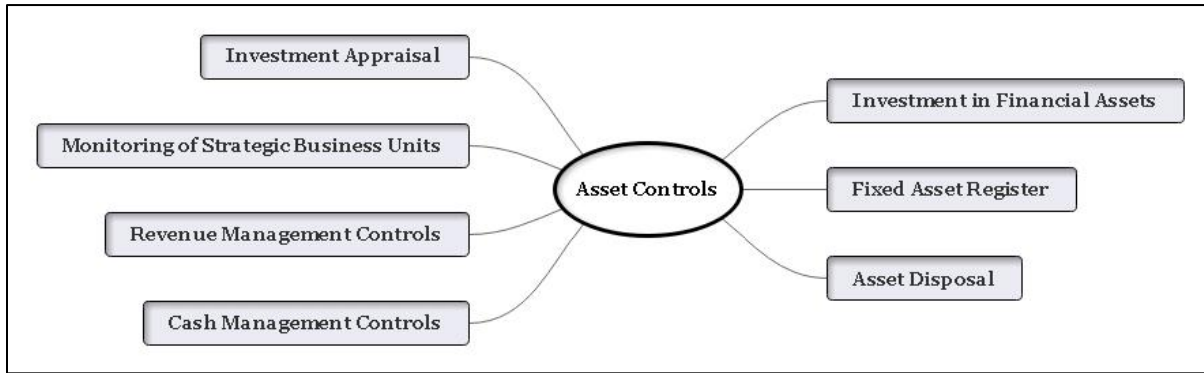
For example; Participant A10 emphasized on the need to (i) *efficiently account for the activities* of the local authority, (ii) *compliance with laws and regulations*, and (iii) *control resource use and ensure accountability*.

*"We have been doing cash accounting just like what the government has been doing. But of recent, there were changes. The Auditor-General wrote to us that we have to move to accruals accounting and double-entry to account for public entities more efficiently. So, we are in the process to move in that effect. The Urban Councils Act also requires us to separate different accounts for housing and rates, for example. This is essential for accountability"* (Participant A10).

### **6.5.2 Internal Control of Resources**

Figure 6.2 above shows that the sub-themes that emerged under *internal controls* were (i) *asset controls*, (ii) *liability controls*, (iii) *procurement controls*, (iv) *data integrity controls*, (v) *reports and reviews*, (vi) *budget adjustments*, (vii) *internal audit* and (viii) *payroll and payments controls*.

### 6.5.2.1 Asset Controls

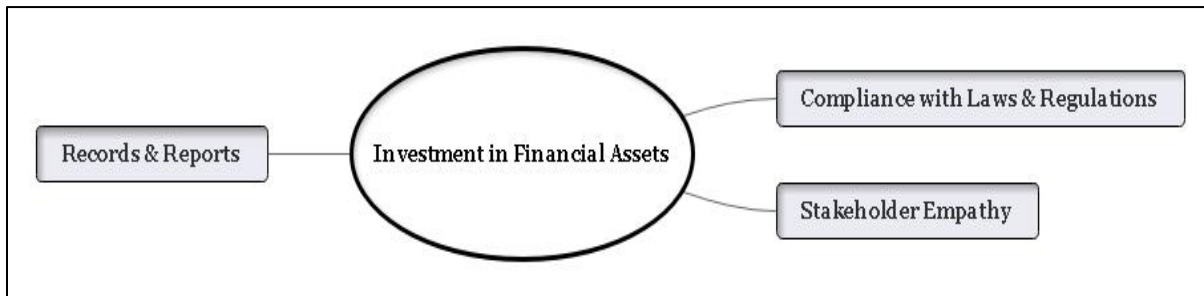


**Figure 6.4: Asset Control Themes**

*Source: Own elaboration*

Figure 6.4 above shows that the study also found that controls related to assets were also an important component of the internal controls of a local authority. The sub-themes that emerged were; (i) *investment in financial assets*, (ii) *investment appraisal*, (iii) *fixed asset register*, (iv) *asset disposal*, (v) *monitoring of strategic business units*, (vi) *revenue management controls* and (vii) *cash management controls*.

#### 6.5.2.1.1 Investment in Financial Assets



**Figure 6.5: Investment in Financial Assets Sub-Themes**

*Source: Own elaboration*

Figure 6.5 above shows that the quality of controls on investment in financial assets was influenced by (i) ***compliance with laws and regulations***, (ii) ***stakeholder empathy*** and (iii) ***keeping appropriate records and reports***.

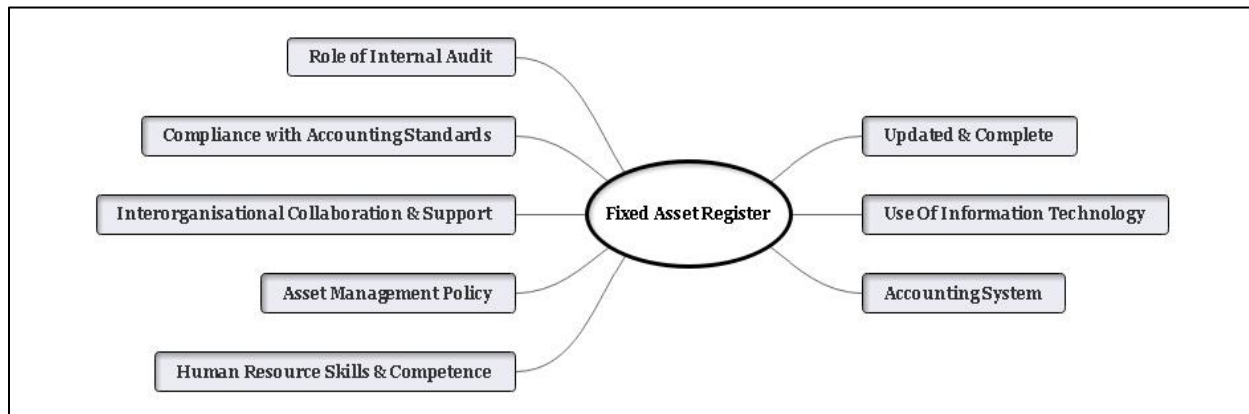
For example, Participant A5 alluded to the importance of (i) ***compliance with laws and regulations***, (ii) ***stakeholder empathy*** and (iii) ***keeping appropriate records and reports*** as follows;

*‘Investments are a good way to earn returns on surplus funds. At the moment we do not have any investments in financial assets, we cannot afford. Investments are allowed by the Urban Councils Act but they should not be too risky since we are dealing with public funds. We also try to keep updated records of the amounts invested and the returns obtained. These should also be reported to the council so that resolutions can be made.’*

Similarly, Participant A9 remarked the following concerning; ***compliance with laws and regulations***, (ii) ***stakeholder empathy*** and (iii) ***keeping appropriate records and reports***;

*‘We have ordinary investments either with the banks or asset management firms. They are recorded and reported. For example, in our financial statements for the month, reports of how much was acquired, redeemed and the returns are reported. The type of investments has to comply with the requirements of the Urban Councils Act. The key requirement is that the investments should not be too risky or based on speculation. This requirement is important since helps to safeguard public funds. We always have to ensure that we protect the taxpayer’s money and maintain the trust they have in us.’*

### 6.5.2.1.2 Fixed Asset Register



**Figure 6.6: Fixed Asset Register Sub-Themes**

*Source: Own elaboration*

The study also found that a fixed asset register was an important component of the local government internal controls. The fixed asset register was expected to be (i) ***updated and complete***, (ii) ***comply with accounting standards*** and backed by a sound (iii) ***asset management policy***. This was made possible through the (iv) ***accounting system***, the (v) ***use of information technology***, (vi) ***human resource skills and competence***, (vii) ***inter-organisational collaboration and support*** and the (viii) ***role of the internal audit function***. This is depicted in figure 6.6 above.

For example, Participant A5 emphasized on the importance of an (i) ***updated and complete asset register***, (ii) ***use of information technology***, (iii) ***accounting system***, and (iv) ***compliance with accounting standards*** as follows;

*‘Assets are a very important component of our operations. They should be properly recorded and the records should be up to date and complete. We do have a Fixed Asset Register. It’s manual but we are in the process of automating it. We have updated our PROMUN operating system to the latest version which allows for the capturing of the assets. So that it can also interface with our internal ledger. We try by all means to comply with accounting standards.’*

Similarly, Participant B10 alluded to the importance of an (i) **updated and complete register**, (ii) **accounting system**, and (iii) **use of information technology** as follows;

*'We have a fixed asset register that records all our assets. It's a module in the PROMUN system. However, it has some challenges. The accounts people cannot update it regularly. There are some assets which are not on the register. We also have some assets which are on the register but which are no longer physically there.'*

Similarly, Participant A2 highlighted the importance of the (i) **accounting system**, (ii) **use of information technology**, (iii) **updated and complete asset register**, and (iv) **compliance with accounting standards** as follows;

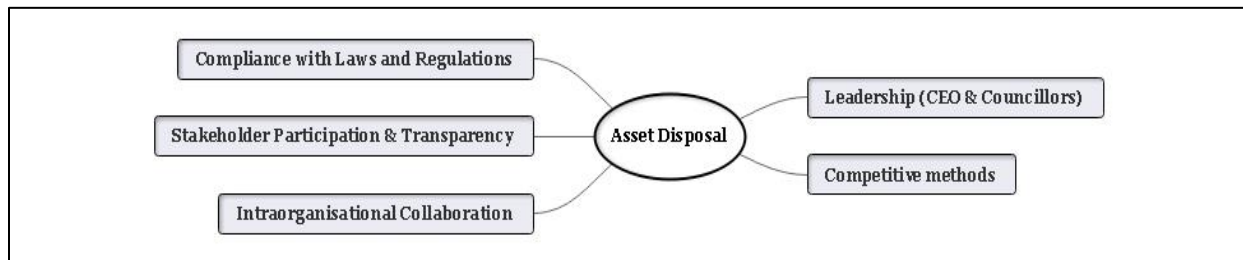
*'We have a fixed asset register but it is still manual. The module in PROMUN is giving us problems because of the support issues I mentioned earlier on. To date, not even a single local authority has migrated to the use of that module. It would be good to be able to record and update all our assets in the accounting system in compliance with accounting standards.'*

Comprehensively, Participant B4 remarked on the importance of (i) **updated and complete asset register**, (ii) **compliance with accounting standards**, (iii) **asset management policy** (iv) **accounting system**, the (v) **use of information technology**, (vi) **human resource skills and competence**, (vii) **inter-organisational collaboration and support** and the (viii) **role of the internal audit function** as follows;

*'You see, fixed assets are the engine that drives the local authority. So, they should be correctly recorded, serviced, and replaced when necessary. We have always been clamouring for a comprehensive asset register to be made available. But what is in place, is a listing of assets, not a comprehensive register. This should give all the relevant details as required by accounting standards. Fortunately, the external auditors have also been demanding the comprehensive asset register. So, the Financial Services Department is in the process of coming up with a comprehensive asset register. Last time I was there, they showed me what they had done, but I think there is still a long way to go. They should take advantage of using the asset register module in the accounting system. I think what we need is an asset management policy, unfortunately, we*

*do not have one. A policy that compels the Town Clerk and everyone that handles assets. That overall policy would make it easier for us to have a comprehensive asset register. You know, as an Auditor you are not supposed to involve yourself in operational issues but rather check if things have been done properly. But there are times when, because of skills deficiency, people are not able to do certain things, but they need to be in place.....’*

### 6.5.2.1.3 Fixed Asset Disposal



**Figure 6.7: Fixed Asset Disposal Sub-Themes**

*Source: Own elaboration*

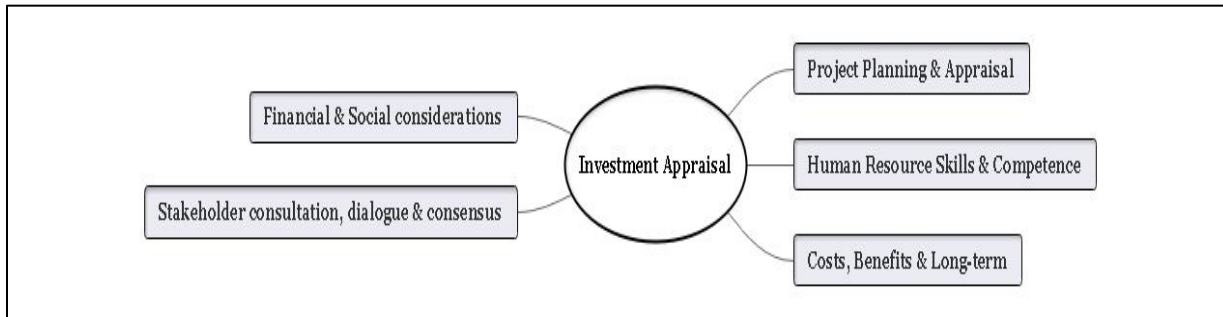
As depicted in figure 6.7 above, the study also found that the systems, institutions and processes relating to asset disposal also influenced the quality of internal controls in local government. In this regard, asset disposal was expected to be in (i) ***compliance with laws and regulations***, (ii) ***use of competitive methods***, (iii) and ensure (iv) ***stakeholder participation and transparency***. This was enhanced through (v) ***intraorganisational collaboration and support***, and (vi) ***leadership from CEO and councillors***.

For example, Participant B4 remarked;

*‘The local authority can dispose of assets if they are no longer useful. The new Public Procurement and Disposal of Public Assets Act should be followed in the process. For example, when an asset is to be disposed of, there is a committee that is made up of departmental representatives from all departments. It is in charge of the disposing of assets. It oversees the whole process. It reports to the Town Clerk, and then the Town Clerk reports to the council. The council then resolves that effect. Then an advert is made to dispose of the asset(s) through a public auction. For example, there is nothing that is disposed of directly to a staff member, everything is disposed of through an*

*open public auction. A public auction ensures that the process is transparent and involves all those stakeholders who are interested. It also helps the council to get the best price for its assets based on bidding. Other disposal methods can be used in other circumstances but should generally ensure that the council get the best possible price.'*

#### 6.5.2.1.4 Investment Appraisal



**Figure 6.8: Investment Appraisal Sub-Themes**

*Source: Own elaboration*

The study found an investment appraisal to be another important component of internal controls. In this regard; there was expected to be proper (i) ***project planning and analysis***, which ensured consideration of (ii) ***costs, benefits and long-term implications***, (iii) ***financial and social considerations***, (iv) ***stakeholder consultation, dialogue and consensus***. This was enhanced through (v) ***human resource skills and competence***. This is depicted in figure 6.8 above.

For example, Participant A6 emphasized on (i) ***project planning and analysis***, (ii) ***costs, benefits and long-term implications***, (iii) ***financial and social considerations***, (iv) ***stakeholder consultation, dialogue and consensus*** and (v) ***human resource skills and competence*** as follows;

*'We need to plan properly before we buy assets or undertake a project. Projects come from a clients' needs analysis where we engage the residents or the community on the issues they think needs to be addressed by the council. Once they raise those issues, we look at the project proposals, and we do some cash flows. But for a local authority they are usually just outflows because most of the goods are public goods. We do need to discuss and agree with stakeholders on which*

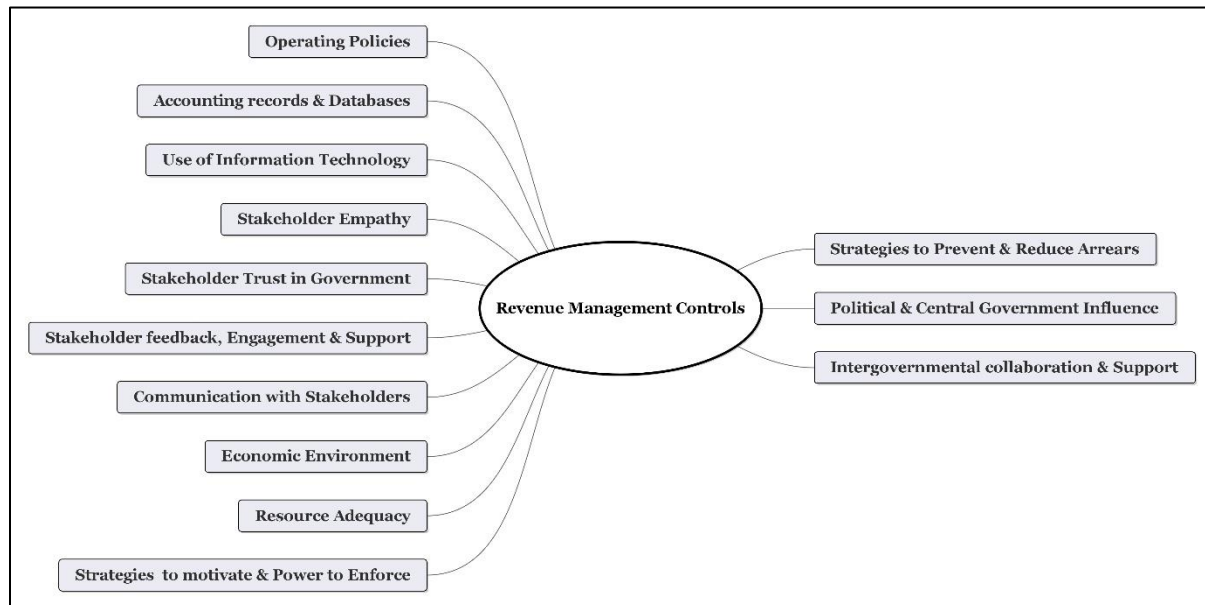
*projects are prioritised especially given the shortage of funds. The Engineer due to his expertise and experience will guide the council on the specifications of the assets required. We also consider the costs and benefits associated with a project or asset, both in the short-term and long-term. Both financial issues and non-financial issues should be considered.'*

Similarly; Participant C7 remarked;

*'There are many projects that the council wants to undertake and assets that need to be bought but the funds are usually the limiting factor. The council considers whether the project is to the best advantage of the council. How much do we stand to gain if we go into the project; whether financially or socially to the community. Stakeholders also give their input on the assets and projects they prioritise through ward development committees and budget consultations and discussions. Both short-term and long-term costs and benefits should be considered. The specialists inside the council also help us in choosing the assets that best suit our needs. We usually assess our projects based on the cost. We usually go for options with the least cost. We also consider other specifications of course; including time periods.'*

Thus, the study found out that investment appraisal was done through client needs analysis, cost-benefit analysis, project cost analysis, cash flow analysis and consideration of long-term implications. The project-selection process prioritised investment projects against clearly defined criteria as recommended in literature (Dabla-Norris *et al.*, 2012; Fainboim, Last and Tandberg, 2013).

### 6.5.2.1.5 Revenue Management Controls



**Figure 6.9: Revenue Management Controls Sub-Themes**

*Source: Own elaboration*

Figure 6.9 above shows that (i) *strategies to prevent and reduce revenue arrears* and (ii) *strategies to motivate clients and enforce payments* were also essential in influencing the quality of internal controls. These revenue management controls were considered to be influenced by (iii) *operating policies*, sound (iv) *accounting records and databases*, (v) *use of information technology*, (vi) *resource adequacy*, (vii) *economic environment*, (viii) *political autonomy* (from central government), and (ix) *intergovernmental collaboration and support*. The effectiveness of the systems was also influenced by; (x) *stakeholder empathy* shown by the local authority, (xi) *stakeholder trust in government*, (xii) *stakeholder feedback, dialogue and support*, and (xiii) *communication with stakeholders*.

