

Role of Internal Control in Fiscal Decentralized Environment in Tanzanian Local Government Authorities (LGAs): An Empirical Analysis

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Abstract

In the event of growing significance of decentralization in Local Governments, this study aims to assess the relationship between internal control and fiscal decentralization, focusing on the role of internal control in the decentralized environment. To achieve this objective, the study employed structured questionnaire to collect primary data from local government officials in Tanzania. A total of five hundred (500) likert scaled questionnaires were administered to local government officials in twenty eight (28) different councils. A total of three hundred and eighty nine (389) filled questionnaires were collected from accountants, internal auditors, planning officers, procurement officers, head of departments and council directors.

The descriptive analysis was done by using statistical package for social science (SPSS). Chi-square (61.985) test indicates that probability value is less than level of significance ($p 0.000 < 0.05$); which leads to the rejection of null hypothesis and acceptance of alternative hypothesis. The results reveal that there is statistical evidence of strong relationship between improvement on internal control and fiscal decentralization. The findings imply that in a fiscal decentralized environment, internal control is imperative to ensure financial discipline and promote good governance in Local Governments' dealings. Following these findings, Local Government management and policy makers are argued to establish and facilitate a strong internal control mechanism to enable smooth and disciplined operations in a granted fiscal autonomy environment.

Keywords: Internal Control, Fiscal Decentralization, Local Governments, Financial Control, Fiscal autonomy

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1.0 Introduction

Internal control mechanism continues to be an important element for strengthening and promoting financial management in both private and public sector organizations. Undeniably, it is generally accepted and evidently annotated that internal control is crucial for improved financial accountability for entities in both private and public sector. It is an indisputable fact that internal control is very important in the whole process of public sector financial management. This makes an inference that much emphasis needs to be directed to improving internal control system in public sector and Local Government Authorities' financial management in particular.

The idea of improving public sector financial management should not be just to improve good financial governance but to enforce financial accountability in the whole mechanism of financial management. The following experts felt the importance of the internal control and its effect on the fiscal decentralization in general.

Lemie and Kebede (2014) expound on the importance of internal control system in fostering and improving financial management and provision of public social services. Internal control system is mostly important in developing countries where the rate of misuse of public resources, corruption and extravagance are high.

Aramide and Bashir (2015) pointed out crucial role played by internal control in enhancing financial accountability and assuring achievement of value for money through compliance with accounting rules, policies and regulations. Also, the internal control mechanisms enforce local government officials to ensure that public funds are issued and spent in accordance with approved budget and other financial regulations.

Mebratu (2012) felt that the key aspect of internal controls mechanism is internal auditing, which assures that all organization transactions are authentic by implementing ex-ante and ex-post internal transactional checking. Internal audit function is critical in the prosperity of the organization through promotion of good governance and accountability mechanisms. A healthily internal audit function improves organization efficiency and effectiveness in dealing with risks control and governance issues.

Davies (2001), opined that the organizations' improvement of service delivery and decision making process leading to achieving objectives are mainly supported by internal audit under three pillars of efficiency, effective and economical use of resources. These three pillars of internal audit ensure maximization of public financial resources for social service delivery.

Modibbo (2015), expressed that internal audit departments face difficulties in monitoring proper use of funds especially for the funds committed by management due to the fact that does not exist as a separate and independent departments. However, the case might have been resolved following the recent appointment of the new Internal Auditor General (IAG) in Tanzania with the aim of separating internal audit department from organizational management.

Fjelidstad (2001) argued that in a fiscal decentralization, increased fiscal autonomy will increase mismanagement given the staffing profile of the local governments. The basic idea behind the possible mismanagement and corruption in fiscal decentralized environment is to alert local government managements to structure proper control on the increased autonomy on revenues and expenditure

responsibilities. Following the granting of fiscal autonomy, local governments need strong mechanism of financial control to guarantee proper use of public funds and help channelling them to the provision of public services.

The present study is organized into different sections, viz., (i) review of theoretical literature on local government operations in a decentralized environment, (ii) fiscal decentralization and internal control, (iii) financial management linking with internal control, and (iv) Internal control and organizational performance. Besides, it also covers, methodology of the study, data analysis and discussion, draw the findings and conclusions.

