

**CHALLENGES FACING TANZANIAN LOCAL GOVERNMENT  
AUTHORITIES IN THE PREPARATION AND  
PRESENTATION OF FINANCIAL STATEMENTS: A CASE  
STUDY OF DODOMA MUNICIPAL COUNCIL**

**By**

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**A Dissertation Submitted in Partial Fulfillment of the Requirements for the  
Award of Masters of Business Administration of the University of Dodoma**

**The University of Dodoma**

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**CERTIFICATION**

The undersigned certifies that he has read and hereby recommends for an acceptance by the University of Dodoma a dissertation entitled “*Challenges facing Tanzanian Local Government Authorities (LGAs), in the Preparations and Presentations of Financial Statements: A Case study of Dodoma Municipal Council*” in partial fulfillments of the requirements for the degree of Masters of Business Administration at the University of Dodoma.

.....

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**(SUPERVISOR)**

**Date.....**

## DECLARATION AND COPYRIGHT

I, **Amani Patrick Mbogella**, declare that, this dissertation is my own original work and that it has not been presented and will not be presented to any other University, for a similar or any other degree award.

**Signature.....**

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However, I remain solely responsible for any errors and omissions that may be found in this dissertation.

## **DEDICATION**

I dedicate to Mr. Patrick and the late Madam Tukulsumaghe.

## **ABSTRACT**

The objective of this study was to explore the challenges facing the Tanzanian Local Government Authorities (LGAs), in the preparations and presentations of financial statements and suggest recommendations to be taken to address those challenges. A case study methodology with a qualitative approach was employed in the investigation. Methods used to collect data were semi- structured interview, focus group discussions, and documentary analysis. Respondents of this study were selected using purposive sampling technique, and data were analyzed by using a descriptive and qualitative analysis techniques. The study found out that, major challenges which face Dodoma Municipal Council (DMC) in the preparations and presentations of financial statements include challenges associated with internal control systems, challenges associated with capacity building, and challenges associated with financial matters. The study recommends that, LGAs should abide to approved accounting standards issued by NBAA, strengthening the LGAs audit committee and internal audit functions, full utilization of integrated financial management system, strengthening financial statements processes and enhance risk management frame work. In addition, in order to improve the preparations and presentations of financial statements the Central Government should timely disburse the approved funds to LGAs and also should employ adequate accountants for LGAs.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

ACCA	Association of Chartered Certified Accountants
BOT	Bank of Tanzania
CAG	Controller and Auditor General
CISA	Certified Information System Auditor
CPAs	Certified Public Accountants
DMC	Dodoma Municipal Council
DVC-ARC	Deputy Vice Chancellor Academics, Research and Consultancy
FS	Financial Statements
GGs	General Government Sector
IASB	International Accounting Standard Board
IFMS	Integrated Financial Management System
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standard Board
LGAs	Local Government Authorities
LGFM	Local Government Financial Memorandum
NAO	National Audit Office
NBAA	National Board of Accountants and Auditors
PMO RALG	Prime Minister Office Regional Administration Local Government
TRA	Tanzania Revenue Authority
URT	United Republic of Tanzania

# **CHAPTER ONE**

## **OVERVIEW OF STUDY**

### **1.1 Introduction**

This chapter is about the background of the study in which general background of the problem presented, the statement of the problem is given. Objectives of the study are also presented, research questions, significance of it, the limitation and organization of the study are provided.

### **1.2 Background of the Study**

Financial statements provide information of how well an organization is operating and how much of a risk investing in that organization would be (Best, 1993). However, the usefulness of financial statements in decision making depends on the quality in terms of how well they are prepared and presented according to approved accounting standards (Delle, 2011).

The main objectives of financial statements, is to communicate economic measurements of information about resources and performance of the reporting entity useful to those having reasonable rights, to such information for a decision making (Creswell, 2003). In other words, financial statements are prepared and presented for internal and external users for making decisions (Zeph, 2010).

Financial statements are the end products of accounting transactions of any organization. The process of preparations and presentations of financial statements follow the accounting cycle which involves the collection of documents, analysis of

transactions, journalizing transactions, post transactions to ledgers, preparation of trial balance and preparation of financial statements (Zeph, 2010).

This process must be followed by both public and private organizations, in order to come up with quality financial statements that show a true and fair view. In addition, for public institutions, quality financial statements must comply with the approved accounting standards issued by the National Board of Accountants and Auditors (NBAA).

However, most public institutions fail to adequately follow and comply with the accounting cycle and the approved accounting standards, as reported by the Controller and Auditor General (CAG) report (2013/2014). For example, 45% of LGAs had their financial statements withdrawn by the CAG in the year 2013/2014. This implied that, there were a number of challenges that faced public institutions (LGAs) in the preparations and presentations of financial statements. These challenges, must be identified and addressed in order public institutions to reveal themselves in the best possible way by demonstrating public reporting, on its sustainability towards an achievement of their objectives, also will enable the investors to make a proper decision making and also the general public will obtain an accurate and reliable financial information for a proper decision making.

This study assesses the challenges facing LGAs in the preparation and presentation of financial statements.

### **1.3 Statement of the Problem**

The preparations and presentations of a quality financial statement is very critical for the approval of financial statements by auditors and for proper decision making.