For example, Participant B10 emphasized the importance of (i) *strategies to prevent and reduce revenue arrears*, (ii) *strategies to motivate clients and enforce payments*, (iii) *resource adequacy*, (iv) *economic environment*, and (v) *political autonomy* (from central government), as follows;

*'We have more than \$10 million in revenue arrears. This is a big challenge. We should be able to motivate and enforce payments from our clients. There has been a tendency by our ratepayers to relax as we near elections in the expectation that the government will write off all the debts again. Unfortunately, the government said they are not going to do that again. People are now stranded. Even industrialists owe us. It is because of the harsh economy which makes it difficult for us to collect revenues from our stakeholders. We have engaged debt collectors. We are recovering but at a slow rate.'*

Similarly, Participant A10 alluded to the importance of (i) ***strategies to prevent and reduce revenue arrears*** and (ii) ***strategies to motivate clients and enforce payments***, (iii) ***stakeholder empathy***, (xi) ***stakeholder trust in government***, and (xii) ***stakeholder feedback, dialogue and support***, as follows;

*'We have a huge challenge in collecting revenues from our clients. As a result, we have huge balances of revenue arrears. We try to do stakeholder meetings to encourage them to pay. We explain to them what we have achieved using the money received. For example, recently, we put some street lights, so we try to show them that those are the benefits of paying their dues. Because people generally do not want to pay, they have a general mentality that the council abuse funds.'*

Participant A11 also emphasized on (i) ***strategies to prevent and reduce revenue arrears*** and (ii) ***strategies to motivate clients and enforce payments*** (iv) ***accounting records and databases***, (vi) ***resource adequacy***, (viii) ***political autonomy*** (from central government), and (ix) ***intergovernmental collaboration and support***, (xi) ***stakeholder trust in government***, (xii) ***stakeholder feedback, dialogue and support***, and (xiii) ***communication with stakeholders***, as follows;

*'We do have a lot of challenges in revenue collection. We have huge balances of unpaid rates and revenue arrears in general. We have not been very successful in collecting revenues because of many factors. As a local authority we do not have much power to enforce revenue collection. There is resistance to pay. There are too many spheres. For example, the political sphere, that year we were instructed to write-off our debtors. .... In addition, residence associations also group up and resist to pay insisting that there is no service delivery. We try to engage the stakeholders*

*in various ways and prove to them we have been honest in the use of public funds. In addition, RDCs are so big so accessibility of some places and ratepayers is difficult. We might not know that we are supposed to collect revenue from a certain place. We do not have an exhaustive database for small scale miners, but they are so many of them. We try to invoice them claim by claim, but some of the claims are not yet active so we would not know who to invoice. The Ministry of Mines is not very cooperative in giving us the details of the miners. Illegal and informal operations are also difficult to identify and capture. Some can even give each pieces of land and they start building without even coming to the council....’*

Participant A6 also emphasized on (i) **communication with stakeholders**, and (ii) **use of information technology** as follows;

*‘It is very important for us to constantly communicate with our clients and notify them of their revenue obligations. We send clients bulk sms and also monthly statements. The challenge is that for the bulk sms one needs to register. We are intending to move on to do e-statements where you can just do self-service on the website....’*

Similarly, Participant B11 also underscored the importance of (i) **communication with stakeholders** and (ii) **use of information technology** as follows;

*“We communicate with our clients using various methods. We do monthly statements. Sometimes we also do phone calls. We can also write some letters. We also do adverts in newspapers and also notices on the website’.*

On the other hand, Participant A6 alluded to the importance of (i) **strategies to prevent and reduce revenue arrears** and (ii) **strategies to motivate clients and enforce payments** ((iii) **intergovernmental collaboration and support**, (iv) **operating policies**, and (v) **communication with stakeholders** as follows;

*‘We do have different categories of ratepayers; we have corporates and domestic, low density and high-density clients. We also have government institutions like universities and schools. We do risk assessment and devise appropriate mitigatory strategies. We hand over debtors above 90 days*

*to debt collectors. We also engage the ratepayers, door to door visits. For government debtors we also use their outstanding debts to clear off our obligations with ZIMRA. We also do disconnections, we also remind them, advertise so that they can come and make payment plans. We are in the process of producing a credit control policy that will be followed by the council'*

Participant A7 underscored the importance of (i) ***strategies to prevent and reduce revenue arrears*** and (ii) ***strategies to motivate clients and enforce payments*** (iii) ***operating policies***, sound (iv) ***political autonomy*** (from central government), and (v) ***stakeholder feedback, dialogue and support***, (vi) ***stakeholder empathy*** and (v) ***communication with stakeholders*** as follows;

*'We try to use some innovative strategies to encourage our clients to pay their dues..... they do payment plans. We engage them through residents' associations. We do ward meetings. We give discounts. We encourage them to do payment plans. As a last resort we can engage debt collectors. But this is usually when it relates to companies. We however lack a clear credit policy on how to deal with arrears. This is maybe due to the political nature of the local authority.'*

Similarly, Participant B8 alluded to (i) ***strategies to prevent and reduce revenue arrears*** and (ii) ***strategies to motivate clients and enforce payments*** (iii) ***operating policies***, sound (iv) ***political autonomy*** (from central government), and (v) ***stakeholder feedback, dialogue and support***, (vi) ***stakeholder empathy***, and (vii) ***communication with stakeholders*** as follows;

*'We try to use various methods to motivate our clients to pay their outstanding amounts. We do send statements. Sometimes we also do water disconnections. We also try to engage them through resident associations and ward meetings. The problem is that unlike the private sector where it's well defined to say after such a time a debt is handed over to debt collectors, public debts cannot be easily handed over to debt collectors because it becomes political. For new areas doing developments, if they have overdue arrears, we do not approve their plans before they clear their arrears.'*

In the same vein, Participant A10 noted the importance of (i) ***strategies to prevent and reduce revenue arrears*** and (ii) ***strategies to motivate clients and enforce payments***, and (iii) ***stakeholder empathy*** as follows;

*'It is essential for the local authority to motivate clients to pay outstanding dues. But it is also important to do this in a way that preserves the relationship between the local authority and the stakeholders. ....in the mean time we have not dragged them to court. Because if you are taking each other to court that will damage your relationships. These people are important to us because we owe our existence to them, as a local authority. But stands we can repossess.'*

Participant B6 also emphasized the importance of (i) **strategies to prevent and reduce revenue arrears** and (ii) **strategies to motivate clients and enforce payments**, (iii) **accounting records and databases**, (iv) **political autonomy**, (v) **stakeholder empathy** and (vi) **communication with stakeholders** as follows;

*'Encouraging our clients to pay their dues is another serious challenge we face as a local authority. When it comes to, for example water, the council can disconnect. However, the problem is that the residents can reconnect illegally. As for businesses, the council can even close down the premises. For debtors older than 90 days, the council used to assign debt collectors. The council does debtor's ageing analysis on every statement. We have our own credit control department. The council has become hesitant in using debt collectors because it has become political. The political sphere usually influences our operations tremendously. We also want to maintain good relations with our stakeholders.'*

#### **6.5.2.1.6 Monitoring of Strategic Business Units (SBUs)**

All respondents alluded to the fact that it was very important for a local authority to monitor all its strategic business units and subsidiaries. Monitoring was done through spot checks and monthly reports. SBUs were also consolidated in the financial reports.

Participant A7 thus remarked;

*'All the activities of the strategic business units are reported to the finance committee on a monthly basis, through the respective committees. They are also consolidated in the financial statements.'*

Similarly, Participant A9 echoed;

*'We do spot checks and stock reconciliations at the bar; the management of the bar also sends us monthly reports. The results of the bar and the truck-in area also reported as part of the activities of the council.'*

#### **6.5.2.1.7 Cash Management Controls**

All respondents alluded to the fact that cash had to be managed properly. The sub-themes included; (i) ***cash forecasts and monitoring***, (ii) ***safe-keeping of cash***, and (iii) ***daily banking***.

For example, Participant A7 remarked;

*'It is very crucial for us to properly manage our cash. This is because cash is the lifeblood of any organisation. Banking is done daily. It should be done by 10am every day. If we collect too much cash during a given day, it can also be banked around 3pm. Cash is kept safely in the safe until banking the following day; if it is at manageable levels. We usually use the budget as a cash forecast. However, cash forecasts are prepared when specifically asked for. All the same, the cash forecasts need to be monitored and adjusted on the basis of actual cash receipts and payments.'*

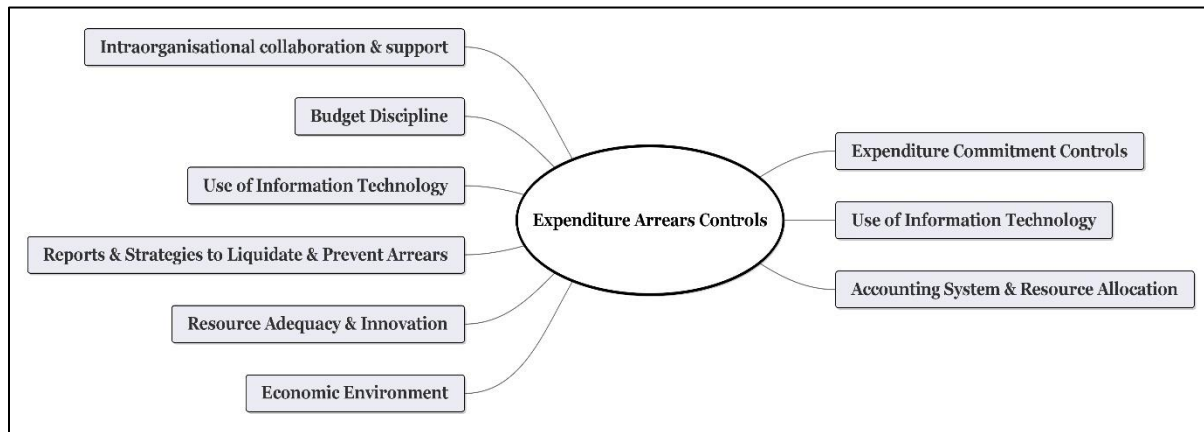
Similarly, Participant A6 also said;

*'We collect very little hard cash these days because most of the customers are using Point of Sale (POS). Once we collect cash today, we bank it in the following day intact. The cash has to be securely locked in a safe overnight. We do cash forecasts in January. This helps us to assess the timing of cash receipts and payments. They however have to be monitored and adjusted during the course of the year.'* (Participant A6).

#### **6.5.2.2 Liability Controls**

The study also found that ***controls to manage liabilities*** influenced the quality of local government internal controls. The two sub-themes that emerged were (i) ***expenditure arrears controls*** and (ii) ***debt management controls***.

### 6.5.2.2.1 Expenditure Arrears Controls



**Figure 6.10: Expenditure Arrears Sub-Themes**

*Source: Own elaboration*

Figure 6.10 above depicts that expenditure arrears controls were expected to include; (i) *expenditure commitment controls* and (ii) *strategies to liquidate and prevent arrears and* expected to ensure (iii) *fiscal discipline*. Their effectiveness was perceived to be influenced by the quality of the (iv) *accounting system and resource allocation*, (v) *use of information technology*, (vi) *inter-organisational collaboration and support*, (vii) *resource adequacy and innovation*, and the (viii) *economic environment*.

For example, Participant A5 emphasized on; (i) *expenditure commitment controls* and (ii) *strategies to liquidate and prevent arrears* (iii) *fiscal discipline* (iv) *accounting system and resource allocation*, (v) *use of information technology*, (vi) *interorganisational collaboration and support*, (vii) *resource adequacy and innovation*, and the (viii) *economic environment* as follows;

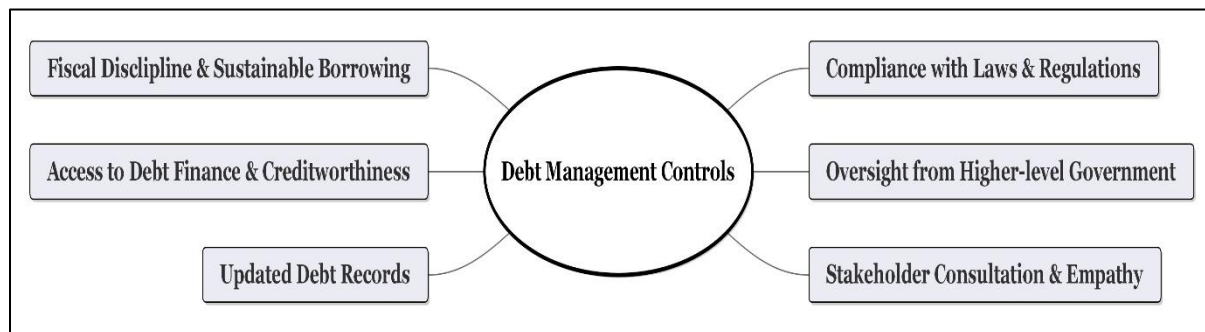
*‘We have a system to control expenditure commitment and allocation of funds in place. We import the budget into the PROMUN system and it does all the allocations on a monthly basis. A requisition has to be drawn up, and one has to look at the vote to see if funds are available, if not you advise the user department that it’s not budgeted for so that a commitment will not be made. We emphasize that if expenditure has not been budgeted for, then no commitment should be made.*

*We have also put in place various strategies to prevent and reduce overdue debts. For essential supplies we pay cash, while for statutory obligations like ZIMRA we arrange with the Ministry of Finance so that we can set-off against what the central government owes. We also have in place payment plans with various creditors and the government. The problem of arrears have been huge because of the difficulties in the economic environment. This have negatively affected our revenue collections and we have to try to be as innovative as possible.'*

Similarly, Participant A9 alluded to the significance of (i) **expenditure commitment controls** and (ii) **strategies to liquidate and prevent arrears** (iii) **fiscal discipline** (iv) **accounting system and resource allocation**, (v) **use of information technology**, (vi) **interorganisational collaboration and support**, (vii) **resource adequacy and innovation**, and the (viii) **economic environment** as follows:

*'Commitment registers are there but not very useful. The order system limits them because when a department puts an order, the order is checked in the finance department whether the item has been budgeted for. And also, when we do procurement, finance is always represented in the meetings so we will tell them if the item has not been budgeted for. We have a Creditors Module in the PROMUN system. That module helps to manage creditors and we produce both the ageing analysis and reports on a monthly basis. We do have payment plans with creditors. The priority is on service delivery. So, for us to appease the residents we have to provide quality service. We manage arrears well. We have critical suppliers like those of water chemicals, where we do not have to fail them in any way. We just have to make sure that we pay them cash. For existing arrears, especially statutory obligations, payment plans and set-offs were done. We have major creditors. ZESA, ZINWA, NSSA. With some we have got payment plans. With ZIMRA we had an arrangement with the Ministry of Finance. Because government departments also owe us. So, the Ministry of Finance, would set off government debts with our debts with ZIMRA. Creditors reports are created in the system and are reported every month. The challenge has been that of lack of resources because of the harsh economic environment.'*

### 6.5.2.2.2 Debt Management Controls



**Figure 6.11: Debt Management Controls Sub-Themes**

*Source: Own elaboration*

Figure 6.11 above shows that the study found that controls related to long-term debt management were also essential. The quality of *debt management controls* was influenced by (i) *access to debt finance and creditworthiness* and the need to ensure (ii) *fiscal discipline and sustainable borrowing*. The controls should ensure (iii) *compliance with laws and regulations*, (iv) *oversight from higher-level government*, (v) *stakeholder consultation and empathy* and (vi) *updated debt records*.

For example, Participant B9 remarked the following on the importance of (i) *access to debt finance and creditworthiness* (ii) *fiscal discipline and sustainable borrowing* (iii) *compliance with laws and regulations*, (iv) *oversight from higher-level government*, (v) *stakeholder consultation and empathy* and (vi) *updated debt records*;

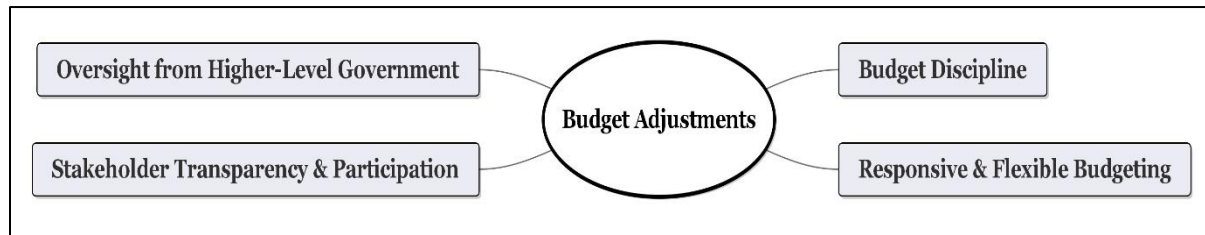
*'Access to debt finance is important for a local authority especially given the current low levels of revenue collection. Before we can borrow as a local authority, we have to obtain borrowing powers from the Ministry of Local Government. We have to comply with the Urban Councils Act in this regard. The borrowing powers are quite good in the sense that since we are a public entity, we are supposed to make sure that what we do is above board. Because we will be borrowing money that is supposed to be repaid by the ratepayers through rates. So, if the borrowing powers are not sought, we may end up borrowing quite so much to the extent that we in the future overburden our ratepayers. We may need to charge very high rates in order to meet the loan*

*obligations. Before the powers are granted, the Ministry assesses our ability to pay and also that we have complied with the statutory requirements of involving the public in our decision to borrow. We should borrow for capital expenditure not payment of salaries. We also have to keep accurate and updated records of our debt obligations and repayments made to make sure that we do not default.'*

Similarly, Participant C2 alluded to the importance of (i) ***access to debt finance and creditworthiness*** (ii) ***fiscal discipline and sustainable borrowing*** (iii) ***compliance with laws and regulations***, (iv) ***oversight from higher-level government***, (v) ***stakeholder consultation and empathy*** and (vi) ***updated debt records*** as follows;

*'The council basically accesses loans from financial institutions. Loans are important in filling in the gap created by inadequate local revenue collections. The council needs to first get borrowing powers from the Minister of Finance in consultation with the Ministry of Local government. The Ministry assesses our capacity to repay and also checks if we have complied with statutory requirements. For example, have we notified stakeholders of our intention to borrow? Have they approved? The loans are for capital expenditure, that is, service delivery related. What we try to avoid is to borrow for consumption purposes, say to borrow for paying salaries. We do not have a problem with long term loans, the records are up to date, and we do pay our obligations. The banks can even garnish our accounts on monies that would be intended for salaries. So, it's difficult of default. I think the provisions of the UCA do not constraint borrowing by local authorities. What might constraint borrowing might be the audited financial statements which are behind. Some financial institutions might ask for 3 years of past audited financial statements, and that might be a challenge for many local authorities.'*

### 6.2.2.3 Budget Adjustments



**Figure 6.12: Budget Adjustments Controls Sub-Themes**

*Source: Own elaboration*

The study found that how *budget adjustments* were done influenced the quality of internal controls. In this regard; budgeting was expected to (i) *flexible and responsive*, in order to accommodate changes in the operating environment. However, budget adjustments were supposed to ensure (ii) *fiscal discipline* (spending according to budget) as much as possible. In order to ensure that; (iii) *oversight from higher-level government* was considered essential and there was expected to be (iv) *stakeholder transparency and participation*. This is depicted in figure 6.12 above.