2.0 Review of Literature

This section is bestowed to present the theoretical as well as general empirical literature on local government operations in fiscal decentralised environment, decentralisation and internal controls and financial management and control in Tanzanian local government authorities.

2.1 Local Government Operations - Fiscal decentralized Environment

In this era of New Public Management (NPM), where most governments are decentralized, local governments need strong reforms to incorporate strong mechanisms of internal control and financial accountability in their processes. Fiscal decentralization is an important component of decentralization which allows local government authorities to mobilize revenues internally and also to control expenditure. The important aspect of fiscal decentralization is fiscal autonomy which measures the ability of the local governments to use available sources effectively and efficiently. It has been claimed that raising local government's fiscal autonomy, might attract misuse of public resources and corruption (Fjeldstad; 2001). However, fiscal autonomy is very important and a key aspect of fiscal decentralization. Increased local government' fiscal autonomy should be matched with strong financial management system to ensure no misuse of public resource in order to build confidence to tax payers and other local government stakeholders.

Golem (2010) addresses issues of vertical imbalances and the proper means of handling this vertical gap in a financial decentralization. Having large degree of vertical gap which is then filled through inter-governmental transfers has major impact on the fiscal disciplines of local governments. The situation of vertical imbalances harms not only fiscal disciplines but also fiscal autonomy of local governments in allocating and controlling recurrent expenditure. Fiscal decentralization is very important for the smooth provision of public services, but more revenues sources need to be empowered to local governments (Elhiraika; 2007). Decentralization is not a onetime event; it is a process which needs to be lighted to assess general mechanism of the process. The success of decentralization depends on the framework that helps to control and hold local government officials accountable for the provision of public services (Baltaci and Yilmaz; 2006). Being able to attract local citizens to participate in their operations and enforce local officials' accountability, fiscal decentralization continuous to be considered as a proper mechanism of local governance (Shrestha, 2009).

Fiscal decentralization transfers financial responsibilities to local government with the main objective of boosting operational efficiency. However, there is an existing problem at all levels of government in gaining access to revenues sources and revenue mobilization (Bird and Smart 2002). This problem leads to the heavy reliance on intergovernmental transfers which affect financial autonomy of local governments. Financial autonomy helps local governments to determine and fulfil local community priorities. In order to have macro-economic stability, expenditures and revenue should be in an equal proportion and that the lower levels should have adequate technical and administrative capacity in

analyzing both revenue and expenditure (Litvack, et al, 1998). Local resource mobilization is thus an essential component of any successful decentralization process because it assesses the revenue autonomy of the local government (Bird and Smart 2002).

The issue of mismatching between revenues and expenditure does not affect only fiscal autonomy but also control issues at local governments. Due to mismatch of revenues and expenditure, intergovernmental fund transfer programmes are inevitable in order to be in line with financial decentralization and also to bridge the vertical fiscal gap (Smoke 2001). Intergovernmental transfer is in the form of grants which can either be conditional or non conditional. Conditional grants are mainly for financing development projects (capital expenditure) while non conditional grants are for recurrent expenditure. This means that full fiscal autonomy can be enhanced if local government authorities will be in a position of mobilizing substantial amount of internal revenue for financing both recurrent expenditure and development projects.

It should be noted that the current position of the financing structure of Tanzanian local governments does not provide full control responsibility due to vertical fiscal imbalance. Thus, to gain full control mandate, local governments are argued to mobilize substantial internal revenues to match with expenditure responsibilities. However, the issue of stabilizing control cannot be left in the hands of local government's management alone; all stakeholders need to join hands in order to ensure effective and efficiency operations for our local councils. Local governments among other things need to be empowered with more revenues sources to enable smooth operations towards servicing citizens. With this, policy and decision makers are required to ensure apparent atmosphere for the local governments to operate efficiently and diligently in providing public services.