According to the reports of the Controller and Auditor General (CAG) of 2013/2014, the financial statements audited for public institutions had omissions and irregularities, which led to understatement and overstatement of figures, non-disclosure and improper disclosure in the financial statements. As a result, CAG withdrew most public institutions financial statements, which called for re-submitted revised/adjusted financial statements. For example, CAG withdrawn a number of the councils financial statements and council's re-submitted revised or adjusted financial statements had increased from 44 Council (2010/2011) to 60 Councils (2013/2014). The trend for the past four consecutive years (2010/2011 to 2013/2014) shows that, there was a gradual increase in the percentage of financial statements withdrawn (from 11% to 45%) among public institutions (CAG Report 2013/2014). These withdrawals of financial statements resulted into an additional cost of preparations and presentations of financial statements, in terms of both time and funds and affected the reputation of the particular council. In addition, 51% and 46% of LGAs obtained unclean audit reports for the year 2009/2010 and 2010/2011, respectively (CAG Report, 2010/2011). The increasing number of resubmission of financial statements calls for a study on challenges which are faced by LGAs in the preparations and presentations of financial statements. This study is an attempt towards that end.

## **1.4 Objectives of the Study**

### **1.4.1 General Objective**

The overall objective of this study was to assess the challenges facing LGAs in the preparations and presentations of financial statements.

### **1.4.2 Specific Objectives**

The following were the specific objectives that guided the study:

- i. To examine the process of preparation and presentation of financial statements of Dodoma Municipal Council (DMC).
- ii. To identify the accounting standards approved by the NBAA for the preparation and presentation of financial statements in public institution.
- iii. To determine the extent to which the approved accounting standards are applied by the DMC in the preparations and presentations of financial statements.
- iv. To identify challenges facing DMC in the preparations and presentations of financial statements.

### **1.5 Research Questions**

The following are the research questions

- i. What is the process of preparations and presentations of financial statements of DMC?
- ii. What are the International Public Sector Accounting Standards approved by NBAA, in the preparations and presentations of financial statements in public institution?
- iii. To what extent do approved accounting standards are applied by the DMC in the preparations and presentations of financial statements?
- iv. What are challenges faced by the DMC in the preparations and presentations of financial statements?

## **1.6 Significance of the Study**

The study will be useful to a wide range of stakeholders such as, the government, investors, academic community and the general public. The government might use this study, as a reference to make a proper accounting policies towards improving the preparations and presentations of financial statements, through a regulatory and monitoring bodies such as the National Board of Accountants and Auditors (NBAA), also it will enhance the provision of a higher quality services by Tanzanian LGAs through the provision of quality, reliable and credible financial statements. Investors rely in making their decision by making analysis of financial statements. A well prepared and presented financial statements would enable investors to make a proper investment decision. To the academicians an additional knowledge is provided in relation to the preparations and presentations of financial statements in public institution. The study will also help the general public to get an accurate, fair and reliable information, through a quality and credible financial statements.

## **1.7 Limitations of the Study**

This study, focused on the public institutions, particularly the LGAs. As in all case studies, the generalizability of findings and the conclusions drawn is limited. The choice of public institution (LGAs) was due to the limited available time and funds, which were not enough to undertake a survey of all public and private institutions. However, the study provides an evidence of challenge which accountants face, in providing an effective service to management and the stakeholders through preparations and presentations of financial statements which show the true and fair view.

## **1.8 Organization of the study**

This study is organized in five chapters. Chapter one presents the introduction which comprises the back ground of it, statement of the problem, objectives of the study ,research questions, and the significance of the study and lastly it provides limitations of the study. Two presents the definitions of the key terms, previous research findings, from available literatures and present the conceptual framework of the study. Three, describes the research design and methods used in data collection and show how such data were analyzed. Four presents results and discussions. Chapter five gives the summary of the findings, conclusions and recommendations of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter is about the literature review. It describes the theoretical and empirical literatures of the related studies, on the preparations and presentations of financial statements of public institutions. The conceptual framework of the study is also presented and discussed.

#### **2.2 Theoretical Literature Review**

##### **2.2.1 Definition of Financial Statements**

According to the International Financial Reporting Standard (2010), financial statements are defined as structured financial representation of the financial position and the transactions, undertaken by an enterprise. Financial statements are prepared information about the financial position, performance and cash flow of an entity that is useful, to a wide range of the users in making decision (Delle, 2011). Financial statements, should present true and fair view of the financial position, operating performance and cash flows of an entity or institution, this can be achieved by an appropriate application of approved accounting standards.

##### **2.2.2 Objectives of Financial Statements**

The main objectives of financial statements, is to communicate economic measurements of information about resources and performance of the reporting entity useful, to those having reasonable rights to such information (Zeph, 2010). Furthermore, financial statements provide information about the financial position,

financial performance and cash flow of an entity that is useful to a wide range of users in making economic decision, to meet objectives, financial statements provide information about the entity.

The general purpose of financial statements is to provide information about the financial position, operating performance and cash flows of the Government that is useful, to a wide range of users in making economic decisions. The statements also, show the results of government accounting officers stewardship of the resources entrusted to them.

### **2.2.3 Characteristics of Financial Statements**

According to NBAA Guideline (2004) financial statements should be characterized by:

#### **(i) Comparability**

Users must be able to compare the financial statements of an enterprise over time so that, can identify trends in its financial position and performance.

#### **(ii) Understandability**

Accounting information should be prepared in a way that is readily understandable by users who have reasonable knowledge of the business and economic activities and accounting and who, are willing to study the information diligently.