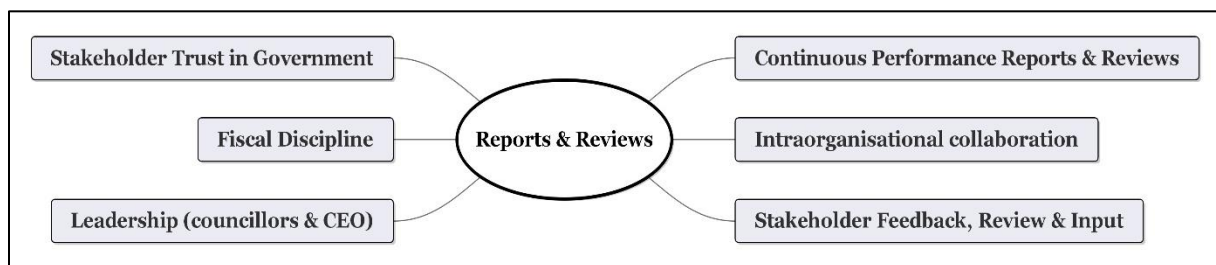
In this regard, Participant D2 emphasized on (i) *flexible and responsive budgeting*, and (ii) *fiscal discipline* as follows;

*‘Budget adjustments are usually in the form of virements. This happens when funds are reallocated from one budget area to another. Supplementary budgets are rare, I only know of two since I started working here. The idea is to make sure that the budget is adhered to as much as possible. However, this should not be too rigid but should consider that sometimes unforeseen events happen, and over or under budgeting on some items can inevitably occur.....’*

Similarly, Participant A9 underscored the importance of; (i) *flexible and responsive budgeting*, (ii) *fiscal discipline*, (iii) *oversight from higher-level government*, and (iv) *stakeholder transparency and participation* as follows;

‘Although we try to stick to the budget as much as possible, budget adjustments are inevitable because of unforeseen events. Normally you are allowed to have a supplementary budget. The process is the same as for the main budget. This means stakeholders have to be included as well. That only happened during the hyperinflation period. When things are stable, it’s very rare for you to want a supplementary budget. We do not do many virements, for example you might have just 3 virements the whole year. With a virement, you identify the need and send it to the relevant committee. A virement is not supposed to take care of a completely new project that was not there. It should be a project that was underprovided for in the budget. To bring in something completely new might bring some problems because council meetings minutes are sent to the Ministry. So, they always check that.’

#### 6.2.2.4 Budget Reviews and Reports



**Figure 6.13: Budget Reviews and Reports Controls Sub-Themes**

Source: Own elaboration

As depicted in figure 6.13 above, the study also found that the nature *budget reviews and reports* influenced the quality of internal controls in decentralised local government. The participants emphasized on (i) *continuous performance reports and reviews*, (ii) *intraorganisational collaboration* (within the local authority), (iii) *leadership skills* of councillors and the CEO, (iv) *stakeholder feedback, review and input*, (v) *stakeholder trust in government* and also ensuring (vi) *fiscal discipline*.

For example, Participant D2 underscored the importance of (i) *continuous performance reports and reviews*, and (ii) *intraorganisational collaboration* of departments as follows;

*'Local authorities do monthly reports. They should report to the council every month on what each part has done with respect to service delivery departments and the performance of the budget.'*

Similarly, Participant A11 emphasized on ***continuous performance reports and reviews*** as follows;

*'Every month the finance committee sits and prepares a financial report. The financial report should be done looking at the budget performance. So, you have to monitor expenditure on a monthly basis. But on a quarterly basis, you also look into variances and everything to see how things have been going.'*

Participant B1 also noted the importance of (i) ***continuous performance reports and reviews***, (ii) ***stakeholder feedback, review and input***, (iii) ***stakeholder trust in government*** as follows;

*'We do produce reports during the year in order to check progress and budget performance. When things were right, it used to be done quarterly, and it moved to semi-annually. They will give a report through the stakeholders and representatives of the wards. To say, we came to you, with 1, 2 and 3, and you contributed this way. We came up with this document. Out of this, we managed to implement 1, 2, we can't manage 3, 4 because of these reasons. The stakeholders also critique the report, because remember the residents might also be aware that you are mismanaging some of the things. They also contribute on the way forward.'*

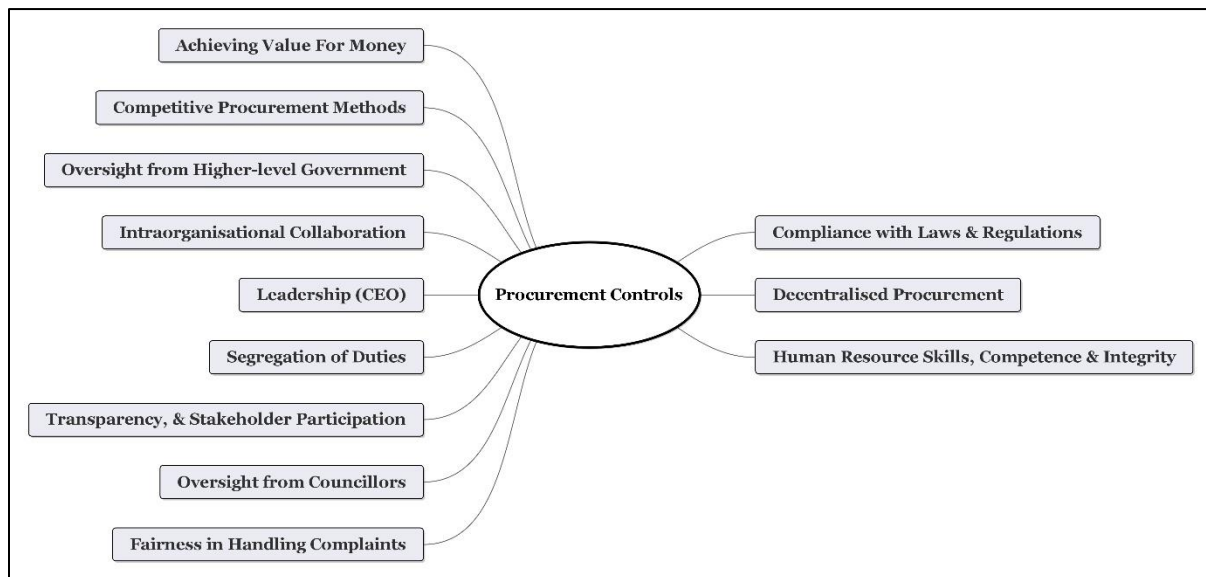
Similarly, Participant A7 also emphasized on (i) ***continuous performance reports and reviews***, and (ii) ***stakeholder feedback, review and input*** as follows;

*'We do quarterly budget reviews. We check actual figures against the budget. For example, billing per ward; we check what was billed against what was actually received. We assess the projects done and the related costs. We assess salaries and the challenges we are facing as the council. We also look at the proposed way forward that would enable us to stay in line with the budget. We discuss with our stakeholders.'*

Similarly, Participant C1 also emphasized on (i) *continuous performance reports and reviews*, (ii) *leadership skills* of councillors and the CEO, and (iv) *stakeholder feedback, review and input*, as follows;

*‘We do not usually do budget reports to stakeholders during the year. It depends on councillors. For example, I hold budget performance review meetings in my ward after every quarter. But as a City we have never gone that way. But I think with the new Town Clerk we are trying to address ourselves in that way.’*

### 6.2.2.5 Procurement Controls



**Figure 6.14: Procurement Controls Sub-Themes**

*Source: Own elaboration*

Figure 6.14 above shows that procurement controls influenced the quality of local internal control system. (i) *Decentralised procurement system*, which ensured (ii) *transparency and stakeholder participation*, (iii) *fairness in handling of complaints* and appropriate (iv) *oversight from higher-level government* and (v) *compliance with laws and regulations* was considered essential. (vi) *Competitive procurement methods* which ensured (vii) *achieving value for money*, supported by staff with (viii) *adequate human resource skills, competence and integrity* were also key. (ix) *Intraorganisational collaboration* among staff within the local authority, (x) *segregation of*

*duties, (xi) leadership qualities of the CEO and (xii) oversight from councillors* were also considered to influence the quality of procurement systems.

For example, Participant D2 emphasized on (i) ***Decentralised procurement system***, (ii) ***oversight from higher-level government***, (iii) ***compliance with laws and regulations***, and (iv) ***adequate human resource skills, competence and integrity*** as follows;

*'It should be SI 161 of 2012, it made every local authority a procuring entity. Before that they were being governed by the UCA and RDCA. There were no proper guidelines, and also the ACTs allowed councillors to deal with procurement issues and yet some of them did not have any technical know-how. Such councillors were made to do some procurements which could benefit the elite, while prejudicing the council. Local authorities now procure for themselves. What the State Procurement Board (SPB) did was to review what they would have already recommended. The authorization would be based on the processes that the local authority would have followed.'*

Similarly, Participant A6 reiterated the importance of (i) ***intraorganisational collaboration***, (ii) ***segregation of duties***, (iii) ***compliance with laws and regulations***, (iv) ***decentralised procurement***, (v) ***oversight from higher-level government***, (vi) ***human resource skills and competence***, (vii) ***oversight from councillors*** and (viii) ***leadership skills of the CEO*** as follows;

*'There is a procurement committee that is chaired by the chamber secretary. The Town Clerk oversees procurement but does not chair the procurement committee. We follow the Procurement Regulations. The Act has been reviewed, which means the Town Clerk is now responsible for procurement at the local authority. The new Procurement Regulatory Authority will oversee procurement in public entities. The new body will not decide on where to buy.... The Municipal Procurement Board (MPB) has been overtaken by the New Procurement Act where procurement is now being done by the administration. The procurement entity is composed of HODs and technical persons.'* The MPB was composed of councillors but I think now councillors have been relieved of that function. However, councillors still have to oversee the procurement systems and processes.'

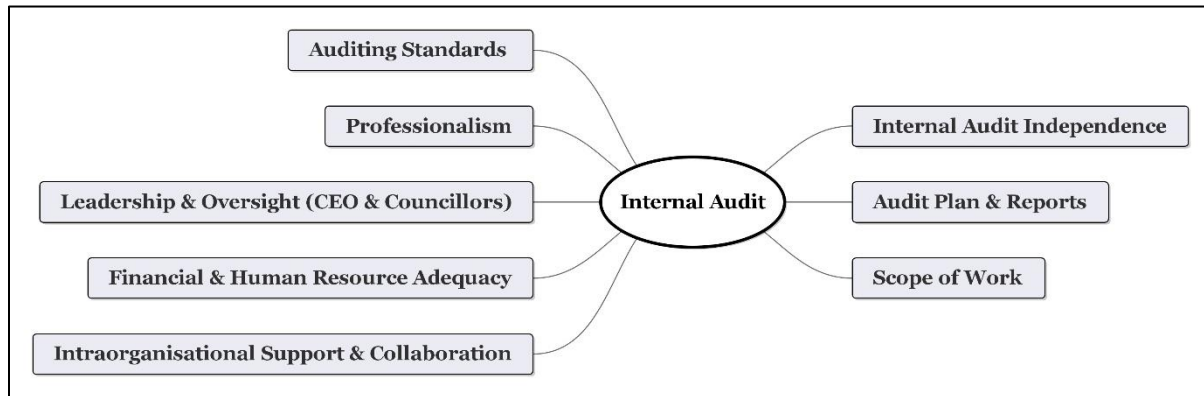
Participant A7 explained the importance of (i) **competitive procurement methods** that (ii) **ensure value for money** (iii) **stakeholder transparency and participation** and (iv) **fairness in the handling of complaints** as follows;

*'The practice has been that up to \$10 000 we do three-way competitive quotations; above \$10 000 to \$300 000 we do informal tender. Above \$300 000 used to go through the State Procurement Board (SPB) through a formal tender but now it means everything can be done at the council. The idea is to make sure that the council get the best quality products and services at the best prices. In addition, the process has to be transparent to all stakeholders. Procurement complaints are addressed as and when they occur but normally, they are handled administratively through the accounting officer. We have never received complaints. Maybe it is because of the transparent manner in which the procurement processes are handled. Information on awards of tenders and tender opening is made available to the public. Complaints are put in writing and attended.'*

On the other hand, Participant C3 underscored the importance of (i) **oversight from councillors**, (ii) **intraorganisational collaboration**, and (iii) **human resource skills and competence** as follows;

*'Procurement is now being done by management. We are usually informed of the position that is there more than being involved. The procurement committee now comprises of all managers. What we can only be able to approve is only the value, or to turn it down or to approve it. The system is good because managers and purchasing officers have the technical know-how about what to purchase and from where. However, as councillors we should also be kept in the loop so that we can be able to monitor the activities of managers.'*

### 6.2.2.6 Internal Audit Function



**Figure 6.15: Internal Audit Function Sub-Themes**

*Source: Own elaboration*

Figure 6.15 above shows that a functional *internal audit* was considered essential in ensuring that the internal controls of a local authority were functioning properly. The quality of such an internal audit was in turn influenced by having adequate (i) *audit independence*, (ii) *compliance with audit standards*, (iii) *professionalism*, (iv) *adequate financial and human resource capacity*, the adequacy of the (v) *scope of work*, the quality of (vi) *audit plans and reports*, (vii) *intraorganisational collaboration and support* from those within the local authority, and the (viii) *leadership and oversight* quality from the CEO and councillors.

For example, Participant D1 underscored the importance of (i) *scope of internal audit work*, (ii) *compliance with audit standards* and (iii) *audit independence* as follows;

*‘The internal audit function is important for a local authority because it helps to check if other internal controls are functioning properly. Internal auditors are there. I think they are also starting to adopt best practice according to auditing standards. In the past some used to complain that they are reporting through the CEO and yet the audit committee was there. But I think this has been a challenge with Rural Local Authorities. Urban Local Authorities seem to know how things should be handled. There is dual reporting; administratively to the CEO, and functionally to the Audit Committee’*

Similarly, Participant B6 also emphasized on (i) **audit independence**, (ii) **adequate financial and human resource capacity**, the adequacy of the (iii) **intraorganisational collaboration and support** from the audit committee, and the (iv) **leadership and oversight** quality from councillors as follows;

*‘The internal audit reports to the Audit Committee but administratively I also report to the Town Clerk. The appointment of the Chief Internal Auditor also goes through the Local Government Board. The Town Clerk doesn’t tell the Internal Audit what to do but can ask for specific activities to done on request. The Audit report is sent to the Audit Committee. We get adequate support from the councillors in the Audit Committee and this is very important for our work. So, in terms of reporting, I don’t think there is any lack of independence. The only thing that can impair independence is lack of resources. The same auditee is the one who is supposed to avail resources.....’*

Similarly, Participant C2 underscored the importance of the (i) **scope of work** of the internal audit, (ii) **leadership quality from the CEO** as follows;

*‘The Internal Audit is there and is as effective as always. ....I have seen a lot of ground being covered by the audit section, considering that they are getting support from the CEO. Their work is very broad and important. But generally, it involves checking if all internal controls are functioning properly.’*

Among others, Participant B12 emphasized on the (i) **scope of audit work**, (ii) **audit independence**, (iii) **compliance with auditing standards**, (iv) **audit plans and reports**, (v) **professionalism**, (vi) **human resource skills and competence**, (vii) **intraorganisational collaboration and support**, (viii) **adequate financial and human resources**, and (ix) **leadership and support from the CEO** as follows;

*‘We have an internal audit which is run by two people. It checks the systems. It does audits in school, clinics and here. We have an audit plan. The HOD does a work-plan which is agreed with the CEO. We use international auditing standards. We do attend workshops related to internal auditing in order to upgrade ourselves and our skills and we also endeavor to be part of*

*professional associations. We do report to the audit committee. Our reporting channels are very good because they ensure that we report without fear or favour. It is very important for us as internal audit to get adequate resources. The CEO have been very supportive and we are also supported by various committees and departments when we carry out our work.'*

Similarly, Participant B8 emphasized on (i) ***compliance with auditing standards***, (ii) ***professionalism***, and (iii) ***intraorganisational collaboration and support*** as follows;

*'..... we are trying to improve to use Internal Auditing Standards. We need to join the Internal Audit Institutes and other professional associations. But right now, we are mostly using the International Standards on Auditing (ISAs). We have full support and cooperation from every department.'*

Participant B10 also emphasized on (i) ***adequate human resource capacity*** and (ii) ***training*** as follows;

*'We have an internal audit section. As of now it is composed of one person. We need more manpower; we have a lot of things to do. Challenges faced are basically related to shortage of manpower. If we recruit manpower, we also need to train them so that they can give their best.'*

Participant B4 also underscored the importance of (i) ***intraorganisational collaboration and support*** and (ii) ***leadership and oversight from councillors*** as follows;

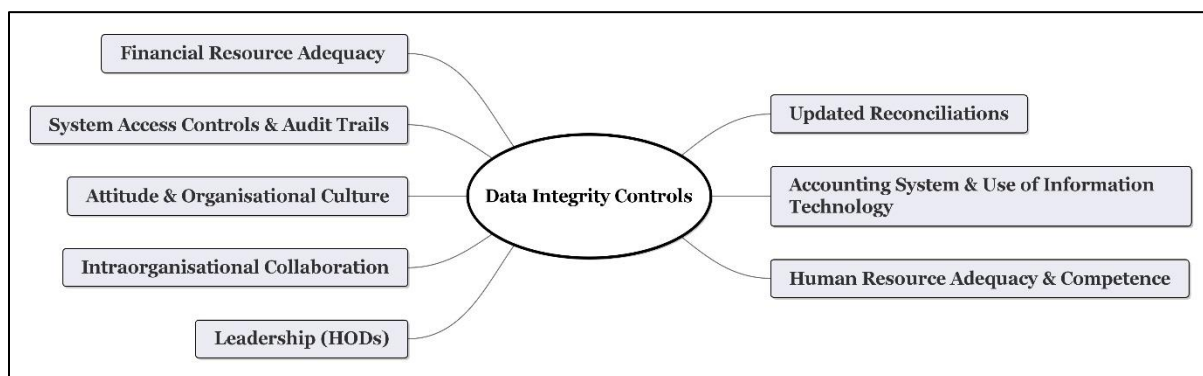
*'Response to audit recommendations have been good so far, especially the one that goes through the audit committee. If it goes through the audit committee management tends to respond. The councillors are providing very good oversight there. So, I think we are scoring they high.'*

Participant B7 also emphasized on (i) ***intraorganisational collaboration and support***, (ii) ***scope of audit work*** and (iii) ***leadership and support from the CEO*** as follows;

*'We do have an internal audit. But recommendations are not normally taken up. This is not only for this local authority. It is an unwanted section. People go to school to learn what audit is all about, but they still see internal audit as witch-hunting. So, for them to just accept that it is about*

*improving systems, it is difficult. This computer, I just use it for music, and the Town Clerk knows. It had everything adequate and intact. But the systems administrator who was here came and removed everything. Up to now, it has not been repaired. The Town Clerk has continuously asked for it to be repaired but the IT guys keep on delaying’*

### 6.2.2.7 Data Integrity Controls



**Figure 6.16: Data Integrity Controls Sub-Themes**

*Source: Own elaboration*

The study also found that systems, institutions and processes to ensure the accuracy and truthfulness of data and information (*data integrity controls*) greatly influenced the quality of internal controls. In this regard; (i) *updated reconciliations* and (ii) *system access controls and audit trails* were considered essential. The quality of these systems was considered to be influenced by the (iii) *accounting system and use of information technology*, (iv) *human resource adequacy and competence*, (v) *financial resource adequacy*, (vi) *attitude and organisational culture*, (vii) *intraorganisational collaboration and support* and (viii) *leadership quality* from departmental heads. This is depicted in figure 6.16 above.