2.2 Fiscal Decentralization and Internal Control

Tanzanian local government authorities finance their expenditures from three main sources namely intergovernmental transfers, own source local revenues and borrowing. The most important resources of sub-national government are internal revenues and intergovernmental grants (Bergval et al. 2005). Intergovernmental transfers include recurrent sectoral block grants which are formula-based and account for about two-thirds, ministerial subventions, and grants which are discretionary in nature. Currently, Tanzanian local government's internal revenues finance about ten percent of the total local recurrent expenditure.

Local governments need to be given access to adequate resources to provide services with which they are entrusted and thereafter be accountable for what they have done with these resources (Fjeldstad, 2001). Once expenditure functions are determined and decentralized, revenues should be assigned to different levels of government to ensure that services are financed and that there are no unfunded mandates (Litvack et al, 1998). As central governments transfer stronger roles to sub-national governments, national leaders need to ensure that adequate resources are placed at the disposal of local communities including strong controls (Kim and Smoke, 2002). Also, Koror (2003) points out that fiscal decentralization can be analyzed into various groups of operational efficiency such as expenditure allocation, revenue allocation, planning and budgeting, financial management regulatory framework and accountability issues. This implies that the success of fiscal decentralization needs to be accompanied by strong mechanism of financial controls and accountability.

The efforts on financial decentralization aim to boost public sector efficiency, including accountability mechanisms and transparency (De Mello, 2000; Llanto, 2009). Accountability and operational transparency facilitates the improvement on internal control system. Also, Yoo, (2003)

argues that without securing the accountability, an attempt of decentralizing powers can be in big mystification. One of the objectives of the local government reform programme in Tanzania was to enable local governments operate in a transparency environment and be accountable with the main objective of justifying their autonomy in providing social public services. Of recent, local governments have become very important centres for providing public goods and services to local citizens, and as a result financial responsibilities which are conventionally associated with the central government have been continuously decentralized to local government (De-Mello; 2002). Internal control mechanism is required in the fiscal decentralization to help strengthening public financial management and service delivery. Also, it is believed that the process of giving local governments full power in political issues, resources and authority in making decisions, helps to create a sense of ownership and thus encourage local officials to act more conscientiously in using public recourses (Boschmann, 2009). Improved governance at the sub-national government is also believed to allow better fine-tinning of projects and other activities to local environment and increase mechanisms of accountability and control.

Also, Babu (2009) points out that for the central government to control scarce resources and to ensure achievement of value for money especially in local areas, it is very important to assign all functions concerning local development under local government authorities. The assignment of financial responsibilities will attract participatory planning and budgeting and hence local community will be more vigilant on the proper use of public resources. In this light, local government officials will work more seriously to avoid misuse of scarce public funds. "In a decentralized environment, public spending needs some degrees of fiscal discipline, favourable institutional relationship, a stable negotiation framework, management cooperation, permanent and transparent reporting and reliable co-operative control structure across levels of government" (Sevilla, 2005; p.1). The most important thing in a fiscal decentralization is the increased fiscal autonomy which needs to be matched with the appropriate controls to ensure public funds are directed to public services. Therefore, decentralized environment needs strong mechanisms of internal control to play part on revenue autonomy and expenditure responsibilities autonomy.

The issues of misappropriations of public funds and corruption are in hot debate for all stakeholders of local governance. Basri and Nabiha (2014) argue that mismanagement of resources and corruption are worse in the areas where fiscal autonomy is very strong and large sum of money is injected for public service delivery. As we can recall, fiscal autonomy is granted by fiscal decentralization where all financial responsibilities are devolved to local governments. In this environment, strong internal control and accountability is required to control mismanagement of public resources and corruption.

Internal control system helps to control misuse of public financial resources (Muskanan 2014) by instituting ex-ante and ex-post checking and verification procedures for all organizational transactions. Also, it helps to detect waste, corruption and inefficiency which are very popular in most public organizations (Baltaci and Yilnaz; 2006). Moreover, internal control mechanism helps to ensure accountability in the use of public financial recourses and assuring strong audit coverage of public expenditure (Sevilla, 2005). Also, Nwannebuikwe and Nwadior (2016) assert that strong efforts need to be directed on enhancing the knowledge of internal auditors in order to improve internal audit and financial management in local governments.