#### **(iii) Relevancy**

The information must be relevant to the needs of the users, which is the case when the information influences the economic decisions of users. This may involve reporting particularly relevancy information, or information whose omission or misstatement could influence the economic decision of users.

**(iv) Reliability**

The information must be free of material errors and bias, and not misleading. Thus, the information should faithfully represent transactions and other events reflect the underlying substance of events, and prudently represent estimates and uncertainties through proper disclose.

**2.2.4 Elements of Financial Statements**

According to IPSAS, 1 and accounting framework financial statements consist the following elements:

**(i) Assets**

Resources controlled by the business as a result of past events and from which, future economic benefits are expected to flow to the entity.

**(ii) Liabilities**

Present the obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

**(iii) Owner's Equity**

The claims by the owner to the assets of the business after deducting all liabilities.

**(iv) Income:**

Is an increase in economic benefits during the accounting period in the form of inflow or enhancements of assets or reductions in liabilities.

**(v) Expenses**

Is the decrease in economic benefits during accounting period in the form of outflow of assets or reduction of liabilities.

### **2.2.5 Fair Presentation of Financial Statements**

Financial statements, shall present fairly the financial position, financial performance and cash flow of an entity or organization (URT, 2011). Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definition criteria for assets, liabilities, income and expenses set out in the accounting framework. The application of International Public Sector Accounting Standards (IPSAS), with an additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation. An organization, whose financial statements comply with IPSASs, shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying IPSASs unless they comply with all the requirements of IPSASs.

### **2.2.6 The process of Preparation of Financial Statements**

Financial statements, are the end product of accounting transactions of any organization, In accounting arena, the process of preparations and presentations of financial statements are described by the accounting cycle (Accounting frame work, 2004). Basic steps for the preparations and presentations of financial statements are:

#### **(i) Collect Source Documents**

The first step in the accounting cycle is to gather all documents that are related to the financial transactions of the organization. They are like receipts, bank statements, checks, and purchase orders. They are items that describe what a transaction was for.

**(ii) Analyze transactions**

The second step in the accounting cycle is to analyze the source documents. The purpose is to look them over and then decide what effect they have had on an organization accounts.

**(iii) Journalize transactions**

The third step in the accounting cycle is to post entries into the journal for the analyzed transactions. The journal is a book or an electronic record that documents all the financial transactions for a company and accounts that are affected by each transaction. When a journal entry is made, the 'double-entry' rule is used. This means that, for every one transaction, at least two accounts are affected. There must be a debit and a credit for each transaction, and the total of debits and credits must equal the amount of the transaction. Journal entries are entered in chronological order, and debits are entered before credits.

**(iv) Post transactions**

The fourth step in the accounting cycle, is to transfer information from the journal to the ledger. A ledger is a book or an electronic record of all the accounts that an institution has. These accounts are broken down by an account number and class. When the information from the journal is transferred to the ledger, it is transferred to each account that was affected by the transaction.

**(v) Prepare an unadjusted trial balance**

A trial balance is a list of all the organization's accounts and their balance at the time the trial balance is prepared. An unadjusted trial balance is a trial balance that is prepared before adjusting entries are made into accounts.

This information comes directly from the ledger. The total debit balance and total credit balance must be equal.

**(vi) Prepare adjusting entries**

Adjusting entries are entries that are made in the journal and posted in the ledger. The purpose of these entries is to bring account balances to the proper amounts. Not all accounts will have an adjusting entry. Adjusting entries are made at the end of the accounting period but not the end of the accounting cycle.

**(vii) Prepare Trial Balance**

The trial balance is a list of all accounts and their balances after adjustments have been made. The trial balance is prepared to check and make sure that debits and credits equal after adjusting entries are made. It is used to prepare the financial statements.

**(viii) Prepare Financial Statements**

These are prepared in a specific order because the information from one financial statement is often used in preparing another financial statement.

**2.2.7 Approved Accounting Standards Issued by the NBAA**

The NBAA approves the accounting standards to be used in public and private sector in Tanzania. These accounting standards are developed by an International Public Sector Accounting Standards Board (IPSASB), accounting standards developed for a public sector entities are referred to as IPSASs. The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and believes that, the IPSASs will play a key role in enabling these benefits to be realized.

The adoption of IPSASs by governments is to improve both the quality and comparability of financial information reported by public sector entities around the world. Financial statements should be described, as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

According to the Technical pronouncement No.1 of 2004 of NBAA, Tanzania migrated to the IPSASs with effect from 1st July, 2004. Public Reporting entities in the country are required to prepare their financial statements in accordance with IPSASs. The approved IPSAS used for the preparation and presentation of financial statements of public institutions includes:

#### **IPSAS 1: Presentation of Financial Statements**

The standard clarifies that fair, a presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the IPSASs.

#### **IPSAS 2: Cash Flow Statements**

The cash flow statement should identify (a) the sources of cash inflows, (b) items on which cash was expended during the reporting period, and (c) the cash balance as at the reporting date. Information about the cash flows of an entity is useful, in providing users of financial statements with information for both accountability and decision-making purposes. Cash flow information, allows users to ascertain how a public sector entity raised the cash required to fund its activities, and the manner in which that cash was used.

### **IPSAS 3: Accounting Policies, Changes in Accounting Estimates and Errors**

The standard includes a criteria for the selection of accounting policies, also stipulates that, the accounting policies in IPSASs need not be applied when the effect of applying them is immaterial; and financial statements do not comply with IPSASs if they contained material errors.