For example, Participant A4 emphasized on (i) *updated reconciliations* (ii) *system access controls and audit trails* and (iii) *human resource adequacy* as follows;

*‘Bank reconciliations are very important and are done but we have a backlog. It is an area of concern. Our bank accounts are numerous, and each account would need a reconciliation. Our chart of accounts specified that each fund should have a bank account. We have a rates fund, water*

*fund, education fund etc. Each one of those funds would require a reconciliation. We also have land sales accounts. We had high staff turnover in that section. So they are slightly behind, but they are doing them. Our accounting system is robust. We have passwords with different levels of permissions in the system. So we can easily track who did what in the system'*

Similarly, Participant B4 hinted on (i) **updated reconciliations** and (ii) **system access controls and audit trails** were considered essential. The quality of these systems was considered to be influenced by the (iii) **accounting system and use of information technology**, (iv) **human resource adequacy and competence**, (v) **financial resource adequacy**, (vi) **attitude and organisational culture**, (vii) **intraorganisational collaboration and support** and (viii) **leadership quality** from departmental heads. The participant thus remarked;

*'There are always issues here, where there are always lagging behind. Some bank accounts are up to date but there are a number where there are still behind. .... The challenge is that when you are behind, they could be issues of double payment, issues of errors that needed to be corrected. So, if you discover them a year later, it may be impossible to make those corrections. The reason cited was that before the multi-currency system cash was not banked..... So, like I said, I do recommend and then someone implements. But if they protect say their junior staff, then there is a problem. .... I think we need to clean up the finance section. The people that perform the activities. I think it's just laxity, attitude. I think it all has to do with the names at the helm of the department.....I think we have sound internal controls in terms of access to the accounting system. We have user controls and passwords and it is easy to check the activities of different users in the system.'*

Participant B2 also emphasized on (i) **updated reconciliations** and (ii) **system access controls and audit trails** were considered essential. The quality of these systems was considered to be influenced by the (iii) **accounting system and use of information technology**, (iv) **human resource adequacy and competence**, and (v) **attitude and organisational culture**. The remarks were as follows;

*'There is a challenge with reconciliations. Bank reconciliation statements are supposed to be done in every organisation. This helps to correct errors and check for fraud. Ours have been 3 to 4*

*years behind. I think there is lack of knowledge on the importance of those bank reconciliations. If people prioritised them, they wouldn't be that much behind. But if it is not something important, then it would drag like that. That is how I see it. It is a question of whether they want it or they don't. People got used to not doing reconciliations during the Zim dollar era, when money was changing values quickly. During that time it was difficult to do reconciliations, and organisations could survive without doing them. But during the dollar era, everything started from zero. That was an opportunity to start afresh. We advised them but noone took heed. So it shows that they do not prioritise them, but its necessary for survival. It is necessary to give business direction. We also have to control who accesses the accounting system and control what users can do in the system. This helps to ensure the accuracy of the data and also helps to prevent and detect fraud. I think we have achieved this quite well through the use of passwords and various user access controls.'*

Participant D1 also alluded to the importance of **human resource skills and competence** as follows;

*'For most local authorities, bank reconciliation statements are not being done for 1 or 2 reasons. Maybe the personnel have inadequate skills. Data integrity has been an issue for most local authorities.'* (Participant D1).

Similarly, Participant B10 remarked the following with respect to **accounting system and use of information technology** and **human resource skills and competence**;

*'.....there was now a mismatch and there was no opening and closing balance. So, given the PROMUN system which have its own problems and our personnel which have their own problems too, bank reconciliations have not been done.....'*

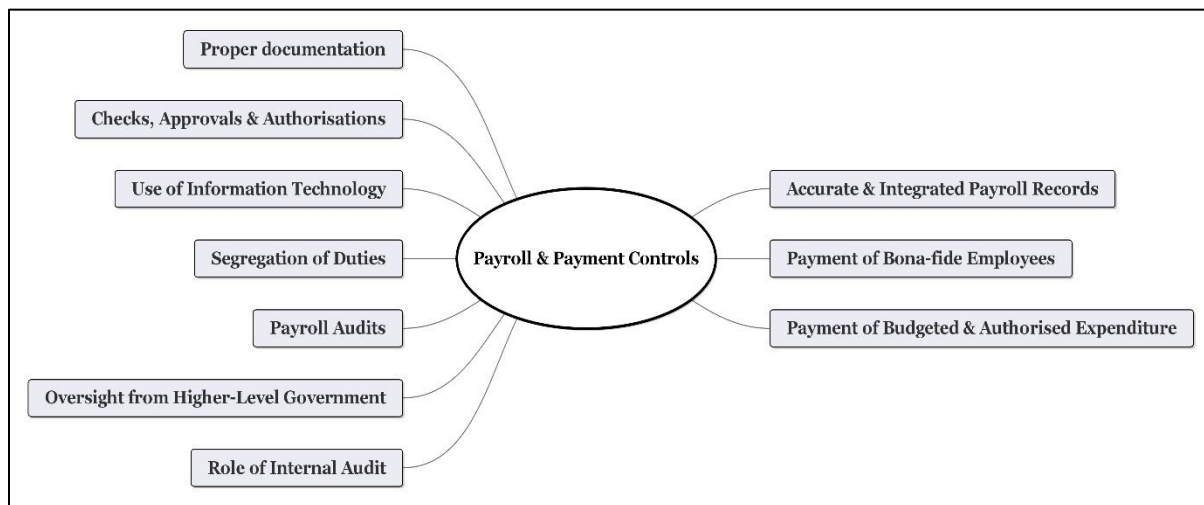
On the other hand, Participant A10 emphasized on (i) **updated reconciliations**, and (ii) **accounting system and use of information technology** as follows;

*'Bank reconciliations are done anytime. But mostly they are done on a monthly basis. We do them in Pastel, and they are up to date. We are just waiting for the audit which is about a week away. They helps us to check for errors, fraud , ommissions and also helps us to make follow-ups.'*

Participant A3 also emphasized on (i) *updated reconciliations*, (ii) *accounting system and use of information technology*, (iii) *resource adequacy*, and (iv) *system access controls and audit trails* as follows;

*'Bank reconciliations are done and we intend to automate them. They are important in checking for errors, omissions and fraud. Suspense accounts are not done and we do not have advance accounts. We call them inter-funds accounts. They are being reconciled but they are not being cleared in time mainly because of the level of revenue collections. Each user of the accounting system has a user number and a password that is linked to him/her. Each user has some allowed privileges in the system. The audit trail is also available on the PROMUN system. You can even check to see that user so and so has logged in at this time and has done 1, 2, and 3.'*

#### 6.2.2.8 Payroll and Payment Controls



**Figure 6.17: Payroll and Payment Controls Sub-Themes**

*Source: Own elaboration*

Figure 6.17 above shows that payroll and payment controls also influenced the quality of local internal controls. These controls should ensure; (i) *accurate and integrated payroll records*, (ii) *payment of bona-fide employees* only and (iii) *payment of budgeted and authorised expenditure*. This was achieved through; (iv) *proper documentation*, (v) *checks, approvals and authorisations*, (vi) *use of information technology*, and (vii) *segregation of duties*. In this regard; (viii) *payroll*

*audits*, (ix) *oversight from higher-level government* and (x) *internal audit* were considered essential.

For example, Participant A6 emphasized on (i) *accurate and integrated payroll records*, (ii) *payment of bona-fide employees* only and (iii) *payment of budgeted and authorised expenditure*. This was achieved through; (iv) *proper documentation*, (v) *checks, approvals and authorisations*, (vi) *use of information technology*, and (vii) *segregation of duties*. In this regard; (viii) *payroll audits*, (ix) *oversight from higher-level government* and (x) *internal audit* as follows;

*‘Our payroll is computerised. So, on a monthly basis we use time records which show that so and so has provided services. We also use contracts of employment which are in personal files. The PROMUN system can give you the number of employees on the payroll. It can also produce a list of all employees that are under Chinhoyi Municipality who are paid salaries. So HODs and the Chamber Secretary can check. Here in finance we also check whether we are paying the correct employees. Payroll audits are done by the Internal Auditor and also the Ministry.’*

Participant A13 also echoed similar sentiments, on the importance of (i) *accurate and integrated payroll records*, (ii) *payment of bona-fide employees* only and (iii) *payment of budgeted and authorised expenditure*. This was achieved through; (iv) *proper documentation*, (v) *checks, approvals and authorisations*, (vi) *use of information technology*, and (vii) *segregation of duties*. In this regard; (viii) *payroll audits*, (ix) *oversight from higher-level government* and (x) *internal audit* as follows;

*‘There is someone who does payroll administration. Especially the permanent workers are known. After the payroll is done, the HR officer will sign, the Treasurer also signs and finally the CEO also signs. There is an integration between payroll and human resource records. Internal audit also takes a role of checking the payroll for casual employees based on time sheets. If there are changes to be made to the payroll, a letter has to be written. Payroll audits were once done by the Ministry as a way of overseeing the payroll of the local authority. The internal audit also makes some internal checks here and there. The idea is to make sure that we pay only the council employees and remove ghost employees.’*

Participant A8 also underscored the importance of (i) ***integrated payroll and human resources records***, (ii) ***segregation of duties***, and (iii) ***proper documentation*** as follows;

*‘We have internal controls. We have segregation of duties; Different people do capturing and authorisation. Time sheets are checked. One person complies the time sheets while a different person signs to approve from the departments (HOD). Payroll records and HR records are integrated. The HR side is authorised to make changes to HR records. One person captures, another person updates, and a different person does reconciliations.’*

Participant A6 underscored the need for (i) ***payment of budgeted and authorised expenditure***. This was achieved through; (ii) ***proper documentation***, (iii) ***checks, approvals and authorisations***, (iv) and ***segregation of duties*** as follows;

*‘It is important for us to pay only for authorised and budgeted expenditure. We make use of the budget; we only pay for expenditure budgeted for and if the expenditure is properly authorised. In terms of the procedure, we have an internal requisition which is signed by the person requesting the item and approved by the Head of Department (HOD). The Director of finance approves all the expenditure, then the Accounting Officer (Town Clerk) authorises the expenditure. So, we have segregation of duties.’*

Similarly; Participant A11 also emphasized on (i) ***payment of budgeted and authorised expenditure*** (ii) ***proper documentation***, and (iii) ***checks, approvals and authorisations***, (iv) ***segregation of duties***, and (v) ***use of information technology*** as follows;

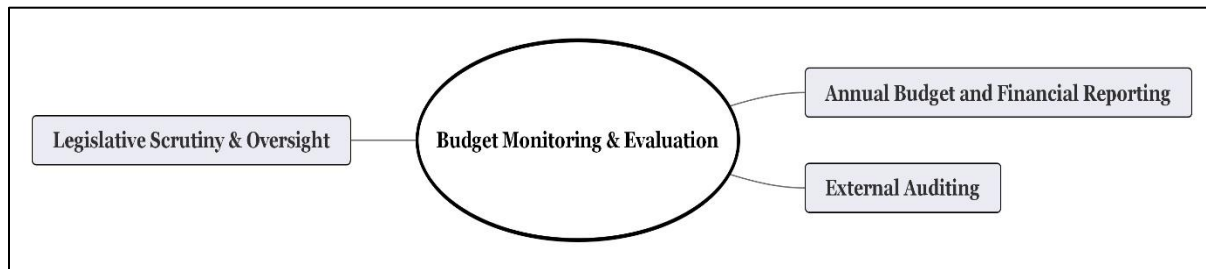
*‘We have the payment voucher system. Items are requested by the departments, then the whole process is authorised, then finally the accounts department will only pay when all the papers have been authorised and are in place. We do not buy without proper papers and authorizations. In addition, different activities are done by different people to ensure segregation of duties. All our payments are also done through the bank.’*

On the other hand, Participant A10 alluded to the importance of (i) ***checks, approvals and authorisations*** and (ii) ***use of information technology*** as follows;

*‘Our internal controls are very good. Our phones are linked to the local authority’s 4 bank accounts. So, if any transaction happens in any of those bank accounts, it will reflect in the phone of each one of us. So, if a transaction reflects, but the Town Secretary is not aware of it, it is immediately investigated. All payments have to be authorised by these signatories.’*

## 6.6 Determinants of the Quality of Budget Monitoring and Evaluation

**OBJECTIVE 3: To describe the systems, institutions and processes that determine the quality of budget monitoring and evaluation in Zimbabwean fiscally decentralised local government budget and budgetary control systems.**

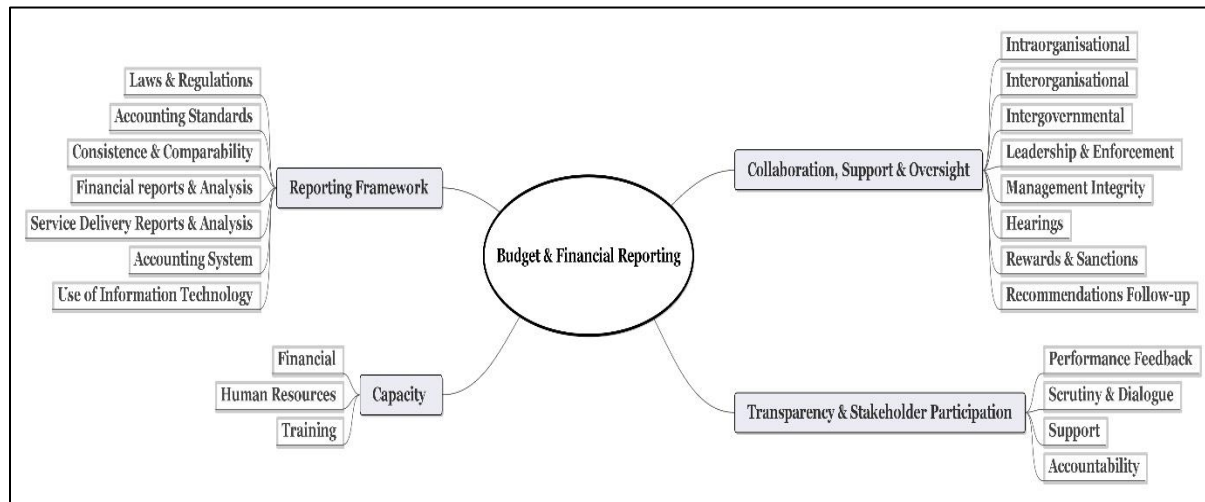


**Figure 6.18: Budget Monitoring and Evaluation Themes**

*Source: Own elaboration*

As shown in figure 6.18 above, the three key institutions that emerged as determinants of the quality of budget monitoring and evaluation in decentralised local government were; (i) ***budget and financial reporting systems***, (ii) ***external auditing systems***, and (iii) ***legislative oversight and scrutiny systems***.

## 6.6.1 Budget and Financial Reporting



**Figure 6.19: Budget and Financial Reporting Sub-Themes**

Source: Own elaboration

As shown in figure 6.19 above, four sub-themes emerged under budget and financial reporting, namely; (i) *reporting framework*, (ii) *capacity*, (iii) *collaboration, support and oversight*, and (iv) *transparency and stakeholder participation*.

The reporting framework was expected to ensure; (i) *compliance with laws and regulations*, (ii) *compliance with accounting standards*, (iii) *consistency and comparability*. This was achieved through (iv) *financial reports and analysis* and (v) *service delivery reports and analysis*. The (vi) *accounting system* and (vii) *use of information technology* acted as catalysts to the budget and financial reporting system.

Capacity was found to be influenced by the quality of (i) *financial resources*, (ii) *human resource skills and competence* and (iii) *training*.

Collaboration and support were expected to be (i) *intraorganisational*, (ii) *interorganisational* and (iii) *intergovernmental*. Oversight was found to be enhanced by (iv) *leadership and enforcement* and (v) *management integrity*. Effective oversight was shown through (vi) *hearings*, (vii) *rewards and sanctions* and (viii) *follow-up of recommendations*.

Transparency and stakeholder participation were enhanced through (i) **performance feedback**, (ii) **scrutiny and dialogue**, (iii) **stakeholder support** and (iv) **demonstrating accountability**.