2.3 Financial Management and Internal Control in Tanzanian LGAs:

Currently, Tanzanian local government authorities are operating on the governance mechanism of decentralization by devolution which attracts instituting strong mechanisms of financial management and internal control in particular. The need for strong mechanisms of internal control is due to fiscal

autonomy granted by fiscal decentralization on internal revenue mobilization and expenditure responsibilities at local level. Given the fact that local governments are very important in providing public services to the citizens, sound internal control mechanisms are required to control misuse of decentralized finances. In order to ensure that internal control system is in place at Tanzanian local government authorities, Local Authority Financial Memorandum of 1997 through its order 9 through 11 requires financial and administration committee to enforce written procedures of controlling public finance (Livinga, Roell and Mhina; 2010). Also, Financial Memorandum requires council director and treasurer to assign responsibilities to each individual as directed by the organization chart of the council.

The internal control system is very important not only in private sector but also in public sector and mostly important in local governments due to decentralized finances. Strong mechanism of internal control helps local governments to control wastage of public funds and to channel the same to the provision of public services. As a key component of financial management, internal control system helps local governments to achieve their objectives of serving citizens.

Constitution of the United Republic of Tanzania (1977), section 146 states clearly the purpose of establishing local government authorities. The main purpose of having local government authorities is to transfer authority to the local citizens. Section 146 asserts further that local government shall have the right and power to participate and to involve local people in the planning and implementation of development programmes. The direct involvement of local people in the development programmes create a sense of ownership and improve accountability in a decentralized environment. Moreover, Fjeldstad et al (2010) argue that strong financial management equipped with sound internal control system is regarded as a strong means of preventing embezzlement of public funds.

Similarly, Boex and Muga (2009) point out that Tanzanian local government practices need to be improved to ensure enhancement of local financial management performance. Due to fiscal autonomy on revenues granted by fiscal decentralization at local governments, local financial management is required to control and ensure efficient use of public finances. Local financial management must ensure that strong internal control system is in place to enable local governments to fulfil their constitutional obligations of serving local community. Given the fact that internal control system is very important in the general operations of local government and in this era of New Public Management (NPM), deliberate efforts are required to strengthen internal control. Apart from being an important component of financial accountability, internal controls also contributes to the quality of financial reporting in local governments.

2.4 Internal Control – Organizational Performance:

Internal control system plays a vital role in enhancing accountability and promoting transparency in public sector organizations (Abd Aziz et Al, 2015). Apart from its commendable roles, Modibbo (2015) found that internal audit does not exist as a separate department, but rather as a unit in a local government chairman's office. It was advised that internal audit should be established separately and independently of other offices in order to enhance its reporting independence.

Also Abbas and Iqbal (2012) evidently concluded that properly established and effectively executed internal control system contributes positively to the protection of the organizations against misuse of resources and it helps to strengthen operations towards the achievement of the objectives. It is irrefutably true that internal control plays imperative roles in helping organizations to reduce operational risks and enhance reliability of financial reporting in order to build trust amongst stakeholders.

Likewise, Dineshkumar and Kogulacumar (2012) found strong relationship between internal control system and organization performance that had enabled high performance in Sri Lanka Telecom. Moreover, Gyebi and Quain (2013) revealed that it is unquestionable that internal control is very significant and can help to provide assurance to management on the general operations for achieving organizations' objectives.

Asuquo, Akpan and Effiong (2014) found that implementation of financial rules and regulations contribute positively on the financial control efficiency and effectiveness in the utilization of public funds at the local governments. The study revealed further that the compliance with financial rules, regulations and conventions lead to the strong local financial management and smooth provision of public services.

Also, internal control plays significant roles on the general mechanisms of financial accountability and performance of local governments. Simangunson (2014) revealed that both internal control effectiveness and internal audit role contributes positively to the performance of local governments. Performance of local governments is aligned with the proper provision of public social services to the citizens.