### **IPSAS 4: The Effect of Changes in Foreign Exchange Rates**

The standard requires that, when a monetary item forms part of a reporting entity's net investment, in a foreign operation and is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, exchange differences arising on this monetary item, are recognized initially in a separate component of net assets/equity in the financial statements, that include the foreign operation and the reporting entity

### **IPSAS 5: Borrowing Costs**

Borrowing costs shall be recognized as an expense in the period in which they are incurred. Under the benchmark treatment, borrowing costs are recognized as an expense in the period in which they are incurred, regardless of how the borrowings are applied. The financial statements shall disclose the accounting policy adopted for borrowing costs.

### **IPSAS 6: Consolidated and Separate Financial Statements**

The standard clarifies that, the requirements to consolidate investments in controlled entities applies to venture capital organization, mutual funds, unit trusts and similar entities.

The Standard, no longer provides the previous exemptions from consolidating for an entity which operates under external long-term severe restrictions, which prevents the controlling entity from benefiting from its activities.

#### **IPSAS 7: Investments in Associates**

The standard, allows a maximum of three months between the reporting period of the investor and its associate when applying the equity method. The Standard, removes the impracticable notion such that an investor has to make appropriate adjustments for transactions and other events, in the associate's financial statements when the accounting policies in both entities are not similar. The standard, requires the entity to consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate, when recognizing its share of losses of the associate.

#### **IPSAS 8: Interests in Joint Ventures**

The standard requires that a venturer should account for an interest in a jointly controlled entity in its separate financial statements, in accordance with IPSAS 6. IPSAS 6, requires that the venturer shall account for its interest in a jointly controlled entity, in its separate financial statements either at cost or as financial instruments accordance, with the relevant international or national accounting standard dealing with financial instruments. The standard requires that a venturer shall disclose the method it uses to recognize its interests in jointly controlled entities (i.e., proportionate consolidation or the equity method).

#### **IPSAS 9: Revenue from Exchange Transaction**

Revenue, is recognized only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

### **IPSAS 10: Financial Reporting in Hyperinflationary Economies**

The standard requires the disclosure needed to make clear the basis of dealing with the effects of hyperinflation in the financial statements. They are also intended to provide other information necessary to understand that basis and the resulting amounts. The following disclosure shall be made; The fact, that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and the identity and level of the price index at the reporting date, and the movement in the index during the current and the previous reporting periods.

### **IPSAS 11: Construction Contracts**

The objective of this standard is to prescribe the accounting treatment of costs and revenue associated with construction contracts. The standard, identifies the arrangements that are to be classified as construction contracts and provides guidance on the types of construction contracts that can arise in the public sector; also specifies the basis for recognition and disclosure of contract expenses and, if relevant, contract revenues. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed, usually fall into different reporting periods.

### **IPSAS 12: Inventories**

The objective of this standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward, until the related revenues are recognized. This standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write down to net realizable value. It also, provides guidance on the cost formulas that are used to assign costs to inventories.

### **IPSAS 13: Leases**

The objective of this standard is to prescribe for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases. A finance lease, gives a rise to a depreciation expense for depreciable assets as well as a finance expense for each accounting period. The depreciation policy for depreciable leased assets, shall be consistent with that for depreciable assets that are owned, and the depreciation recognized shall be calculated in accordance with IPSAS 17, “Property, Plant and Equipment,” and IPSAS 31, “Intangible Assets,” as appropriate. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term or its useful life.

### **IPSAS 14: Events after Reporting Date**

The objective of this standard is to prescribe when an entity should adjust its financial statements for events after the reporting date; and the disclosures that an entity should give about the date when the financial statements were authorized for issue, and about events after the reporting date.

The Standard also requires that, an entity should not prepare its financial statements on a going concern basis if events after the reporting date which indicate that the going concern assumption is not appropriate.

### **IPSAS 15: Financial Instruments: Disclosure and Presentations**

The objective of this standard is to enhance financial statement users' understanding of the significance of on-balance-sheet and off-balance-sheet financial instruments, to a government's or other public sector entity's financial position, performance and cash flows. In this standard, references to the balance sheet in the context of on-balance sheet and off-balance-sheet have the same meaning as statement of financial position. The standard prescribes a certain requirements for presentation of on-balance-sheet financial instruments and identifies, the information that should be disclosed about both on-balance-sheet (recognized) and off-balance-sheet (unrecognized) financial instruments. The presentation standards, deal with the classification of financial instruments between liabilities and net assets/equity, the classification of related interest, dividends, revenues and expenses, and the circumstances in which financial assets and financial liabilities should be offset. The disclosure standards, deal with the information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments and the accounting policies applied to the instruments. In addition, the Standard encourages a disclosure of information about the nature and extent of an entity's use of financial instruments, the financial purposes that they serve, the risks associated with them and management's policies for controlling those risks.