For example, Participant A6 reiterated the importance of; (i) **the reporting framework** (compliance with accounting standards, compliance with laws and regulations, comparability and consistence, accounting system, use of information technology), (ii) **collaboration, support and oversight** (intergovernmental, interorganisational), and (iii) **capacity** (training, human resource skills and competence, financial resources) as follows;

*“The format of the accounts is in terms of IPSAS 1. We started implementing IPSASs from 2014. The central government is also coming on board and that makes it easier for comparability and consolidation of the National Accounts, since local authorities are also contributing to the National Accounts. The challenges on IPSASs relate to capacity issues, but the government is playing a pivotal role through the parent ministry in order to train and capacitate local authorities on implementation of IPSASs. We have done quite a number of trainings organised through the Ministry of Local Government and also through the Ministry of Finance. The major challenge is on the human resource skills gap. Training and installation of systems also require financial resources which unfortunately we do not have. At times we are being supported by our partners, for example GIZ, a German NGO, which assists on water and sanitation issues. We also have to comply with the requirements of the Urban Councils Act and the Public Finance Management Act in our reporting. We use a computerised accounting system which is pivotal in drawing up the financial statements and reports.”*

Similarly, Participant D1 underscored the importance of (i) **reporting framework** (comparability and consistence, compliance with accounting standards), (ii) **capacity** (human resource skills and competence, training) and (iii) **interorganisational collaboration and support**, (iv) **financial reports and analysis**, and (v) **service delivery reports and analysis** as follows;

*‘... In terms of the accounting reporting framework, that is still a challenge for local authorities, because there is no uniformity in local authorities. Some are still on cash basis, some use IFRSs, while others use IPSASs. But as government, through the Accountant-General’s office, has said that local authorities are adopting IPSASs because they are more applicable to local authorities.*

*But it's still a journey in terms of implementation. According to the Accountant-General (AcG), the implementation will be completed by 2021. The roadmap is still being mapped out. There is a workshop which is going to be done in March 2018, to try and engrain people on the adoption of IPSASs in local authorities. Local authorities should prepare annual reports which give detailed information about their financial and service delivery accomplishments during the year. However, with respect to the annual reports, I think what I have seen are just the financial statements, not reports on service delivery. But issues on service delivery are captured in the management letters. Currently local authorities were not compiling annual reports. So, the audit report would be commenting on what they intended to do against what they actually did. Currently they have been trying to implement reports on service delivery. Plans for service delivery are however presented along with the budget. It's a requirement when they are submitting a budget.'*

In the same vein, Participant B10 underscored the importance of the (i) **reporting framework** in terms of (ii) **compliance with accounting standards** as follows;

*'Reporting in local authorities is an interesting issue. It is not like local authorities prepare financial statements as per International Accounting Standards (ISAs) framework. Although local authorities would say that they are preparing their financial statements in accordance with IPSAs, not all of the standards will be complied with. For example, I have never seen anything on contingent liabilities. For instance, local authorities purport to follow IPSASs. There have been some changes like now, the IPSASs provide for depreciation but here in government we do not do that. If we acquire an asset, it is expensed.'*

Participant D2 also reiterated the importance of the (i) **reporting framework** (compliance with laws and regulations); (ii) **capacity** (human resource skills and competence) and (iii) **oversight** (leadership and enforcement, management integrity) as follows;

*'I think in terms of submission of accounts for auditing, there is lack of enforcement or supervision. The other issue concerns the Board of Directors (BOD) who are the councillors. I think most of them do not appreciate basic accounting issues. So, they do not understand whether it's necessary to submit these accounts in time. So, the executives take advantage of that and do not submit. Apart from that, I also think even the Finance Directors, some of them need more exposure in accounting.'*

*There is a skills gap. The time frame for submission is as per the PFMA, its overrides the provisions of the UCA.'*

On the other hand, Participant A9 underscored the importance of (i) **reporting framework** (accounting system, use of information technology) as follows;

*'We use PROMUN as the accounting package and we have a lot of challenges. I have been with local authorities for the past 29 years or so. With Pastel you would do your accounts to the end. Use of accounting packages is vital but you need a package that is user-friendly and well supported. Since the introduction of PROMUN, we have only seen 5 local authorities who can effectively use PROMUN. The five have been supported by GIZ. You would want a package which you can use to the fullest. If PROMUN was really effective, why are local authorities still behind in terms of producing final accounts?? It shows that the package is not really user-friendly. My accountants are still struggling with it right now. To me, it is not a user-friendly package. It also suffered a lot of support problems. Some training has been provided but it has always lacked support.....'*

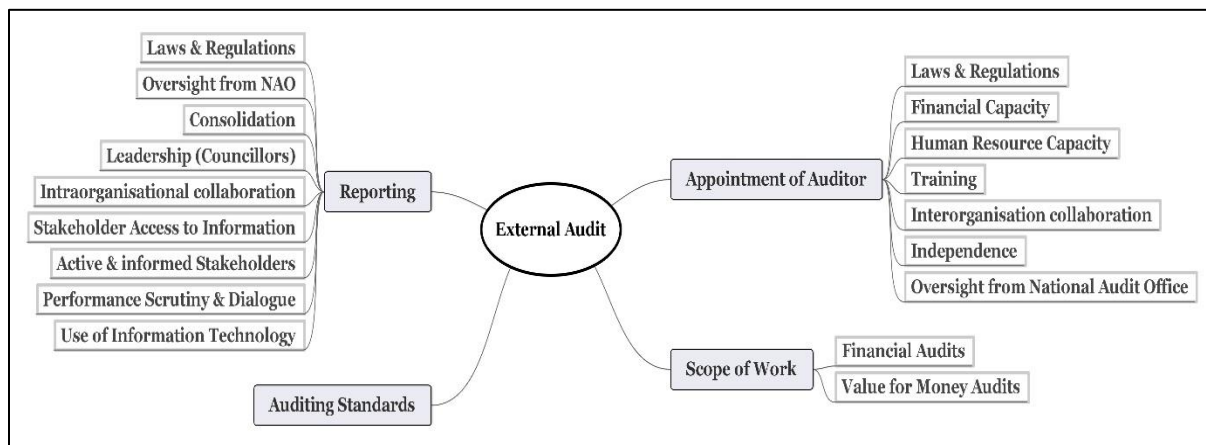
On the other hand, Participant C2 emphasized the importance of (i) **capacity** (human resource skills and competence, training) and (ii) **collaboration, support and oversight** (interorganisational, leadership and enforcement, management integrity) as follows;

*'..... the challenge that we have had is that of changing hands in management. The former Town Clerk wasn't concerned about final accounts; up until last year when we resolved as a committee that our finance team needs to get training. So, we got support from ..... Town Council Finance Director who came in to train our finance team. They did the 2014 final accounts which are almost ready. We expect that by mid-year this year, 2015 final accounts will be ready. We expect that by the end of 2019, we should be producing the final accounts for 2018.'*

Among other respondents, Participant A1 reiterated the importance of (i) **transparency and stakeholder participation**, (ii) **performance feedback**, (iii) **stakeholder scrutiny and dialogue**, (iv) **stakeholder support**, (v) **intraorganisational collaboration**, (vi) **hearings**, (vii) **recommendations follow-up**, and (viii) **demonstrating accountability** as follows;

*'It is very important for reporting and auditing to be transparent. This helps us to get support from stakeholders..... Auditors do the audit. We have an exit meeting with the auditors. They highlight their observations and recommendations. We look at them and we respond. They then produce the final audit report. The audit report goes to the finance committee. Then it goes to the full council for deliberations. They refer it to the Audit Committee, and then it comes to this office. I sit with the Audit Committee, they give recommendations. We make follow ups. If it means that hearings have to be done, then there are done. The residents can come, pay a certain fee and get a copy of the auditor's report. The idea is for us as a local authority to provide accurate and honest feedback to the stakeholders, which demonstrates accountability. We should show that we have used the allocated funds to the best advantage of the stakeholders.'*

### 6.6.2 External Auditing Systems



**Figure 6.20: External Auditing Sub-Themes**

*Source: Own elaboration*

The study found that external auditing systems were an important component of budget monitoring and evaluation in decentralised local government. The quality of external auditing was found to be influenced by; (i) *appointment of the auditor*, (ii) *scope of work*, (iii) *compliance with auditing standards* and (iv) *audit reporting systems*. This is depicted in figure 6.20 above.

### 6.6.2.1 Appointment of the Auditor

As shown in figure 6.20 above, the appointment of the external auditor was expected to (i) ***comply with laws and regulations***, ensure sufficient (ii) ***oversight from the National Audit Office*** and adequate (iii) ***audit independence***. The quality of external audit systems was also found to be influenced by (iv) ***capacity (financial resources, human resource skills and competence and training)*** and (v) ***interorganisational collaboration and support*** from other third-party auditors.

For example, Participant D1 reiterated the importance of (i) ***compliance with laws and regulations***, (ii) ***oversight from the National Audit Office***, (iii) ***audit independence***, (iv) ***capacity (financial resources, human resource skills and competence and training)*** and (v) ***interorganisational collaboration and support*** as follows;

*‘In the past local authorities used to appoint their own auditors from the private sector. But with the coming in of the New Constitution in 2013, the mandate to audit in the Public Sector was given to the Auditor-General (AG) and that includes local authorities. So now, we have to appoint external auditors for them. While it is my duty to directly audit them but currently our capacity is limited. We directly audit a few, and we subcontract the rest. When the mandate was given in 2013, we were not given the requisite personnel or financial resources to carry out the audits of local authorities. Traditionally, in the past, we have been auditing central government, parastatals and state-owned enterprises. So, because of lack of capacity, we are just carrying out a supervisory role in the audit of local authorities. Currently, we are tendering out the audit of local authorities. We do the adjudication, we oversee vis-a vis the audit fees and engage them to carry out the various audits. Of late, we were given the authority to recruit about 38 auditors for local authorities. They have just come in, so they still need to undergo training before we can take over some of the audits. So, it’s not any time soon that we are going to see effective impact on the AG’s audit of local authorities.... The auditors are normally changed after every 5 years to ensure independence.....’*

Similarly, Participant A6 underscored the importance of; (i) ***compliance with laws and regulations***, (ii) ***interorganisational collaboration and support***, and (iii) ***auditor independence*** as follows;

*‘In terms of the audit, the Comptroller and Auditor-General (AG) is responsible for the audits of all public entities, including us as local authorities because we are specified as public entities in terms of the PFMA. In our case the AG’s office appoints auditors on an annual basis. For more than the past 5 years we have been audited by the Urban Development Corporation (UDCORP). For 2017, we expect a new auditor to be appointed. So, it’s either the AG’s office will do the audit or it will appoint another auditor to do the audit. I think the auditors are independent but I think the duration of their contracts might affect their independence. For example, if they have been auditors for a decade, they need to be rotated, maybe once every five years.’*

### **6.6.2.2 Scope of Audit Work**

All the respondents underscored the importance of **wider-mandate audits** that included both (i) **financial audits** and (ii) **value-for-money audits**.

Thus, Participant D1 remarked;

*‘.....When we appoint auditors them to carry out the audit, we enter into a contract. In this contract, they are supposed to look at Value for Money (VFM) issues; we call them the wide-mandate areas. But we find that; maybe because they are so used to the private sector, they may focus on the financial statements through and through. We have talked to them, and some are doing wide mandate areas while some are not doing it. As local authorities, we are not looking at profit as the bottom line, but we are looking at service delivery. We have been trying to emphasize this. So, we would want them to see if garbage is being collected, whether sewer systems are working etc.’*

Similarly, Participant A12 affirmed;

*‘These days they are doing both financial audits and performance audits. I think it’s now requirement by the Auditor-General (AG)’s office. They are specific areas of the operations of the council that they are expected look at in terms of performance. Public sector audits look at more issues as compared to private sector audits which just look and true and fair view. They have to check if laws and regulations have been complied with, service delivery objectives achieved, issues of internal controls and compliance with budget laws.’*

### 6.6.2.3 Compliance with Auditing Standards

The external auditors alluded to the fact that it was important for them to comply with international auditing standards. The external auditors mentioned that they adhered to both ISAs and INTOSAI auditing standards for the public sector.

For example, Participant D1 had this to say;

*‘ ....the local authorities do pay the auditors.....the auditors do adhere to the INTOSAI standards and also the ISAs. We adhere to both. This is because we also audit parastatals which are more commercial and ISAs are therefore more applicable..... ’*

### 6.6.2.4 Transparency and Stakeholder Participation

As depicted in figure 6.20 above, all the respondents also alluded to the fact that audit reporting was supposed to be transparent and ensure stakeholder participation. In this regard, there was supposed to be (i) ***compliance with laws and regulations***, (ii) ***oversight from the National Audit Office (NAO)***, and (iii) ***consolidation of audit reports***. Reporting was also expected to be preceded by (iv) ***stakeholder access to information*** and (v) ***performance scrutiny and dialogue***. This was facilitated through (vi) ***leadership from councillors***, (vii) ***intraorganisational collaboration and support*** from council employees, and (viii) ***active and informed stakeholders*** and (ix) ***use of information technology***.

For example, Participant D1 exclaimed the significance of (i) ***compliance with laws and regulations***, (ii) ***oversight from the National Audit Office (NAO)***, (iii) ***consolidation of audit reports***, (iv) ***stakeholder access to information***, (v) ***performance scrutiny and dialogue*** and (vi) ***use of information technology*** as follows;

*‘Since as the Auditor-General’s Office, we have the mandate to audit local authorities; after completing the audits, the contracted auditors will send their audit reports here. We collect all the reports and we put them in one report. We combine those with the reports of the audits we would have carried out ourselves and we come up with an annual audit report on local authorities. For those audits that we contract out, we do try to supervise. Where we can, we even go out for*

*planning meetings with the auditors and also accompany them just to understand what is going on. ....our annual report is tabled in parliament and is accessible to the public. It is there on our website. It is just that we are having some challenges with the website. As for the local authorities, I think one has to go to the local authorities to access them. I do not know whether all of them have websites. I think the urban ones have them, but with the RDCs, there could be a challenge. But they are all encouraged to have websites and move with the times and technology in terms of distribution of information to stakeholders.'*

Similarly, Participant A6 affirmed the significance of (i) ***performance scrutiny and dialogue***, (ii) ***leadership from councillors***, and (iii) ***intraorganisational collaboration and support*** from council employees, as follows;

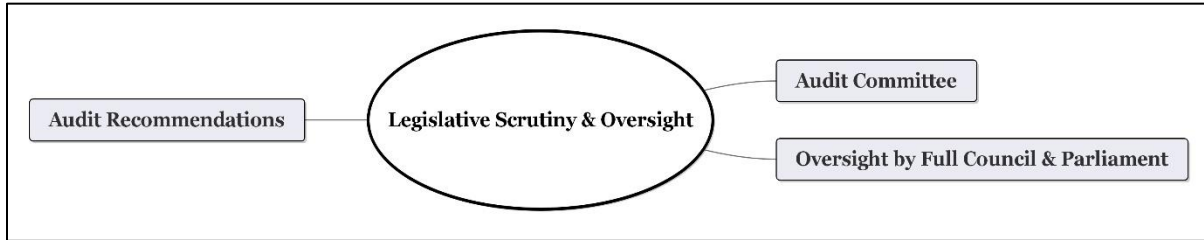
*'After the auditors have finished the audit, they do a draft management report. They highlight their observations and offer their recommendations, so as management we are expected to respond to those observations. They also express their opinion on the financial statements as to whether they reflect a true and fair view of the state of affairs of this local authority at the reporting date. So, once we have responded, they produce the final report, an audit certificate and the audited financial statements which are presented to the council. They are presented via the Audit Committee. The Audit Committee looks at every observation and recommendation made by the external auditors. The audit committee also makes its recommendations to council, with regards to the external auditor's recommendations. If the recommendations become resolutions, they are then implemented through the various HODs.'*

Participant A2 remarked the following on the importance of (i) ***compliance with laws and regulations***, (ii) ***informed and active stakeholders***, (iii) ***transparency and stakeholder participation***, and (iv) ***use of information technology*** as follows;

*'The auditor's report, according to the law it is supposed to be available to the public. But maybe it is a question of the public having knowledge of that aspect. It circulates within. I have had access to all the reports. But for the reports to be presented on a particular platform to the public, that has not been done. Like what I know with other external local authorities, where they have websites, and they publish the reports on the website. This has not been done. We do not have a website here*

as yet. So, availability of the report to the public, is a challenge. Its two way. It is a question of who wants what information. Does the public know they can access the information? I don't know. For people to know their rights as postulated by the Urban Councils Act, it is a real challenge everywhere. People do not know their rights to a greater extent.'

### 6.6.3 Legislative Scrutiny and Oversight

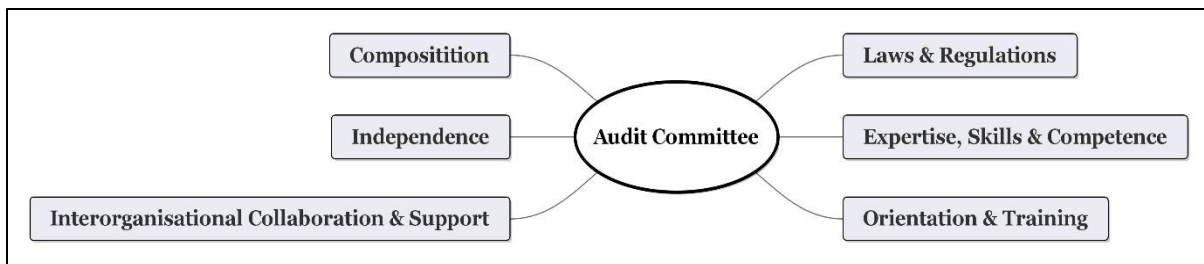


**Figure 6.21: Legislative Scrutiny & Oversight Themes**

Source: Own elaboration

As depicted in figure 6.21 above, the study found that legislative scrutiny and oversight were essential in budget monitoring and evaluation. Three sub-themes that were identified were; (i) *audit committee*, (ii) *oversight by full council and the Parliament*, and (iii) *handling of audit recommendations*.

#### 6.6.3.1 Audit Committee



**Figure 6.22: Audit Committee Sub-Themes**

Source: Own elaboration

All the respondents alluded to the fact that the audit committee systems were supposed to ensure (i) *compliance with laws and regulations*, were influenced by (ii) *the composition*, (iii) the level

of **independence**, (iv) **interorganisational collaboration and support**, (v) **expertise, skills and competence** of members and appropriate (vi) **orientation and training**. This is depicted in figure 6.22 above.

For example, Participant D1 reiterated the importance of (i) **compliance with laws and regulations**, (ii) **composition**, (iii) **independence**, (iv) **interorganisational collaboration and support**, (v) **expertise, skills and competence** and (vi) **orientation and training** as follows;

*‘Audit Committees are essential. They are also a requirement of the Public Finance Management Act. There are a number of councillors on the audit committee. On effectiveness, im not sure. But we find that most of the people in the audit committee have no idea about accounting. They put people from other backgrounds other than accounting. This is why maybe accounts are delayed because they do not put pressure on management to produce these accounts. The challenge is the composition of the Audit Committees. The councillors are just politicians. For example you may find the Chaiperson of the Audit Committee saying that they are not being given the financial statements. Yet they are the ones who should ask for them.I think audit committes members should be properly oriented and trained and local authorities should be able to outsource people with the appropriate skills where necessary.’*

Similarly, Participant B8 underscored the importance of (i) **composition**, (ii) **expertise, skills and competence**, and (iii) **interorganisational collaboration** as follows;

*‘There is an audit committee. The problem that we have as a local authority is that we have councillors sitting in the audit committee. So we might have a situation where we might not have anyone with an accounting background. To if you try to recommend to them that they need someone with that kind of knowledge, it would seem like you are trying to take over their job.’*

Participant D2 also emphasized on **interorganisational collaboration and support** as follows;

*‘...the audit committee should have external personnel. The problem with external personnel is that their charges are more expensive than internal ones. It would be better if vounteers can found and are willing to work together with the local authorities.’*

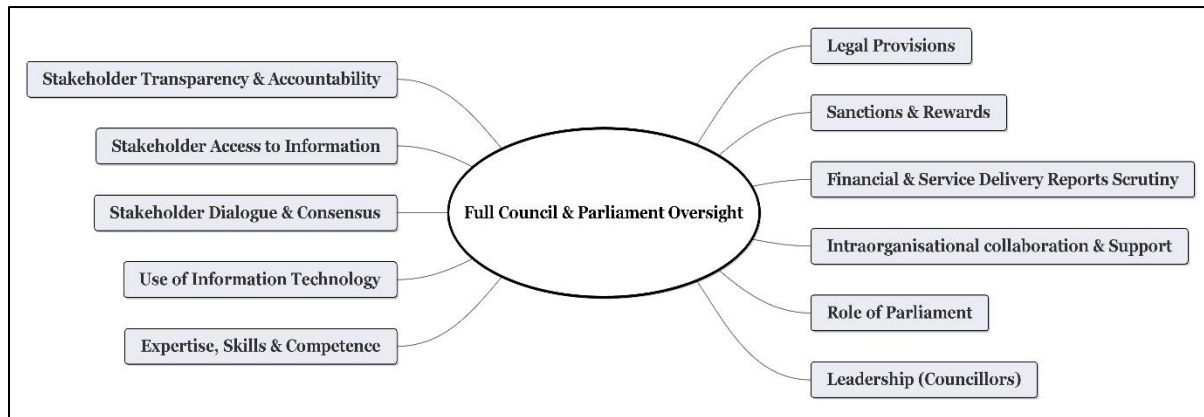
Participant B10 also remarked the importance of (i) **skills, expertise and competence**, (ii) **intraorganisational collaboration**, between councillors and internal audit, (iii) **training and orientation**, (iv) **compliance with laws and regulations**, and (v) **interorganisational collaboration** as follows;

*‘We have an audit committee. The contributions by councillors has been a bone of contention in local authorities for some time. For an audit committee to function we need someone who has a basic appreciation of accounting. That has been a thorny area. In our audit committees we have councillors and there is no qualification for a councillor. Councillors have been relying on advice from audit personnel of the council. We usually hold a workshop for the audit committee when the councillors come into office. An orientation of what they are expected to do, we take them through the audit charter, their limits, rights and obligations. Outsourcing of personnel is allowed by the UCA, but the organisation can decide. We once requested but it was not taken up. We wanted someone with an accounting appreciation to be included so that he/she can report objectively to the full council.’*

Participant B9 also emphasized on (i) **skills, expertise and competence**, (ii) **training** and (iii) **interorganisational collaboration and support** ;

*‘We have an audit committee. It is a very effective committee. They are people who are very conversant of their work. Here and there they go for some training. They receive it from the institute of Forensic Auditors. That has assisted well in doing their work.’*

### 6.6.3.2 Full Council and Parliament Oversight



**Figure 6.23: Full Council and Parliament Oversight Sub-Themes**

*Source: Own elaboration*

Figure 6.23 above shows that oversight by full council and the Parliament was an essential component of budget monitoring and evaluation in decentralised local government. This was influenced by the (i) *role of Parliament*, (ii) *leadership skills of councillors*, (iii) *the expertise, skills and competence of personnel*, (iv) *legal provisions*, (v) *intraorganisational collaboration and support* and (vi) *use of information technology*. Oversight processes were expected to include; (vii) *financial and service delivery reports scrutiny*, (viii) *stakeholder transparency and accountability*, (ix) *stakeholder access to information*, and (x) *stakeholder dialogue and consensus*, and (xi) *rewards and sanctions*.