Adewale (2014) revealed in his study that the internal control system helps to enhance internal revenue mobilization. Similarly, Muraleetharan (2013) has found a positive relationship between control activities and financial performance of organizations. Moreover, local government internal control helps to ensure reliable information on performance and results (Rosa, Morote and Colomina; 2013).

Another important component of financial accountability is quality of financial reporting which assures reporting stewardship between local government management (agent) and the general public (principal). Indriasih & Koeswayo (2014) and Setiyawati (2013) revealed that local government's internal control mechanisms have positive significant impact on the quality of financial reporting. Moreover, Mohammadi et. al. (2013) found that strong mechanism of internal control facilitates operational transparency in financial reporting and promote financial capacity of public sector. Quality of financial reporting is very important in the operation of local government and local governance in particular.

Similarly, Suyono and Hariyanto (2012) concluded that good governance at local government is contributed by internal control, internal audit and organization commitment. Good governance at local government should be matched with proper use of public funds and fighting against corruption.

In this review of literature, most of the studies recognized the usefulness of internal control in general operations of local governments. Prior studies on internal control in public sector focused on the general mechanisms and general operating environment including centralized environment. However, many researchers opined that the significance of internal control in public sector financial management should not be overemphasized. It is irrefutable fact that in a fiscal decentralized environment, strong and effective mechanisms of internal control are strongly required to control proper use and allocations of public resources (Ng'eni and Chalam, 2016).

3.0 Significance of the Study:

The earlier studies made so far on internal control focused their attention on general aspects of public financial management and risk management. Following notable roles of the internal control in private and public sector financial management, it is very important to assess the contribution of the internal control in strengthening public sector financial management in general and financial accountability in particular in a decentralized environment.

This study mainly aims at assessing the link between internal control and fiscal decentralization in the selected organizations of the study. The contention behind is that fiscal decentralization grants fiscal autonomy in all financial aspects of revenue mobilization and expenditure responsibilities; the case here is that in this situation of fiscal autonomy, strong control is required to ensure proper use of public financial resources. It is evident that there is a less substantial work in literature and empirical studies on this direction in Tanzanian context.

The current study will be among the few studies focusing on the Tanzania public sector financial management regarding internal control mechanisms and fiscal decentralization. The study is equally important to both developing and developed countries in the era of new public management (NPM) where transferring fiscal responsibilities to lower levels of the governments is the main theme.

Against this background the present study focussed its attention onto examining the role of internal control in a fiscal decentralized environment in Tanzanian local government authorities. For this purpose the following methodology, scope and sources of data which are selected are discussed as under:

4.0 Methodology of the Study

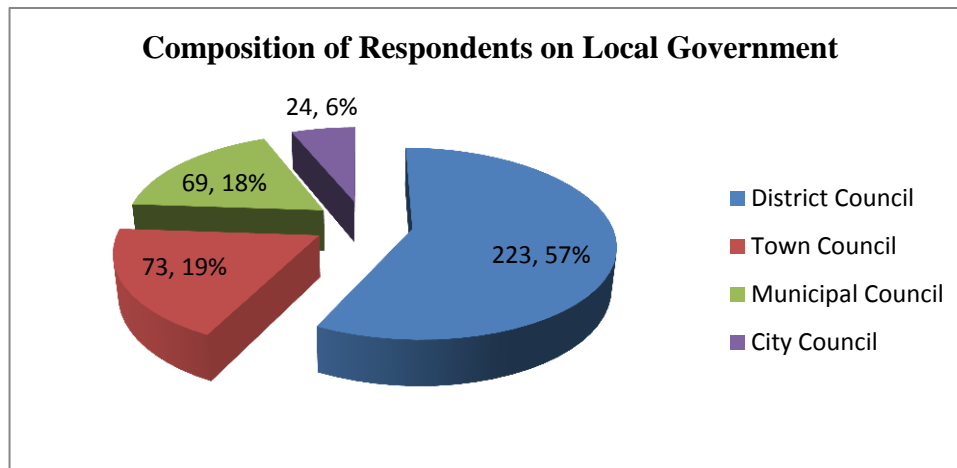
The main objective of the study has been achieved by considering primary data collected by using structured questionnaires from three hundred and eighty nine respondents. The study established a sample of councils from a total of one hundred and forty (140) councils from CAG general report on Tanzanian local government authorities 2012/13. We employed stratified sampling and grouping local governments into strata based on the four types of councils. The local governments have been put into four strata, and then employed simple random sampling to arrive at the appropriate sample by using proportional number of each stratum. Respondents were drawn from twenty eight (28) councils which represent twenty percent (20%) of total local governments, comprising; district councils, town councils, municipal councils and city councils. Key respondents were council director, heads of departments, accountants, internal auditors, planning officers and procurements staffs. Also, the authors reviewed controller and auditor general reports, performance reports of councils and other documents which in one way or other contribute to the success of internal control mechanisms.