### **IPSAS 16: Investment Property**

The objective of this standard is to prescribe the accounting treatment for investment property and related disclosure requirements. It applies to accounting for investment property, including (a) the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease, and to (b) the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard, does not deal with matters covered in IPSAS 13, "Leases,"

### **IPSAS 17: Property, Plant and Equipment**

The standard requires an entity to apply the general asset recognition principle to all property, plant and equipment costs at the time they are incurred, including initial costs and subsequent expenditures. The standard, clarifies in that the costs of day-to-day servicing of property, plant and equipment are recognized in surplus or deficit. The objective of this standard is to prescribe the accounting treatment for property, plant, and equipment so that, users of financial statements can discern information about an entity's investment in its property, plant, and equipment and the changes in such investment. The principal issues in accounting for property, plant, and equipment are (a) the recognition of the assets, (b) the determination of their carrying amounts, and (c) the depreciation charges and impairment losses to be recognized in relation to them.

### **IPSAS 18: Segment Reporting**

The objective of this standard is to establish principles for reporting financial information by segments.

The disclosure of this information will help users of the financial statements to better understand the entity's past performance, and to identify the resources allocated to support the major activities of the entity; and enhance, the transparency of financial reporting and enable the entity to better discharge its accountability obligations. An entity, may be organized and report internally to the governing body and the senior manager on a regional basis – whether within or across national, state, local, or other jurisdictional boundaries. Where this occurs, the internal reporting system reflects a geographical segment structure.

### **IPSAS 19: Provision, Contingent Liabilities and Contingent Assets**

The objective of this standard is to (a) define provisions, contingent liabilities, and contingent assets, and (b) identify the circumstances in which provisions should be recognized, how they should be measured, and the disclosures that should be made about them. The standard also requires that, certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements, to enable users to understand their nature, timing, and amount.

### **IPSAS 20: Related Party Disclosures**

The objective of this standard is to require the disclosure of the existence of related party relationships where control exists, and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes, and to facilitate a better understanding of the financial position and performance of the reporting entity. The principal issues in disclosing information about related parties are (a) identifying which parties control or significantly influence the reporting entity, and

(b) determining what information should be disclosed about transactions with those parties.

### **IPSAS 21: Impairment of Non Cash Generating Assets**

The objective of this standard is to prescribe the procedures that an entity applies to determine whether a non-cash-generating asset is impaired, and to ensure that impairment losses are recognized. This Standard also, specifies when an entity would reverse an impairment loss, and prescribes disclosures.

### **IPSAS 22: Disclosure of Financial Information about the General Government Sector**

The objective of this standard is to prescribe disclosure requirements for governments that elect to present information about the General Government Sector (GGS) in their consolidated financial statements. The disclosure of appropriate information about the GGS of a government, can enhance the transparency of financial reports, and provide for a better understanding of the relationship between the market and non-market activities of the government, and between financial statements and statistical bases of financial reporting.

### **IPSAS 23: Revenue from Non-Exchange Transactions (Taxes and Transfers)**

The objective of this standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give a rise to an entity combination.

This standard, deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions, including the identification of contributions from owners.

## **IPSAS 24: Presentation of Budget Information in Financial Statements**

This standard, requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities, that are required to, or elect to, make publicly available their approved budget(s), and for which they are, therefore, held publicly accountable. This standard also, requires a disclosure of an explanation of the reasons for material differences between the budget and actual amounts. A compliance with the requirements of this standard, will ensure that public sector entities discharge their accountability obligations and enhance, the transparency of their financial statements by demonstrating (a) compliance with the approved budget(s) for which they are held publicly accountable and (b) where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.

## **IPSAS 25: Employee Benefits**

The objective of this standard is to prescribe the accounting and disclosure for employee benefits. The standard requires an entity to recognize: (a) A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) An expense when the entity consumes the economic benefits or service potential arising from service provided by an employee, in exchange for employee benefits.

## **IPSAS 26: Impairment of Cash-Generating Assets**

The objective of this standard is to prescribe the procedures that an entity applies to determine whether a cash-generating asset is impaired, and to ensure that

impairment losses are recognized. This Standard also, specifies when an entity should reverse an impairment loss, and prescribes disclosures.

### **IPSAS 27: Agriculture**

The objective of this standard is to prescribe the accounting treatment and disclosures for agricultural activity. This Standard is applied to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest. Thereafter, IPSAS 12, or another applicable Standard, is applied, accordingly, this Standard does not deal with the processing of agricultural produce after harvest

### **IPSAS 28: Financial Instruments: Presentation**

The objective of this standard is to establish principles for presenting financial instruments as liabilities or net assets/equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends or similar distributions, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

### **IPSAS 29: Financial Instruments: Recognition and Measurement**

The objective of this standard is to establish principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The requirements for presenting information about financial instruments are in IPSAS 28,

“Financial Instruments: Presentation.” Requirements for disclosing information about financial instruments are in IPSAS 30, “Financial Instruments: Disclosures.”

### **IPSAS 30: Financial Instruments: Disclosures**

The objective of this standard, is to require entities to provide disclosures in their financial statements that enable users to evaluate: (a) The significance of financial instruments for the entity’s financial position and performance; and (b) The nature and extent of risks arising from financial instruments to which, the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

### **IPSAS 31: Intangible Assets**

The objective of this standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another standard. This standard requires an entity to recognize an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets, and requires specified disclosures about intangible assets.

## **2.3 Empirical Literature Review**

Some studies have recognized the importance of reporting financial statements which are of high quality. For instance,

Nhawa (2008) conducted a study in Tanzania concerning professional skepticism in the audit of financial statements.

Findings have shown that, public places value on the independent financial statement audit because it enhances the degree of confidence of the intended users in

the financial statements. A high quality audit, features the exercise of professional judgment by the auditor and importantly, a mindset that includes professional skepticism throughout the planning and performance of the audit.