For example, Participant B8 underscored the significance of (i) *intraorganisational collaboration and support*, (ii) *stakeholder dialogue and consensus*, (iii) *leadership skills of councillors*, and (iv) *expertise, skills and competence* as follows;

*‘As Internal Audit we also discuss with the External Auditors where we need clarification of where there are disagreements. They also go to the Audit Committee, and the report is scrutinized and then it goes to the AG. It goes to the full council because the Chairperson of the Council should sign it. Scrutiny by full council is limited because of lack of technical expertise. So usually if the auditor’s report has an unqualified opinion, then that’s fine.’*

Similarly, Participant B11 reiterated the significance of (i) **skills, expertise and competence**, and (ii) **intraorganisational collaboration**, as follows;

*‘The challenge we have with councillors is that some of them are not hands on, technically. But here at .... they are better. They are guided by Internal Auditor. The Internal Auditor goes through the Audit Report with the councillors of the Audit Committee, assisting them to understand it.’*

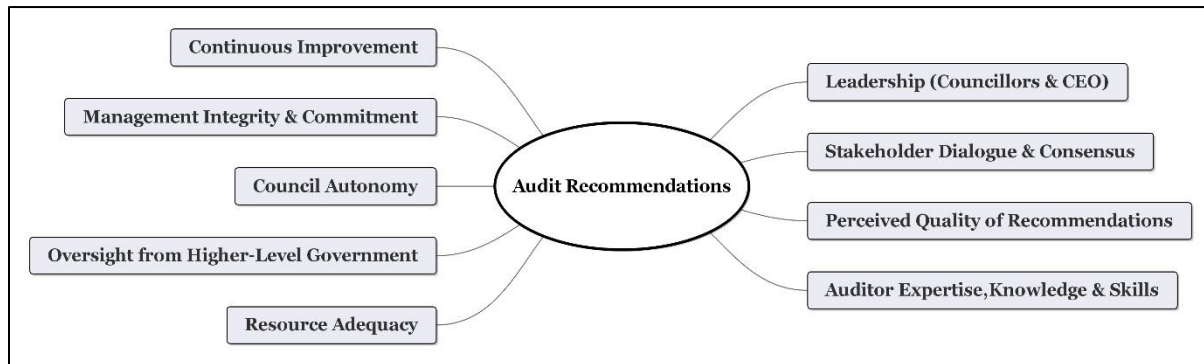
Similarly, Participant A6 underscored the significance of (i) **compliance with laws and regulations**, (ii) **stakeholder access to information**, (iii) **use of information technology**, (iv) **stakeholder transparency and accountability**, (v) **role of Parliament**, (vi) **scrutiny of financial and service delivery reports** and (vii) **hearings** as follows;

*‘In terms of the PFMA, the audit report is supposed to be publicized on a website but we haven’t reached that stage but we are working towards that because it’s essential for accessibility and accountability to stakeholders. But I think the Parliamentary Portfolio Committee on Public Accounts is doing tremendous work where it’s trying to ensure that financials for public entities are made public. That will also help the local authorities to improve because if we know that our performance will be made public that motivates us to work harder. The AG presents the report to parliament and the Parliamentary Portfolio Committee on Public Accounts may call certain local authorities to explain certain issues that have been raised in the audit report or in the management report. I think quite a few local authorities have been called. As for us, we have never been called. ....’*

Similarly, Participant D2 emphasized the significance of (i) **hearings**, (ii) **compliance with laws and regulations**, (iii) **legal provisions**, and (iv) **rewards and sanctions** as follows;

*‘Hearings are usually done for bigger local authorities, for example Harare, but maybe because the issues are also big. The problem is the PFMA talks a lot about a number of misconducts but does not specify how to deal with them. It talks about wasteful expenditure, but there is no provision for penalties and explanations. So, hearings are difficult if the provisions of the regulations are not available.’*

### 6.6.3.3 Handling of Audit Recommendations



**Figure 6.24: Handling of Audit Recommendations Sub-Themes**

*Source: Own elaboration*

Figure 6.24 above depicts that the way in which audit recommendations were handled influenced the quality of budget monitoring and evaluation in decentralised local government. Handling of recommendations was influenced by; (i) *leadership quality of councillors and the CEO*, the (ii) *perceived quality of recommendations*, (iii) *auditor's expertise, knowledge and skills*, (iv) *management integrity and commitment*, (v) *council autonomy*, (vi) *resource adequacy* and (vii) *oversight from higher-level government*. The focus was expected to be on (viii) *stakeholder dialogue and consensus*, and (ix) *continuous improvement*.

For example, Participant A6 hinted on the focus on (i) *continuous improvement*, (ii) *leadership quality of councillors*; (iii) *management integrity and commitment*, and (iv) *resource adequacy* as follows;

*The council takes audit recommendations seriously. Most of the recommendations are implemented because they help the local authority to improve on performance. Even the internal audit recommendations, we take them seriously. They are done by the internal audit and go through the audit committee. I think it depends on the management commitment to implementing the recommendations. However, the availability of resources may also influence the implementation of recommendations. But usually as long as the councillors make a resolution, recommendations are implemented .....*

Similarly, Participant A11 reiterated the significance of **continuous improvement** as follows;

*‘We do take audit recommendations seriously because each year we have to ensure that we have complied with the recommendations made in the previous year. It’s not good to have a management report that is almost the same for the next five years.’*

Other respondents alluded to the significance of the (i) **perceived quality of the recommendations**, (ii) **auditor’s expertise, knowledge and skills**, and (iii) **stakeholder dialogue and consensus**. For example, Participant A11 remarked;

*‘I do have a problem with the external audit recommendations because sometimes I think they do report for the sake of reporting. So, they it could be said that at least they made observations. For example, they can say, they cannot ascertain completeness of monies collected at bus ranks. What kind of an observation is that? Buses just come, and they pay and go. If a bus that comes today, doesn’t come tomorrow, is it my fault? We cannot have a complete database of all cars at the rank. For example, completeness of river/pit sand, what has been bought can be ascertained but we can’t ascertain stock of sand in the river. So sometimes I think they report for the sake of their report to become voluminous. Maybe it is because they lack understanding of the activities of the council.’*

Other respondents also underscored the significance of the (i) **leadership quality of the CEO**, (ii) **management integrity and commitment**, and (iii) **council autonomy**. For example, Participant C2 remarked;

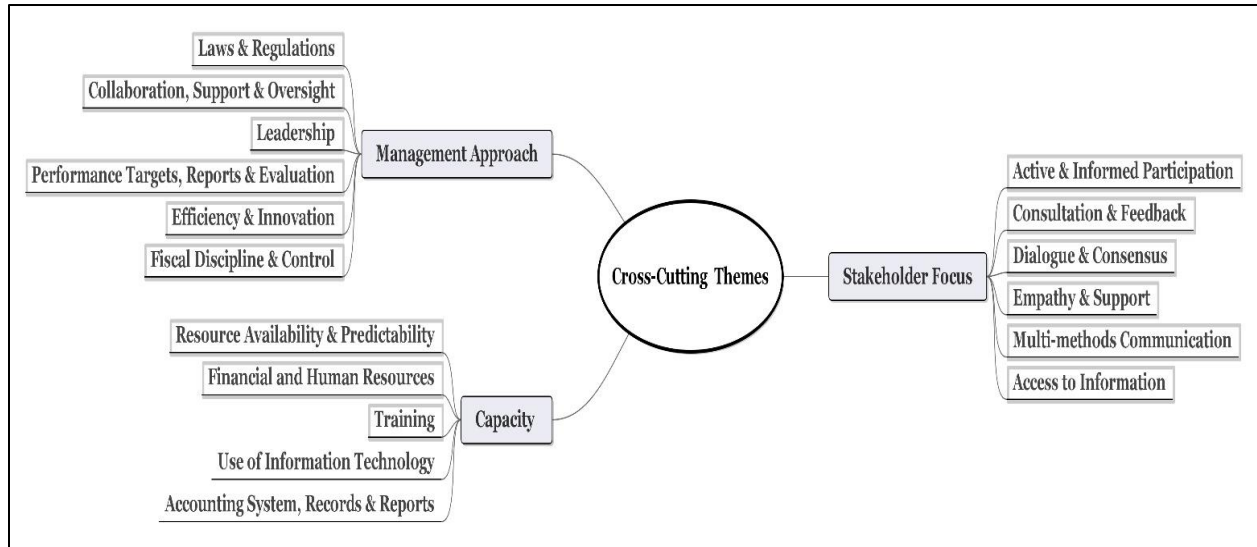
*‘Yes, here and there audit recommendations are taken seriously. What is most important is the position by the CEO, whether he is able to adhere to the report or he thinks otherwise. Because some of these managers are always there to try and play hide and seek with the systems. For example, if the manager is aligned to the Minister, he may feel otherwise and will get support. It will now be a challenge to council whereby even if you find some loopholes within the report, and need to address it, it’s upon the Town Clerk to execute it. For example, City of Harare was told to rationalise their salaries, and the Town Clerk did not do it. So, council had to suspend the Town*

*clerk but the Minister had to reinstate that Town Clerk. So, we cannot be able to exercise our freedom unless the Minister gives us the liberty to do so.'*

Similarly, some respondents reiterated the significance of (i) **resource adequacy**, (ii) **oversight from higher-level government**, and (iii) **stakeholder dialogue and consensus**. For example, Participant D1 alluded;

*'There is some implementation of the audit recommendations. But there is a challenge with the recommendation that employment costs should be at most 30% of the budget. That is a directive from the Ministry of Local Government. That area is still a challenge because you find that for some local authorities, it has been vice versa; with employments costs amounting to 70% of the budget. The challenge is that their revenue base is dwindled. For example, they used to handle water, but now ZINWA is in charge. So, it is important for the Ministry to oversee local authorities, but it equally important for there to be dialogue and agreement as to which recommendations can be implemented given the circumstances.'*

## **6.7 Cross-Cutting Themes/Model for the Determinants of the Quality of PFM in Decentralised Local Government in Zimbabwe**



**Figure 6.25: Proposed Model for the Determinants of the Quality of PFM in Decentralised Local Government**

*Source: Own elaboration*

As depicted in figure 6.25 above, the study found that the determinants of the quality of PFM in the decentralised local government could be classified into 3 categories, namely; (i) *stakeholder focus*, (ii) *capacity* and (iii) *management approach*.

In terms of the **stakeholder focus**, the systems, processes and institutions were expected to inhibit (i) *active and informed stakeholder participation*, (ii) *stakeholder consultation and feedback*, (iii) *stakeholder dialogue and consensus*, (iv) *stakeholder empathy and support*, (v) *multi-methods communication with stakeholders* and (vi) *stakeholder access to information*.

The **capacity** of the local PFM system was found to be influenced by; (i) *resource availability and predictability*, (ii) *financial and human resources*, (iii) *training*, (iv) *use of information technology* and (v) *accounting systems, records and reports*.

On the other hand, the quality of the **management approach** was determined by; (i) *compliance with laws and regulations*, (ii) *collaboration, support and oversight*, (iii) *leadership*, (iv) *focus on performance targets, reports and evaluation*, (v) *efficiency and innovation* and (vi) *fiscal discipline and control*.

## 6.8 Theoretical Synthesis and Linkages

In this section, the study analysed the findings in the context of theories and models in other theoretical disciplines and came up with its own proposed model for the determinants of the quality of PFM in decentralised local government in Zimbabwe.

As depicted in figure 6.25 above, the study found that the determinants of the quality of PFM in the decentralised local government could be classified into 3 categories, namely; (i) *Stakeholder Focus*, (ii) *Capacity* and (iii) *Management Approach*.

In terms of the **Stakeholder Focus**, the systems, processes and institutions were expected to inhibit (i) *active and informed stakeholder participation*, (ii) *stakeholder consultation and feedback*, (iii) *stakeholder dialogue and consensus*, (iv) *stakeholder empathy and support*, (v) *multi-methods communication with stakeholders* and (vi) *stakeholder access to information*.

The study found that the quality of PFM in fiscally decentralised local government was determined by systems, institutions and processes to ensure stakeholder focus. This entailed active and informed stakeholder participation, stakeholder consultation and feedback, stakeholder dialogue and consensus, stakeholder empathy and support, multi-methods communication with stakeholders and stakeholder access to information.

Stakeholder focus can be explained in terms of the Resource Dependency Theory which asserts that the strategy of public organisations should be based on identifying stakeholder expectations and determining what resources the organisation should build and enhance to create the highest possible value for the stakeholder (Bryson, Ackermann and Eden, 2007). The environment is likely to consist of many other organisations; in essence, a system of interdependencies (Malatesta and Smith, 2014). Similarly, the Agency Theory supports stakeholder focus as a way to prevent agent opportunism and reduce information asymmetry (Jensen and Meckling, 1976; Leruth and Paul, 2006; Mathenge, Shavulimo and Kiama, 2017).

The study also found that stakeholder participation was a legal requirement and an essential requirement in various oversight systems, institutions and processes. Thus, the need to focus on stakeholders also indicated the presence of coercive pressure and normative pressure as postulated by the institutional theory (Connolly, Reeves and Wall, 2009; DiMaggio and Powell, 1983a). Is

this regard, the local authority needs to involve stakeholders to seek legitimacy of its operations and also conform with other public entities.

Stakeholder focus can also be explained by the NPM Theory which emphasizes that government ought to be community-owned and the stakeholders should be actively engaged in the process of deciding what public services would look like (Osborne and Gaebler, 1993). Thus, NPM is about maximising the participation of the broadest possible number of people and institutions in the decision-making process. In this sense, it is anti-hierarchy and anti-bureaucratic. It is also anti-uniformity in that the way a particular public service is delivered is a function of the local community of participants who decide how that service will be delivered (Osborne and Gaebler, 1993).

On the other hand, stakeholder focus can also be viewed from the lens of the New Public Governance (NPG) Theory whose key characteristics are; (i) a strong focus on the inter-organisational collaboration in achieving policy aims and service delivery (ii) stakeholder participation to acquire cooperation from societal actors (Agranoff and McGuire, 2001) (iii) using the knowledge from societal actors to improve the quality of policy and public services (iv) the early involvement of societal actors, stakeholders and citizens' groups so that the legitimacy of decisions is enhanced (enhancing democratic legitimacy)(Sorenson and Torfing, 2007). Thus, there is an emphasis on partnerships and interactive decision-making (Klijn, 2012).

The **Capacity** of the local PFM system was found to be influenced by; (i) resource availability and predictability, (ii) quality of financial and human resources, (iii) training, (iv) use of information technology and (v) quality of accounting systems, records and reports.

**(i) *Resource Availability and Predictability,***

The study found that the quality of budget planning and formulation in decentralised local government in Zimbabwe was influenced by the availability of adequate resources and their predictability. This is in agreement with the resource dependency theory (Pfeffer and Salancik, 1978) which asserts that the success and survival of an organisation depend on its ability to mobilise resources from the environment. It also supports both the top-down and hybrid policy implementation models which assert that the supply of resources by policymakers is an important

component in ensuring policy implementation success (Goggin *et al.*, 1990; Van Meter and Van Horn, 1975). As for the contribution to the development of a policy implementation theory as recommended by Stewart, Hedge and Lester (2008), resource availability and predictability is one of the variables that should be included in the theoretical model.

The study also found that strategic and financial planning systems also influenced the quality of local PFM budget planning and formulation systems. In this regard, the strategic plans were expected to be responsive to changes in the environment and the annual budgets were expected to be aligned with those strategic plans. Financial planning methods and records were also essential and these could be enhanced through the use of information technology. This was in support of the New Public Management because Çetin (2015) noted that NPM emphasized on strategic planning and management (explicit standards and measures of performance) in a decentralised setting.

(ii) ***Financial and Human Resources and Training,***

Human resource skills and competence was also found to be an important factor in determining the quality of local PFM. This was mainly in support of Weber's Bureaucratic Theory which underscores that civil servants should have training in their field of specialisation (Albrow, 1980; Raadschelders and Rutgers, 1996; Weber, 1978). Civil servants should be allocated to their jobs according to the skills, merits and qualifications required to occupy the position (Albrow, 1980; Weber, 1968). Thus, objective employment entry requirements are based on competence, competition and merit rather than personal contacts or illicit payments (Hyden, Court and Mease, 2003). The NPM Theory also emphasizes that policy implementation should be more exclusively left to professional managers with the requisite skills (Kalimullah, Alam and Nour, 2012).

(iv) ***Use of Information Technology***

Emphasis on the use of technology supports all public expenditure models. New Public Governance (NPG) emphasizes on the transformative potential of digital governance (Robinson, 2015). That is efficiency gains that could be realised by the use of new technology to improve service delivery, which is consistent with both bureaucracy and NPM (Heeks and Bailur, 2007; Yildiz, 2007). Technology also helps to generate genuine user and citizen engagement (Osborne,

Radnor and Nasi, 2013). New technologies help to bring citizens closer to the policymaking process through new and improved channels of participation as well as citizen monitoring of government (Avila *et al.*, 2010).