4.1 Data Analysis and Discussion

A structured questionnaire with likert scale was used to collect primary data from key respondents identified. Key respondents were drawn from district council, town council, municipal council and city council. Figure 1 depicts the composition of the respondents according to type of council. The authors managed to collect data from all types of local government authorities; however the number of respondents in each type of local government depends on the actual number of local government involved in each stratum. The study established a sample of twenty eight local governments; twenty three district councils, two town councils, two municipal councils and one city council.

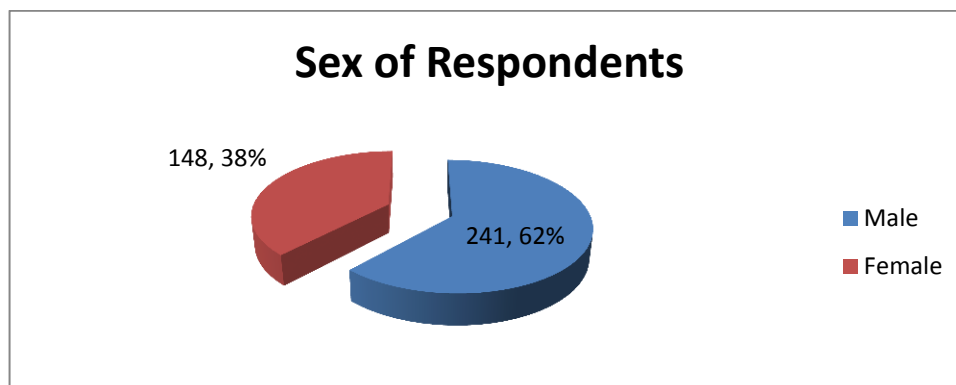
4.1.1 Profile of the Sample Respondents and Data Presentation

Figure 1: Composition of Respondents according to type of Council



In all these types of local governments, the authors collected two hundred and twenty three (223) questionnaires equivalent to 57% from district council, seventy three (73) equivalents to 19% from town council, sixty nine (69) equivalents to 18% from municipal council and twenty four (24) equivalents to 6% from city council. The respondents profile on the type of local government authority match with the established sample which comprised all types of councils.

Figure 2: Sex of Respondents



The composition of the respondents by sex as indicated on the figure 2 above shows that sixty two percent (62%) of respondents who returned questionnaires are male and thirty eight percent (38%) of the respondents are female. According to Tanzania National census of 2012, 48.7% of the total population is male and 51.3% are female, this statistics includes children, youth population and elderly population (URT 2014). The profile of male and female for respondents indicates that Tanzania is embarking on achieving gender equity and equality on local government operations. There is outcry about the involvement of the female in management issues but this study confirms that the trend is very appealing and soon we will achieve gender equity and equality.

Table 1: Education level of respondents

	Frequency	%	Valid %	Cumulative %
Valid Secondary Education	5	1.3	1.3	1.3
Certificate / Diploma	54	13.9	13.9	15.2
Degree / Advanced Diploma	252	64.8	64.8	79.9
Masters level	78	20.1	20.1	100
Total	389	100	100	

According to Tanzanian Education system and taking into account the working environment of the local government staffs, researchers decided to group education level into four levels as shown above on the table 1. The analysis shows that majority of the respondents hold degree/advanced diploma which makes a total of two hundred and fifty two (252) equivalents to 64.8% of the total respondents. Masters level and certificate/diploma together represents 34% of the total respondents. Broadly speaking, Tanzanian local government authorities have skilled working force to enable smoothly running of the day to day activities.