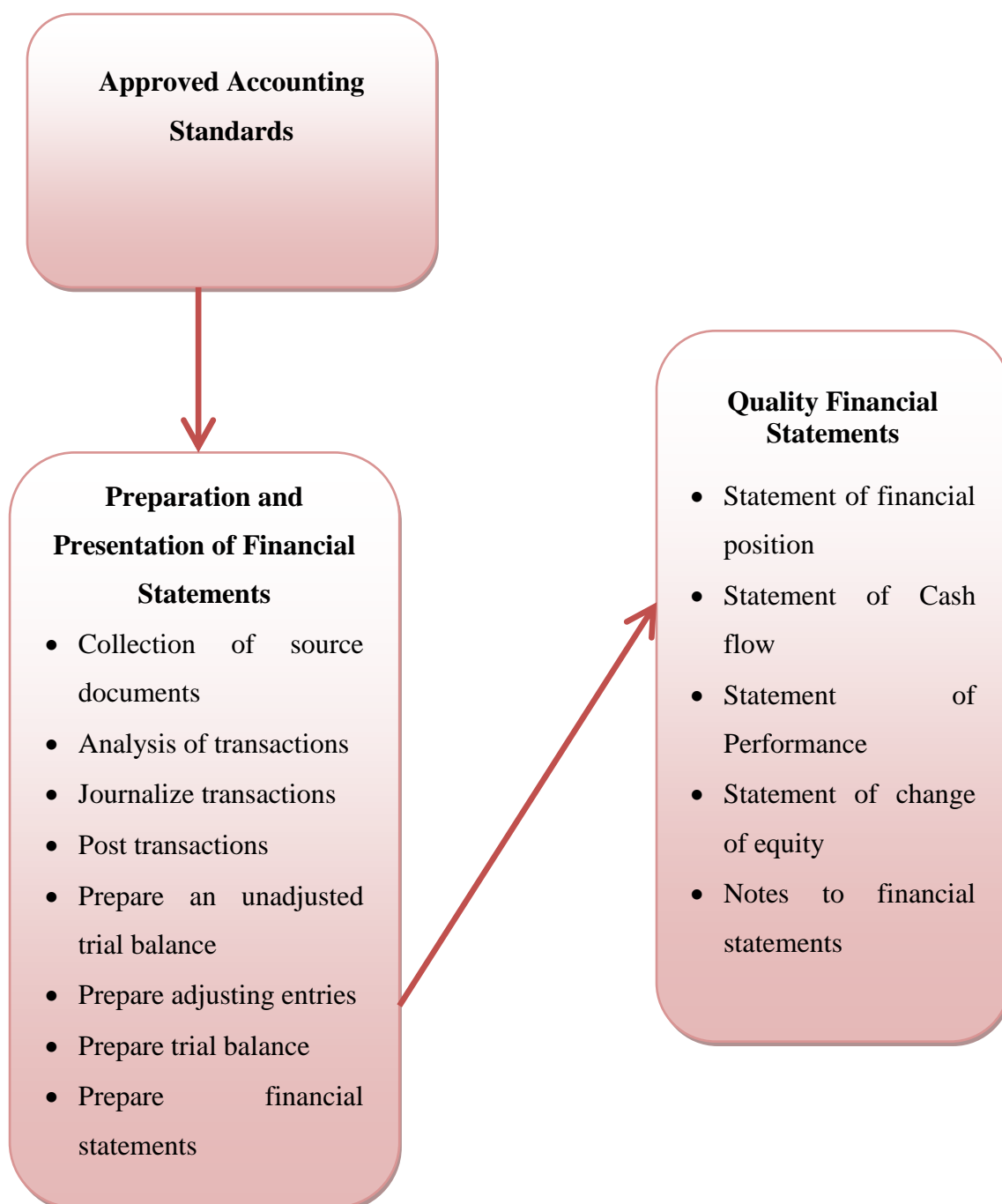
Joshi (2001) conducted a study on the compliance with international financial accounting for professional students and concluded that, the turbulent events of global financial crisis have highlighted the critical importance of credible, high quality financial reporting. He also demonstrated the importance of considering the role of audit quality in the broader context of quality financial reporting. On this regard, achieving a quality financial reporting depends on the integrity of each of the links in the financial reporting supply chain. As one of those links, the external audit plays a major role in supporting the quality of financial reporting around the world, whether in the context of the capital markets, the public sector or the private or non-public sector, this is because it is an important part of the regulatory and supervisory infrastructure, and thus, an activity of significant public interest. Fair presentation of financial statements is therefore a matter of a high importance.

## **2.4 Conceptual Framework**

It is clearly understood that, the conceptual frame work is a set of coherent ideas or concepts organized in a manner that, makes them easy to communicate to others (Denzin, 2000).

The conceptual frame work provides the relationship among and between variables. For example, financial statements are prepared and presented with regards to its processes namely, collection of source documents, analysis of transactions, journalize of transactions, post transactions, preparation of an unadjusted trial

balance, preparation of adjusting entries, preparation of trial balance and lastly the preparation of financial statements. At each stage of the process the approved accounting standards, should be adhered to in order to end up with quality financial statements (Figure 1):



**Figure 1: Conceptual Framework**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter covers the techniques that were adopted to carry out the study. It describes all strategies and courses of action that were taken in the course of answering the research questions. The chapter specifically describes the location of the study, research design adopted, types of data used, study population, sampling technique and sample size, data collection techniques, data processing and analysis, validity and reliability of the study, and the logic behind the choice of them.