According to Technology Acceptance Model, perceived usefulness and ease of use both affect a person's attitude toward using the system and these attitudes toward using the system determine behavioural intentions, which in turn lead to actual system use (Davis, Bagozzi and Warshaw, 1989; Igbaria, Parasuraman and Baroudi, 1996; Shiundu and Rotich, 2014). This was also found to be relevant since it was found that although the technology was essential in accounting systems, its use presented challenges due to lack of support and difficulties in using it. Mimetic and normative isomorphic pressure was also found to influence technology usage since some executives were stuck with an ineffective accounting package only because it was working well for others.

Disclosure of public finance information, using various avenues, including information technology and the internet (Pina, Torres and Royo, 2010), also weakens information asymmetry and decreased agency problems for citizens (Jensen and Meckling, 1976). Therefore, the Agency Theory also supported the use of information technology (Benito and Bastida, 2009).

**(v) *Accounting systems, Records and Reports.***

The significance of accounting systems, records and reports can mainly be explained based on the Agency theory. These systems, institutions and processes help to prevent agent opportunism and reduce information asymmetry (Jensen and Meckling, 1976; Leruth and Paul, 2006; Mathenge, Shavulimo and Kiama, 2017). Based on agency theory, the nature and implementation of accounting systems and approaches must be regulated (Bastian, 2009). Regulation through standards and accounting policies. Limits the emergence of agency conflict in the form of moral hazard and adverse selection (Scott, 2006). The regulation aims to achieve the degree of usefulness of the information and reducing the imbalance of information or information asymmetry (Eisenhardt, 1989).

Accounting Systems, institutions and processes are also shaped by isomorphic pressures categorised as mimetic, coercive, and normative (Connolly, Reeves and Wall, 2009; DiMaggio

and Powell, 1983a). There was coercive isomorphic pressure from the central government, key stakeholders, and other influential organisations. Normative isomorphic pressure emanated from professional associations which set accounting standards and the need to conform with others in the public sector. On the other hand, imitative isomorphic pressure through imitation of practices already tested and successful in other similar organisations (DiMaggio and Powell, 1991; Nogueira and Jorge, 2016). This included the adoption of accounting standards.

Regulated accounting systems, records and reports can also be explained by Weber's theory of Bureaucratic Management. This theory emphasized on competent bureaucracies subject to control by statute and by judicial institutions (Kalimullah, Alam and Nour, 2012). It also emphasized on formal rules and regulations, written documents, adequate records to demonstrate accountability (Albrow, 1980; Raadschelders and Rutgers, 1996; Weber, 1978).

The New Public Management (NPM) Theory (Barzelay, 2001; Hood, 1991; Lane, 2000) asserts favours the transfer of entrepreneurial/managerial techniques from the market/private sector (Olson, Guthrie and Humphrey, 1998) to public institutions (Batley and Larbi, 2004), viewing citizens as customers. This explained the adoption of accruals accounting and double-entry principles in fiscally decentralised local government.

On the other hand, the quality of the **Management Approach** was determined by;

(i) *Compliance with Laws and Regulations,*

Compliance with laws and regulations was also considered essential in enhancing the quality of local PFM. This was in line with the top-down policy implementation model which emphasized that policymakers should set clear policies, communicate them to local executives and also monitor and enforce the activities of local officials (Goggin *et al.*, 1990; Van Meter and Van Horn, 1975). It also supported Weber's bureaucratic theory which postulates that civil servants should adhere to formal general rules and regulations, use written documents, have adequate means (resources), and adhere to strict official discipline and control (Albrow, 1980; Raadschelders and Rutgers, 1996; Weber, 1978).

The need to comply with laws and regulations also indicate the presence of coercive pressure and normative pressure as postulated by the institutional theory (Connolly, Reeves and Wall, 2009; DiMaggio and Powell, 1983a). In this regard, the local authority needs to comply with laws and regulations to seek legitimacy of its operations and also conform with other public entities. Similarly, the Agency Theory supports compliance with laws and regulations as a way to prevent agent opportunism and reduce information asymmetry (Jensen and Meckling, 1976; Leruth and Paul, 2006; Mathenge, Shavulimo and Kiama, 2017).

(ii) *Collaboration, Support and Oversight,*

**Collaboration & Support**

The collaboration and support that a local authority obtained from internal stakeholders (intraorganisational), other organisations (inter-organisational), and other government levels (intergovernmental) was also found to be an important determinant of the quality of local PFM. This was in support of the NPG theory because as Rhodes (2012) asserts, the New Public Governance (NPG) theory views public management as the management of networks. Thus, policy and service delivery is achieved in networks of actors who may be public only, intergovernmental networks or multi-level governance or mixtures of public and private actors (Klijn, 2012). Managerial effort in the sense of facilitating, mostly called network management (Agranoff and McGuire, 2001) or meta-governance (Sorenson and Torfing, 2007) is then crucial to make these governance processes work (Klijn, 2012).

On the other hand, intraorganisational collaboration is more inclined to the NPM Theory. Klijn (2012) asserted that whereas NPM is mainly intraorganisational, trying to improve the internal operation of governments, New Public Governance (NPG) is mainly inter-organisationally oriented, trying to improve coordination of governments with the other actors who are necessary to deliver services or implement policies.

**Oversight**

Oversight from the higher-level government was also considered essential. This took the form of budget approvals and other directives. This was in line with the top-down policy implementation model which emphasized that policymakers should set clear policies, communicate them to local

executives and also monitor and enforce the activities of local officials (Goggin *et al.*, 1990; Van Meter and Van Horn, 1975). It also supports Weber's bureaucratic theory which asserts rules internal to the bureaucracy are enforced through control mechanisms and watchdog organisations (Hyden, Court and Mease, 2003). The New Public Governance (NPG) Theory also supports strengthened central oversight as a necessary corrective to the problems of decentralisation generated by New Public Management (NPM) (Robinson, 2015). From a modern management theory perspective, the Agency Theory supports oversight from the higher-level government as a way to prevent agent opportunism and reduce information asymmetry (Jensen and Meckling, 1976; Leruth and Paul, 2006; Mathenge, Shavulimo and Kiama, 2017). This is also in line with the control transaction costs and activities as postulated by the Transaction Cost Theory (Bartle and Ma, 2004; Milgrom and Roberts, 1987; Williamson, 1993). Coercive pressure from central government is also evident as postulated by the institutional theory since the oversight is mandatory (Connolly, Reeves and Wall, 2009; DiMaggio and Powell, 1983a).

(iii) ***Leadership,***

The study also found that the leadership skills and approaches of the CEO, councillors and departmental heads also influenced the quality of local PFM. This supported Brownell (1982) who described contingent factors that influence the success and survival of a firm under the Contingency Theory to include organisational culture and leadership.

(iv) ***Focus on Performance Targets, Reports and Evaluation***

The study found that high-quality local PFM systems were perceived to be the ones focusing on performance targets, performance reports and performance evaluation within the context of decentralised governance. This supported the hybrid model of policy implementation because it seemed inclined to Van Meter and Van Horn (1975)'s a top-down model which asserts that policymakers should establish clear policy objectives, standards, and performance indicators. However, its focus on decentralised local authorities and stakeholder participation means that the performance focus was in the context of local executives as alluded to by the bottom-up policy implementation approaches (Lipsky, 1980).

In terms of modern management theories, a focus on performance supports the Agency Theory. Conflicting objectives between the agents and the principal (Daly, 2015) and information asymmetry (Chrisidu-Budnik and Przedanska, 2017) can present an opportunity for agent opportunism (Jensen and Meckling, 1976). Therefore, principal (citizens or their representatives) need to monitor the activities of the agents (Chrisidu-Budnik and Przedanska, 2017) before, during and after the performance (Williamson, 1985). Sanctions and rewards (Mathenge, Shavulimo and Kiama, 2017) are instrumental. Leruth and Paul (2006) also argued that the principal-agency theory justifies audits and internal controls to deter cheating by local authorities.

The Transaction Cost Theory also alludes to the need to motivate agents to reduce agent opportunism and motivate them to coordinate with each other (Bartle and Ma, 2004). The transaction costs of measuring effort and performance of financial managers, incentive contracts, linking managerial efforts with financial outcomes and enforcing agreements are incurred (Bartle and Ma, 2004). Transaction cost theory also fully recognises that motivation costs are too high and emphasizes on ex-post performance evaluation (Williamson, 1990) to minimise motivational transaction costs (Bartle and Ma, 2004).

On the other hand, the New Public Management (NPM) theory also aims to achieve a more business-like and performance-focused public sector (Hyndman and Connolly, 2011; Ofoegbu, 2014) and ensure efficiency (Barzelay, 2001; Hood, 1991). Thus, Çetin (2015) noted that NPM emphasized on strategic planning and management (explicit standards and measures of performance). It also emphasizes that outputs and outcomes should be measured, compared with benchmarks, and verified by value-for-money audits (Olson, Guthrie and Humphrey, 1998).

(v) *Efficiency and Innovation*

The study also found that the quality of local budget planning and formulation was influenced by being able to innovate in revenue mobilisation and applying business principles in the management of income generation projects. This supports the New Public Management (NPM) theory proponents (NPM) (Barzelay, 2001; Hood, 1991; Lane, 2000) who favour debureaucratism, entrepreneurship, privatisation and operating the public sector on business-like principles (Hood, 1994; Kalimullah, Alam and Nour, 2012).

(vi) *Fiscal Discipline and Control.*

Greater fiscal discipline and controls were considered to lead to high-quality local PFM systems in decentralised local governments. This was in support of Weber's theory of Bureaucratic Management emphasizes on competent bureaucracies subject to control by statute and by judicial institutions (Kalimullah, Alam and Nour, 2012). The theory also emphasized on civil servants who adhere to formal general rules and regulations, use written documents, have adequate means (resources), and adhere to strict official discipline and control (Albrow, 1980; Raadschelders and Rutgers, 1996; Weber, 1978). Rules are also important for holding officials accountable. Rules internal to the bureaucracy are enforced through control mechanisms and watchdog organisations. Audits are used to hold civil servants accountable (Hyden, Court and Mease, 2003).

Similarly, it connotes well with the NPM Theory which emphasized on public tendering procedures and the introduction of market disciplines in the public sector. NPM also emphasized greater discipline and economy in the management and use of scarce resources. Underpinning these different recommendations is the important requirement that public service agencies must pay much greater attention to how they use the financial and human resources at their disposal (Hood, 1994; Kalimullah, Alam and Nour, 2012).

According to the Agency Theory, conflicting objectives between the agents and the principal (Daly, 2015) and information asymmetry (Chrisidu-Budnik and Przedanska, 2017) can present an opportunity to for agent opportunism (Jensen and Meckling, 1976). Principal (citizens or their representatives) need to monitor the activities of the agents (Chrisidu-Budnik and Przedanska, 2017) before, during and after the performance (Williamson, 1985). Sanctions and rewards (Mathenge, Shavulimo and Kiama, 2017) are therefore essential. Leruth and Paul (2006) argued that the principal-agency theory justifies audits and internal controls to deter cheating by local authorities. Similarly, optimising transaction costs (Williamson, 1993) through designing appropriate coordination, motivation and control mechanisms (Milgrom and Roberts, 1992) is also the focus of the Transaction Cost Theory.

The study thus found that the determinants of the quality of PFM in decentralised local government in Zimbabwe were multi-theoretical and multi-disciplinary with no single discipline able to explain all the determinants. In this regard, the study, therefore, suggests building and testing a

model/theory based on “**Enhancing Capacity through Stakeholder Focus and Management Approach**” in PFM of fiscally decentralised local government. The variables are depicted in figure 6.25 above.

## **6.9 Chapter Summary**

In this chapter, the qualitative data collected was presented, analysed and interpreted following the research objectives. The data provided information about the respondents’ understanding of local PFM as well as their views and experiences about the key systems, processes and institutions required to manage local public finances effectively and efficiently. Different local PFM practitioner groups from different types of local authorities in different geographical locations participated in the study. Subsequently, several factors were identified to determine the quality of PFM in fiscally decentralised local government. A theoretical model was proposed based on the review of literature, theoretical framework and the study findings. In Chapter Seven, the summary of findings, the conclusion and the recommendations were provided. These were informed by the findings from the data analysis in this chapter, the theoretical framework, research objectives and the review of related literature.

## **CHAPTER 7: SUMMARY, CONCLUSION & RECOMMENDATIONS**

### **7.1 Introduction**

In this chapter, a summary of the findings from data analysis in Chapter 6 was presented following the research objectives. Also, conclusions were drawn and recommendations to improve local government PFM systems, processes and institutions were made based on the study findings and literature review.

### **7.2 Summary of Findings**

#### **7.2.1 Determinants of the Quality of Local Budget Planning and Formulation**

**Objective 1: To describe the systems, institutions and processes that determine the quality of budget planning and formulation in Zimbabwean fiscally decentralised local government budget and budgetary control systems.**

The study found that the quality of budget planning and formulation in Zimbabwean fiscally decentralised local government was influenced by several factors. These factors included; the availability and predictability of resources. Thus, if adequate resources were available and their timing and amounts were predictable, that was presumed to enhance the quality of budget planning and formulation. Also, being innovative in resource mobilisation strategies and the application of business principles in commercial projects was found to influence the quality of local budget planning and formulation. Oversight from higher-level government and compliance with laws and regulations were also found to be essential. Appropriate human resource skills and competences, leadership skills and approaches of Chief Executive Officers (CEO), councillors and departmental heads were also considered essential. Collaboration and support from various stakeholders were also key, as was sound strategic and financial planning. Most importantly stakeholder participation and access to information were perceived to be essential. The contents and structure of the budget were also instrumental.

Collaboration and support were expected from internal stakeholders (intraorganisational), other organisations (inter-organisational), and other government levels (intergovernmental). On the

other hand, in terms of strategic and financial planning systems; strategic planning was expected to be responsive to changes in the environment, and annual budgets should be aligned with the strategic plans. Financial planning methods and records were considered essential and these could be enhanced through the use of information technology.

The study also found that the contents and structure of the budget also influenced the quality of local budget planning and formulation systems. This was expected to ensure appropriate input controls to ensure fiscal discipline, contain service delivery/performance targets and evaluation, and ensure budget consistency and comparability.

Stakeholder participation was perceived to positively influence the quality of local budget planning and formulation systems. Thus, budget planning and formulation systems were expected to ensure; consultation, dialogue and consensus and multi-methods communication with stakeholders (access to information). This could be enhanced through training and the use of information communication technology.

## **7.2.2 Determinants of the Quality of Local Budget Execution and Implementation**

**Objective 2: To describe the systems, institutions and processes that determine the quality of budget execution and implementation in Zimbabwean fiscally decentralised local government budget and budgetary control systems.**

The study found that the quality of budget execution and implementation was influenced by resource allocation and accounting systems and internal control systems. Internal controls related to; (i) asset controls, (ii) liability controls, (iii) procurement controls, (iv) data integrity controls, (v) reports and reviews, (vi) budget adjustments, (vii) internal audit and (viii) payroll and payments controls.

Thus, the study found that the systems, processes and institutions for allocating and accounting for resources influenced the quality of local budget execution and implementation. In this regard, the accounting system; the capacity of human resources; compliance with laws and regulations and

accounting standards; a collaboration between the local authority and other organisations; control of resource use and enhancing public entities efficiency emerged as important sub-components.

Furthermore, an accounting system was expected to keep records and provide accurate information, the different records in the system should be integrated or connected, and the record should be complete. The accounting system should also be easy to use and have adequate support from the vendor. Furthermore, the accounting system should also be cost-effective and the use of information technology was vital.

Similarly, human resource capacity was found to be enhanced by human resource skills and competences, local autonomy, the absence of political influences in recruitment, and appropriate training.

Controls related to assets were also found to be an important component of the internal controls of a local authority. Such controls included; systems, institutions and processes to control; (i) investment in financial assets, (ii) investment appraisal, (iii) fixed asset registers, (iv) asset disposal, (v) monitoring of strategic business units, (vi) revenue management controls and (vii) cash management controls.

Investment in financial assets was expected to comply with laws and regulations, show stakeholder empathy and appropriate records and reports were supposed to be kept. Also, the fixed asset register was expected to be (i) updated and complete, (ii) comply with accounting standards and backed by a sound (iii) asset management policy. This was made possible through the (iv) accounting system, (v) the use of information technology, (vi) appropriate human resource skills and competences, (vii) inter-organisational collaboration and support and the (viii) role of the internal audit function. Also, asset disposal was expected to be in (i) compliance with laws and regulations, (ii) use competitive methods, and ensure (iv) stakeholder participation and transparency. This was enhanced through (v) intraorganisational collaboration and support, and (vi) leadership from CEO and councillors.

The study also found investment appraisal to be another important component of asset control. In this regard; there was expected to be proper (i) project planning and analysis, which ensured

consideration of (ii) costs, benefits and long-term implications, (iii) financial and social considerations, (iv) stakeholder consultation, dialogue and consensus. This was enhanced through having adequate (v) human resource skills and competences.

Also, (i) strategies to prevent and reduce revenue arrears and (ii) strategies to motivate clients and enforce payments were also essential in influencing the quality of asset controls. These revenue management controls were considered to be influenced by (iii) operating policies, (iv) sound accounting records and databases, (v) use of information technology, (vi) resource adequacy, (vii) economic environment, (viii) political autonomy (from central government), and (ix) intergovernmental collaboration and support. The effectiveness of the systems was also influenced by; (x) stakeholder empathy shown by the local authority, (xi) stakeholder trust in government, (xii) stakeholder feedback, dialogue and support, and (xiii) communication with stakeholders.

The study also found that controls to manage liabilities influenced the quality of local government internal controls. The two sub-themes that emerged were (i) expenditure arrears controls and (ii) debt management controls. Expenditure arrears controls were expected to include; (i) expenditure commitment controls and (ii) strategies to liquidate and prevent arrears and expected to ensure (iii) fiscal discipline. Their effectiveness was perceived to be influenced by the quality of the (iv) accounting system and resource allocation, (v) use of information technology, (vi) inter-organisational collaboration and support, (vii) resource adequacy and innovation, and the (viii) economic environment. On the other hand, the quality of debt management controls was influenced by (i) access to debt finance and creditworthiness and the need to ensure (ii) fiscal discipline and sustainable borrowing. The controls should ensure (iii) compliance with laws and regulations, (iv) oversight from higher-level government, (v) stakeholder consultation and empathy and (vi) updated debt records.

The study found that how the budget adjustments were done influenced the quality of internal controls. In this regard; budgeting was expected to (i) flexible and responsive, to accommodate changes in the operating environment. However, budget adjustments were supposed to ensure (ii) fiscal discipline (spending according to budget) as much as possible. To ensure that; (iii) oversight

from the higher-level government was considered essential and there was expected to be (iv) stakeholder transparency and participation.

The nature budget reviews and reports were also found to influence the quality of internal controls in decentralised local government. The participants emphasized on (i) continuous performance reports and reviews, (ii) intraorganisational collaboration (within the local authority), (iii) leadership skills of councillors and the CEO, (iv) stakeholder feedback, review and input, (v) stakeholder trust in government and also ensuring (vi) fiscal discipline.