Table 2: Improvements on Internal Control Mechanisms at LGAs

	Frequency	%	Valid %	Cumulative %
Valid Strongly Agree	89	22.9	22.9	22.9
Agree	273	70.2	70.2	93.1
Disagree	27	6.9	6.9	100
Total	389	100	100	

Table-2 depicts respondents' responses on the improvement of internal control mechanism due to transfer of financial responsibilities to local governments. Three hundred and eight nine (389) respondents responded on our investigative questions indicating response of strongly agree, agree and disagree. A total of eighty nine (89) which represents 22.9% of the total respondents strongly agree that fiscal decentralization has impacted on the improvement of the internal control mechanisms. Moreover, two hundred and seventy three (273) equivalents to 70.2% agree that there is improvement on the internal control mechanism due to transfer of financial responsibilities to local governments. Although, a total of twenty seven (27) equivalents to 6.9% of the total respondents disagree on the improvement of the internal control mechanism but majority of the respondents acknowledge the improvement of the internal control system at local government authorities.

Table 3: Internal Control Mechanism helps to secure Financial Discipline in LGAs

		Frequency	%	Valid %	Cumulative %
Valid	Strongly Agree	140	36	36	36
	Agree	235	60.4	60.4	96.4
	Disagree	9	2.3	2.3	98.7
	Strongly Disagree	3	0.8	0.8	99.5
	Undecided	2	0.5	0.5	100
	Total	389	100	100	

Table-3 represents respondents' responses on how internal control mechanisms help to secure financial discipline at local government authorities in Tanzania. Majority of the respondents acknowledge the crucial roles played by internal control system in managing financial resources. In particular, a total of one hundred and forty (140) which represents 36% of the total respondents strongly agree that internal control mechanism helps to secure financial discipline at LGAs. Also, a total of two hundred and thirty five (235) equivalents to 60.4% of the total respondents agree on the significant roles played by internal control system in local government operations. Thus, a total of three hundred and seventy five (375) equivalents to 96.4% of the total respondents recognize significant roles played by internal control in managing financial resources.

Table 4: The transfer of financial responsibilities to LGAs improve operation transparency and control

		Frequency	%	Valid %	Cumulative %
Valid	Strongly Agree	75	19.3	19.3	19.3
	Agree	279	71.7	71.7	91.0
	Disagree	35	9.0	9.0	100.0
	Total	389	100.0	100.0	

Table-4 indicates respondents' opinions on how transfer of financial responsibilities (fiscal decentralization) has facilitated to the operational transparency and control in local government authorities. A total of seventy five (75) equivalents to 19.3% strongly agree that fiscal decentralization has facilitated the improvement of operational transparency and internal control. Moreover, a total of two hundred and seventy nine (279) which represents 71.7% of the total respondents recognize the usefulness of fiscal decentralization on internal control.

The analysis of the data explains that majority of the respondents acknowledge that transfer of financial responsibilities to local governments creates transparency environment and a sense of ownership to both public official and local community. A sense of ownership creates mechanisms of financial discipline and accountability which leads to improvement of internal control mechanisms and accountability. Also, direct involvement of the local community and demanding of operational transparency by NGOs and CBOs helps to stabilize control and accountability mechanism.

Also, we tested hypothesis which links transfer of financial responsibilities (fiscal decentralization) and improvement on internal control mechanism at local governments. H1: there is no relationship between improvement on internal control system and transfer of financial responsibilities (fiscal decentralization) at Tanzanian local government authorities. The rationale for this testing is built on the fact that fiscal decentralization transfers financial responsibilities to local governments. The move of transferring responsibilities is believed to motivate and create a sense of ownership to local government officials. Also, in a fiscal decentralized environment strong internal control is required to absorb the tension of fiscal autonomy on revenues mobilization and expenditure responsibilities.