#### **3.2 Location of the Study Area**

The study was carried out at the DMC which is within Dodoma Urban District (Figure 2) for the following reasons: (i) DMC is among the Tanzanian LGAs whose financial statements were withdrawn by the CAG in the year 2009/2010,2010/2011 and 2011/2012 (ii) the Parliament of United Republic of Tanzania (URT) is within Dodoma Municipality (iii) Dodoma is the National Capital under Presidential Decree No. 320 of 1973, (iv) limitation of time and funds, since the researcher stays in Dodoma Municipality.

According to DMC Strategic plan 2010/2011 -2013/2014, Dodoma Municipality was established in 1980. In 1995, the government shifted the Parliamentary activities to Dodoma and has recently, declared the town to be the centre of education. Dodoma Municipality is located at the centre of the country. It lies between Latitudes  $6.00^0$  and  $6.30^0$  South, and Longitude  $35.30^0$  and  $36.02^0$  East.

It is 456 kms to Dar es Salaam city and 426 kms to Arusha city. In the west, it is bordered by Bahi district, while Chamwino district is in the east. Its population is about 562,968 according to the 2012 national housing census. The total number of households is 76,112 with an average population growth rate of 3.3. Administratively, The Municipality administratively is divided into 4 divisions, 30 wards, 40 villages and 70 streets. Economically, about 75 Percent of income of the Municipality comes from agriculture and animal husbandry while 25 percent of the population, is engaged in petty business such as retail shops, carpentry and food vending. There are other activities such as small and medium industries, consultancy as well as construction work. The Municipality has industrial products such as wine, mattresses and packed water, whereas from forestry, there are products like honey, wax and herbs.

The Municipality covers an area of 2,769 square kilometers. It is characterized by both urban and rural qualities. It stands on a broad upland plateau with an altitude ranging between 900-1000 meters above sea level, with beautiful stony hills such as Image, Isanga, Mkalama and Mlimwa. It experiences a long draught and short rainfall seasons. Due to unreliable rainfall, the area has scanty vegetation such as shrubs, grasses as well as conspicuous baobab and acacia trees.

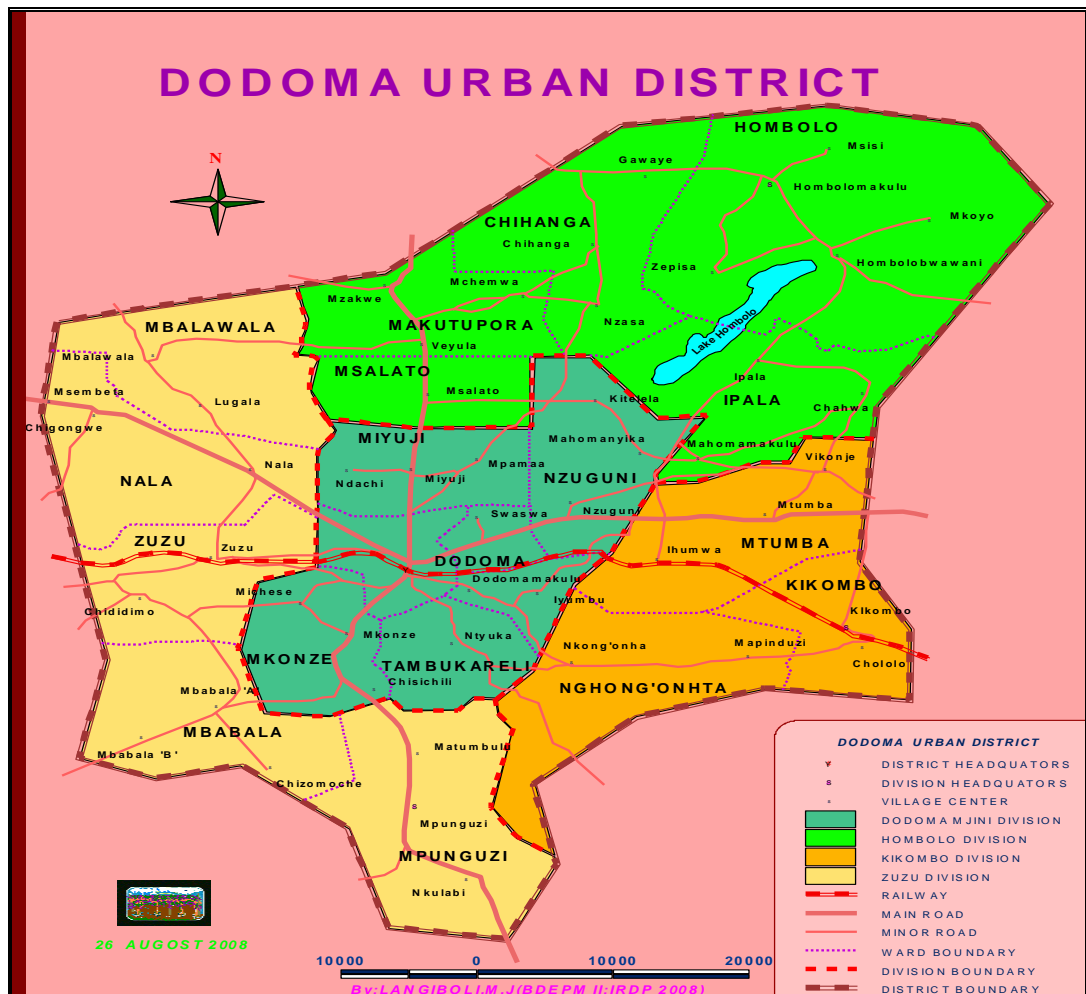


Figure 2: Map of Dodoma Municipality

Source: URT, (1988)