Procurement controls were also found to influence the quality of local internal control system. (i) Decentralised procurement system, which ensured (ii) transparency and stakeholder participation, (iii) fairness in the handling of complaints and appropriate (iv) oversight from higher-level government and (v) compliance with laws and regulations was considered essential. (vi) Competitive procurement methods which ensured (vii) achieving value for money, supported by staff with (viii) adequate human resource skills, competence and integrity were also key. (ix) Intraorganisational collaboration among staff within the local authority, (x) segregation of duties, (xi) leadership qualities of the CEO and (xii) oversight from councillors were also considered to influence the quality of procurement systems.

A functional internal audit was considered essential in ensuring that the internal controls of a local authority were functioning properly. The quality of such an internal audit was in turn influenced by having adequate (i) audit independence, (ii) compliance with audit standards, (iii) professionalism, (iv) adequate financial and human resource capacity, the adequacy of the (v) scope of work, the quality of (vi) audit plans and reports, (vii) intraorganisational collaboration and support from those within the local authority, and the (viii) leadership and oversight quality from the CEO and councillors.

The study also found that systems, institutions and processes to ensure the accuracy and truthfulness of data and information (data integrity controls) greatly influenced the quality of internal controls. In this regard; (i) updated reconciliations and (ii) system access controls and audit trails were considered essential. The quality of these systems was considered to be influenced by the (iii) accounting system and use of information technology, (iv) human resource adequacy

and competence, (v) financial resource adequacy, (vi) attitude and organisational culture, (vii) intraorganisational collaboration and support and (viii) leadership quality from departmental heads

Payroll and payment controls were also found to influence the quality of local internal controls. These controls should ensure; (i) accurate and integrated payroll records, (ii) payment of bonafide employees only and (iii) payment of budgeted and authorised expenditure. This was achieved through; (iv) proper documentation, (v) checks, approvals and authorisations, (vi) use of information technology, and (vii) segregation of duties. In this regard; (viii) payroll audits, (ix) oversight from higher-level government and (x) internal audit were considered essential.

### **7.2.3 Determinants of the Quality of Local Budget Monitoring and Evaluation**

**Objective 3: To describe the systems, institutions and processes that determine the quality of budget monitoring and evaluation in Zimbabwean fiscally decentralised local government budget and budgetary control systems.**

The three key institutions that emerged as determinants of the quality of budget monitoring and evaluation in decentralised local government were; (i) budget and financial reporting systems, (ii) external auditing systems, and (iii) legislative oversight and scrutiny systems.

Four sub-themes emerged under budget and financial reporting, namely; (i) reporting framework, (ii) capacity, (iii) collaboration, support and oversight, and (iv) transparency and stakeholder participation. The reporting framework was expected to ensure; (i) compliance with laws and regulations, (ii) compliance with accounting standards, (iii) consistency and comparability. This was achieved through (iv) financial reports and analysis and (v) service delivery reports and analysis. The (vi) accounting system and (vii) use of information technology acted as catalysts to the budget and financial reporting system. Capacity was found to be influenced by the quality of (i) financial resources, (ii) human resource skills and competence and (iii) training. Collaboration and support were expected to be (i) intraorganisational, (ii) inter-organisational and (iii) intergovernmental. Oversight was found to be enhanced by (iv) leadership and enforcement and (v) management integrity. Effective oversight was shown through (vi) hearings, (vii) rewards and sanctions and (viii) follow-up of recommendations. Transparency and stakeholder participation

were enhanced through (i) performance feedback, (ii) scrutiny and dialogue, (iii) stakeholder support and (iv) demonstrating accountability.

The study found that external auditing systems were an important component of budget monitoring and evaluation in decentralised local government. The quality of external auditing was found to be influenced by; (i) appointment of the auditor, (ii) scope of work, (iii) compliance with auditing standards and (iv) audit reporting systems. The appointment of the external auditor was expected to (i) comply with laws and regulations, ensure sufficient (ii) oversight from the National Audit Office and adequate (iii) audit independence. The quality of external audit systems was also found to be influenced by (iv) capacity (financial resources, human resource skills and competence and training) and (v) inter-organisational collaboration and support from other third-party auditors. All the respondents underscored the importance of wider-mandate audits that included both (i) financial audits and (ii) value-for-money audits.

The external auditors also alluded to the fact that it was important for them to comply with international auditing standards. The study also found that audit reporting was supposed to be transparent and ensure stakeholder participation. In this regard, there was supposed to be (i) compliance with laws and regulations, (ii) oversight from the National Audit Office (NAO), and (iii) consolidation of audit reports. Reporting was also expected to be preceded by (iv) stakeholder access to information and (v) performance scrutiny and dialogue. This was facilitated through (vi) leadership from councillors, (vii) intraorganisational collaboration and support from council employees, and (viii) active and informed stakeholders and (ix) use of information technology.

The study found that legislative scrutiny and oversight were essential in budget monitoring and evaluation. Three sub-themes that were identified were; (i) audit committee, (ii) oversight by full council and the Parliament, and (iii) handling of audit recommendations. Audit committee systems were supposed to ensure (i) compliance with laws and regulations, were influenced by (ii) the composition, (iii) the level of independence, (iv) inter-organisational collaboration and support, (v) expertise, skills and competence of members and appropriate (vi) orientation and training.

Oversight by full council and the Parliament was found to be an essential component of budget monitoring and evaluation in decentralised local government. This was influenced by the (i) role

of Parliament, (ii) leadership skills of councillors, (iii) the expertise, skills and competence of personnel, (iv) legal provisions, (v) intraorganisational collaboration and support and (vi) use of information technology. Oversight processes were expected to include; (vii) financial and service delivery reports scrutiny, (viii) stakeholder transparency and accountability, (ix) stakeholder access to information, and (x) stakeholder dialogue and consensus, and (xi) rewards and sanctions.

The study also found that how the audit recommendations were handled influenced the quality of budget monitoring and evaluation in decentralised local government. Handling of recommendations was influenced by; (i) leadership quality of councillors and the CEO, the (ii) perceived quality of recommendations, (iii) auditor's expertise, knowledge and skills, (iv) management integrity and commitment, (v) council autonomy, (vi) resource adequacy and (vii) oversight from the higher-level government. The focus was expected to be on (viii) stakeholder dialogue and consensus, and (ix) continuous improvement.

### **7.3 Conclusion**

The study aimed to describe the systems, institutions and processes that determine the quality of PFM in Zimbabwean decentralised local government budget and budgetary control systems. The study found that stakeholder focus, support and collaboration, the capacity of the local authority and the approach and style of its management were perceived to be the key attributes influencing the quality of local PFM.

These findings brought new wholistic theoretical insights into local PFM theory since they are compatible with some but incompatible with other postulates of various policy implementation models, modern management theories and public expenditure models. The study found that local PFM is multi-disciplinary and multi-theoretical since no single discipline, theory or model has been able to explain the observed determinants. In contrast, models and theories from policy implementation, modern management and public expenditure management were each able to explain some component of the determinants. The findings were also at odds with some components of the said theories and models.

Specifically, the study provided support for a recent body of work, particularly in Europe (Hammerschmid *et al.*, 2016) which argued that there is no simple replacement of one public expenditure management model by another. Thus the study rejected a simple transformational or paradigmatic shift model of public sector change, from Weber's bureaucratic model to New Public Management then New Public Governance (Hammerschmid *et al.*, 2016; Massey and Johnston, 2015). Rather, local PFM has been found to comprise of a variety of techniques, practices assembled in a less-than-coherent way, with PFM models less a tidy set of techniques and doctrines, but rather a hybrid of models and theories as observed by Goldfinch and Yamamoto (2019).

Olsen (2008) argued that no great optimism for a comprehensive theory of PFM could be advanced from the author's study. The author argued that institutions, agency, and macro forces all mattered, but there was no agreement regarding under which conditions one factor matters more than the others (Olsen, 2008). On the contrary, this study found that in the context of decentralised local governance; stakeholder focus, capacity and management approach mattered the most in terms of policy implementation success and the quality of PFM. The study is therefore optimistic that a comprehensive theory can be developed and tested based on the variables obtained in this study. Thus, the theory/model of *'Enhancing Capacity Through Stakeholder Focus and Management Approach'* is proposed.

Unfortunately, testing the influence of the perceived determinants using statistical methods was beyond the scope of the current study. This is suggested as an area for further research. Also, a single country case has been used and this may limit the generalisability of the findings to other country settings. However, due to similarities in the decentralised local government systems in most developing countries, these findings provide valuable theoretical and practical insights.

The study appears to support the argument that PFM in general and local PFM, in particular, lacks a comprehensive theory of its own. The practice of local PFM seems to borrow from the theory and models in various academic disciplines. In this regard, the study proposed the factors that could be further tested as to influence the quality of PFM in decentralised local government. Thus, it provided a basis for the development of a comprehensive theory in PFM in decentralised local

government settings. The study also provided valuable insights on the practice, design and operation of PFM systems in decentralised local government systems.

In addition to the provision of some directions for future research, the study has made two major contributions to the literature on PFM in decentralised local government systems since research in this area is still limited. Firstly, the study heeded the call by Stewart, Hedge and Lester (2008) that policy implementation as a discipline lacks a comprehensive theory and therefore future phase of research in implementation must be directed towards theory development (Stewart, Hedge and Lester, 2008). This study provided some theoretical insights in the form of a model that can be incorporated into the development of a theory of policy implementation in decentralised local governments.

Secondly, Public Financial Management (PFM) in decentralised local governments is a critical area that has seen limited research over the years. At a theoretical level, PFM reform and research have mostly centred on central governments using case studies administration (Lipsky, 2010; Pretorius and Pretorius, 2008). This ignores the decentralised level of government organisations operating at the local level of service delivery. In contrast, it is argued that if PFM reform is to have a considerable effect on the attainment of objectives, policymakers and analysts should also focus their attention at the local government level (Lipsky, 1980). Also, the theoretical approaches to PFM have been biased towards political systems and economic theory only ignoring the multi-disciplinary nature of PFM. There has been a lack of attempts in developing multi-theoretical models for its empirical investigations of PFM in general (Caiden, 1990; Gibran and Sekwat, 2003; Khan and Hildreth, 2002; Rubin, 1990).

Bempah (2017) argues that no systematic attempt has been made in the academic domain to develop and test a generic theoretical model of PFM practices in the public sector. Therefore, there are still gaps and limited knowledge on determinants of the quality of PFM systems at decentralised local government level. The significance of this study was to express through the articulation of insights from policy implementation, modern management and public expenditure management approaches to propose a multi-theoretical model of implementation of sound local

PFM practices. The aim was to broaden the theoretical and practical understanding of PFM practices at the decentralised local level of public administration in a developing country context.

Little is known in the literature about the determinants of effective local PFM in developing and transition economies (Boex and Muga, 2009). Relatively little empirical research has been done to explore the determinants of local government PFM performance (Boex and Muga, 2009). Also, even those few studies that specifically examined the relationship between a government's financial condition and the subnational government's PFM practices have mostly adopted quantitative approaches. An observed weakness of such an approach is that no single indicator has emerged as the preferred measure of local PFM performance and the results have little explanatory power. Furthermore, virtually all of the available evidence regarding the relationship between local PFM performance and local government practices is based on developed economy experiences (Boex, 2019; Cogburn and Schneider, 2001; Dennis, 2004)

Also, other studies indicated some methodological gaps. For example, Bempah (2017) employed quantitative path analyses to explain the determinants of implementation of sound budgeting and financial management practices at the local level of public administration in Ghana. He, however, noted the limitation that the study sample was too limited to respondents from the district health management team. He asserted that it was equally important to consider the views of managers at national and regional levels with regards to budgeting and financial practices in the service. This would expand the scope of understanding as to whether practices at the national and regional levels exerted considerable influence at the district level in implementing budgeting and financial management practices (Bempah, 2017). This study contributed to knowledge methodologically, by using qualitative approaches and including more local authorities and more stakeholders; internal and external and at both local and central government level.

Academics have also long lamented over the methodological approaches to PFM research investigations (Gibran and Sekwat, 2003; Khan and Hildreth, 2002; Rubin, 1990). They contend that the general lack of theory of PFM causes an over-focus of research on the use of case studies as well as the concentration of PFM reforms studies at the national and sectoral levels (Short, 2003; World-Bank, 1998). This leaves out the focus of understanding of PFM practices at the local

government level. Also, although it is recognised that PFM is multi-disciplinary, there have been limited attempts to develop multi-theoretical frameworks for its empirical investigations (Gibran and Sekwat, 2003; Khan and Hildreth, 2002; Rubin, 1990). There are also scarce attempts by academicians to develop and test theoretical models of PFM (Khan and Hildreth, 2002; LeLoup, 1983; Schick, 1998). In this regard; Schick (1988) urged academicians to revisit the development of PFM theory from the perspectives of other disciplines. Goggin *et al.* (1990) also pressed on implementation scholars to develop clear operational instruments to assess the quality of PFM systems and provide adequate empirical observations to test their hypotheses. However, only a few studies have so far followed this path (DeLeon, 1999; Khan, 2016; O'Toole Jr, 2000). This study contributed to these recommendations and therefore developed a model of the determinants of the quality of PFM in the context of decentralised local government in a developing country. This was achieved through a review of theoretical insights on policy implementation models, modern management theories and public expenditure management models to develop a model that broadens the scope of understanding of the systems, institutions and processes that determine the quality of PFM in decentralised local government in Zimbabwe. This study filled the gap by describing the determinants of the quality of PFM in the decentralised local government of a developing country using phenomenology and qualitative research approaches.

## **7.4 Recommendations**

This section provided recommendations from the study. These recommendations stemmed from the study findings, theoretical framework and the review of related literature. They are classified as either (i) policy, administrative or managerial recommendations or (ii) recommendations for further research.

### **7.4.1 Policy, Administrative and Managerial Recommendations.**

The study recommended that local authorities should be innovative and entrepreneurial in resource mobilisation and apply business principles in the management of income-generating projects. Also, human resource capacity should be enhanced in local authorities through competence and skills-based recruitment and training.

The use of information communication technology should be enhanced and encouraged by local authorities. There should be adequate collaboration and support from within a local authority, from other organisations and other government levels.

Active Stakeholder participation and collaboration should be fostered at all stages of the budget cycle. This should be enhanced through adequate communication and training. Communication with stakeholders should take various forms and take advantage of information technology.

Strategic plans should have cost information and there should be comparability and consistency in budget contents. Accounting packages used should be user-friendly and have adequate vendor support.

Management and councillors in local authorities should show commitment towards good corporate governance, including keeping appropriate books of accounts and timeous reporting. External auditors should also be rotated after every 5 years to enhance audit independence.

Performance reviews and reports should be mandatory in all local authorities and this should be monitored and enforced. There should be adequate training in the application of the relevant accounting reporting frameworks.

#### **7.4.2 Recommendations for Further Research**

Areas for proposed further research would be to extend the current study to other countries with decentralised local governments. Also, the described variables could be tested in the context of a positivist research paradigm and quantitative research approaches using statistical methods.

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## **APPENDIX A: INTERVIEW GUIDE**

### **A. Budget Planning and Formulation**

- (i) What are the council's main sources of revenue? What are the challenges faced in revenue mobilisation? How can they be mitigated?
- (ii) How significant are the council's transfers from central government? How is the transfer process managed? Any challenges faced? How can they be mitigated?
- (iii) What is the practice of the council concerning budgetary planning? What are the challenges faced in the process? How can they be mitigated?
- (iv) How does the council generate estimates of revenues and expenditures? Do you consider the methods and procedure to be adequate? If not, how can the system be improved?
- (v) What are the processes and procedures followed by the council in the preparation and approval of budgets? Are they sufficient and appropriate? What are the challenges faced in the process? How can they be resolved?
- (vi) How does the council classify expenditures and revenues in its budgets and financial reports? Is there a legal requirement to do so? Are there any challenges faced in the process? How can the system of classification be improved?
- (vii) Which information is provided in the annual budget proposal by the council? How adequate is it and how can the comprehensiveness of the information provided be improved if not adequate?
- (viii) Does the council publish information in budget proposal concerning plans for service delivery? Is it a legal requirement? What are the challenges faced? How can they be overcome?
- (ix) How is the public involved in setting development priorities and budgeting? What are the challenges faced? How can they be mitigated?
- (x) What information is made available to stakeholders about the budget and performance of the council? Is it a legal or policy requirement? Do you think the information is adequate? What additional information do you think should be published by the council, if any? Which methods of communication are used? How effective are the methods of communication? What are the challenges in communication? How can they be mitigated?

### **B. Budget Implementation and Execution**

- (i) Does the council keep proper and up to date records of the resources received by service delivery units and departments? Do you consider the systems, processes and institutions to be appropriate? Are there any challenges? How can the system be improved?
- (ii) Are budgetary units provided with information on commitment ceilings? What are the challenges faced and how can they be mitigated?
- (iii) How does the council handle in-year budget adjustments and reports? Is the process adequate? If not, how can it be improved?
- (iv) How does the council manage overdue debts, liabilities, or obligations? Is the system adequate? If not, how can it be improved?
- (v) What are the processes and procedures followed by the council in the issuance and management of long-term debt? Are the systems adequate and appropriate? Any challenges faced and how can they be mitigated?

- (vi) How does the council handle investments in financial assets, fixed assets and disposal of assets? Do you consider the processes and procedures to be adequate? If not, how can they be improved?
- (v) How does the council generate, choose and monitor investment projects and public corporations it undertakes? How effective are the processes? What challenges are faced? How can they be mitigated?
- (vi) How does the council notify payers of their revenue obligations and manage revenue arrears? Are the methods adequate? If not, how can they be improved? What challenges are faced in the process? How can they be mitigated?
- (vii) How does the council manage its cash? Are the processes adequate? If not, how can they be improved?
- (viii) How does the council manage procurement systems, procedures and institutions? Do you consider the system to be adequate? If not, why? What challenges are faced in the process? How can they be mitigated?
- (ix) What is the practice of the council concerning controls on payroll and non-salary expenditure? Do you consider the system to be adequate? If not, how can it be improved?
- (x) Does the council have an internal audit? Do you consider the internal audit to be effective? Why? What challenges are faced by the internal audit? How can they be mitigated?
- (xi) What systems and processes are in place for the council to ensure reliable reporting of financial information?

### **C. Budget Monitoring and Evaluation**

- (i) What is the practice of the council concerning annual financial reports? Do you consider the system to be adequate? If not, how can it be improved? What challenges are faced in the system? How can they be mitigated?
- (ii) Which financial reporting framework does the council use in financial reporting? What are the challenges faced and how can they be mitigated?
- (iii) What are the processes and procedures followed by the council in budget and financial reporting? What are the challenges faced and how can they be mitigated?
- (iv) What is the practice of the council concerning the external audit? Do you consider the system to be adequate? If not, why? What are the challenges faced in the system? How can they be mitigated?
- (v) What is the practice of the council concerning audit committees? How effective are they? How can they be improved?
- (vi) What is the practice of the council concerning scrutiny of audit reports and handling of audit recommendations? Do you consider the system to be adequate? If not, why? What challenges are faced in the procedure? How can they be mitigated?