Table 5: Cross tabulation of Fiscal decentralization and Improvement on Internal control

			Improvement on internal control			Total
			Strongly Agree	Agree	Disagree	
Fiscal decentralization	Strongly Agree	Count	34	38	3	75
		Expected Count	17.2	52.6	5.2	75.0
	Agree	Count	53	213	13	279
		Expected Count	63.8	195.8	19.4	279.0
	Disagree	Count	2	22	11	35
		Expected Count	8.0	24.6	2.4	35.0
Total	Count	89	273	27	389	
	Expected Count	89.0	273.0	27.0	389.0	

Table 6: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	61.985 ^a	4	.000
Likelihood Ratio	47.050	4	.000
Linear-by-Linear Association	39.041	1	.000
N of Valid Cases	389		

a. 1 cells (11.1%) have expected count less than 5. The minimum expected count is 2.43.

Table-5 shows the results of computation for observed and expected frequencies for computing chi-square from Statistical Package for Social Science (SPSS). Table 6 depicts the computation and analysis of chi-square for the given 5% (0.05) level of significance and four (4) degree of freedom. The calculated chi-square (61.985) indicates that probability value is less than level of significance ($p\ 0.000 < 0.05$). This analysis indicates strong statistical evidence of rejecting null hypothesis and accept alternative hypothesis that there is strong relationship between improvement on internal control system and transfer of financial responsibilities (fiscal decentralization) at local government authorities.

Furthermore, the analysis also indicates that the improvement on internal control system at LGAs has been facilitated by the fiscal decentralization. Fiscal decentralization grants fiscal autonomy which requires strong mechanisms of internal control on revenues and expenditure responsibilities. In other words, transfer of financial responsibilities has led to the improvement of the internal control mechanisms at the Tanzanian local government authorities.

However, these findings cannot be taken as a final point of improvement; instead more effort is required to ensure the existence of more healthy internal control that enables local governments to achieve intended objectives. The wave of local government reform was not just to transfer responsibilities and authority but also aimed to strengthen good governance and control mechanisms at sub national governments. This means that fiscal decentralization, which is the transfer of financial responsibilities, needs to be matched with strong mechanisms for controlling corruption, misappropriation of public funds and other issues of the same nature.

5.0 Summary, Implications and Conclusion

Strong internal control mechanisms are inevitable in fiscal decentralized environment and on the general operations of the local governments. In effect, local government operations need clear atmosphere to enable proper utilization of public funds on the provision of public goods. In order to enhance local government operations, fiscal autonomy must be supported by clear strong financial management and financial accountability in particular.

Being motivated by lack of studies of this nature in Tanzania and the process of fiscal decentralisation in the country, the paper intended to explore and presents findings on whether there is a statistical relationship between internal control and fiscal decentralisation in a decentralised environment. To achieve this objective, primary data were collected from 28 Local Government Authorities in Tanzanian context. However, with regard to this empirical paper we make significant contributions in both literature and empirical in this area of research.

The study reveals a strong statistical relationship between improvement on internal control system and fiscal decentralization. As such it is reported in this paper that improvement on internal control system is significantly explained by the transfer of financial responsibilities (fiscal decentralization) at local government authorities. We associate the results with the sense of responsibility and accountability felt by LGA officials as a result of financial autonomy brought about by the decentralisation process.

It is further documented in this paper that internal control system plays a crucial role in managing financial resources such that it enhances transparency, financial discipline, control and leads to improved operations (service delivery) at Local Government Authorities which is unlikely to be experienced on an opposite situation. The findings reported in this research corroborate with that of (Abbas and Iqbal (2012) and Abd Aziz et al, 2015).

The overall conclusion on this research study is that there is a significant relationship between the improvement on internal control mechanisms and fiscal decentralisation in decentralised Tanzanian local government authorities. This has an implication that the internal control has improved post financial decentralisation, which clears the doubt that the fiscal decentralisation is likely to increase misuse of public resources and corruption practices at that level. However, despite these promising findings, the efforts for the continuous test and improvement on existence, adequacy and efficacy of internal control should be point of emphasis for both Central Government and other stakeholders in order to ensure continuous improvement in service delivery at LGAs.

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