### 3.3 Research Design

Research design, is the plan and structure of investigation so conceived so as to obtain answers to research questions. According to Cooper and Schindler (2006) a research design is a frame work or a blue print for conducting research project. The plan is overall scheme or programme of the research. This study employed a case study design with a cross sectional approach. Case study methods, involves a careful and complete observation of a social unit, a person, a family, an instrument negation, culture group, or even the entire community. This design, was facilitated this study to meet the criteria as indicated in the research questions.

### **3.4 Target Population**

The study population is the total number of units under the research focus. It is a total collection of elements about which the researcher wishes to make some inference (Battaglia, 2008). According to Bryman (2008) a population is an entire spectrum of system of interest. Eisenhart (1991) defines the population as an aggregate of all the elements that share some common set of characteristics, and that comprises of the universe for the purpose of marketing a research problem. For the purpose of this study, the target populations were all DMC employees who were responsible for the preparations and presentations of financial statements.

### **3.5 Sampling Technique and Sample Size**

Sampling is the selection of some part of an aggregate or totality on the basis of which, a judgment or inference about the aggregate or totality is made (Kothari, 2004). In this study, purposive sampling technique was applied. Purposive sampling is referred to as judge mental sampling or expert sampling (Mellenberrgh and Adern, 2008). The selection of a purposive sample is often accomplished by applying the expert knowledge of the population, to select in a non-random manner a sample of elements that represents a cross-section of the population (Patton, 2002). The goal of purposive sampling is to sample cases/participants in a strategic way, so that those sampled are relevant to the research questions that are being posed (Merrian, 2009). This technique was used to select twelve (12) employees of DMC which are involved in the preparations and presentations of financial statements. These include seven (7) staff in the department of finance and five (5) senior officials (Municipal Director, Treasurer, Internal Auditor, Planning Officer and Municipal Human resource Officer).

These key informants were selected because they had adequate information on issues related to the preparations and presentations of financial statements and its challenges.

### **3.6 Data Collection Methods**

In this study, both primary and secondary data were employed. Primary data, were collected from the natural setting that is the field where as secondary data were obtained from books, journals and the internet.

#### **3.6.1 Primary Data**

Miles and Huberman (1994), define primary data as data collected by the researcher at the field. These are data collected specifically for a research project. In this study, primary data were collected using semi-structured interview and focused group discussion methods.

##### **3.6.1.1 Semi-structured Interviews**

This study applied semi-structured interview because the method saves time, by limiting interviews to specific issues of interest on a predetermined research topic (Fox and Mathers, 1998). A semi-structured interview is a qualitative method of inquiry that combines a pre-determined set of open questions, (questions that prompt discussion) with the opportunity, for the interviewer to explore particular themes or responses (Kothari, 2004).The method used an interview guides (Appendix 1) with an open-ended questions, to nurture dialogue in the interview session. Interview guides were carefully constructed by the researcher in order to fulfill the requirements of the research objectives.

This method, gives the researcher the freedom to probe the interviewee to elaborate or to follow a new line of inquiry, introduced by what the interviewee is saying. Face -to-face interviews, have a distinct advantage of enabling the researcher to establish rapport with potential participants and therefore gain their cooperation (Millo, 2012). These interviews, allow the researcher to clarify ambiguous answers and when appropriate, seek follow-up information (Elliot, 2006). The purpose of interviewing people is to find out from them things which cannot be directly observed like feelings, thoughts and intentions. For example, soliciting information related to preparations and presentations of financial statements in the LGAs.

Before starting each interview session, the researcher introduced himself to the participants and requested to record the conversation by using voice recorder. The researcher opted to record the conversation in order to ensure that the whole interview was captured and provided a complete data for analysis through listening to the recording. Then, it was transcribed manually by the researcher.

All interviews session, were conducted in the evening (between 04.15 pm and 05.45 pm) as respondents were busy for official activities at morning hours and thus, evening hours were convenient for them to meet with the researcher. The discussions were conducted at the Municipal Conference Hall. Each interview session conducted, took 15 minutes to 20 minutes. This study, applied a semi-structured interview method because the method saves time, by limiting interviews to specific issues of interest on a predetermined research topic (Fox and Mathers, 1998). In addition, face -to-face interviews have a distinct advantage of enabling the researcher to establish rapport with potential participants and therefore, gain their cooperation. These interviews allow the researcher to clarify ambiguous answers and when appropriate, seek follow-up information.

### **3.6.1.2 Focus Group Discussion**

Focus group discussion is a tool for collecting qualitative data from a group where the researcher, has to follow a predetermined interview guide (Appendix 2) to direct the discussion (Hohman, 2006). Focus groups were used in this study, in order to cross-check with findings obtained through semi-structured interviews (Campbell and Quincy, 2013). One focus group discussion was conducted, where a focus group comprised of 8 individuals (3 staff from the finance department and 5 senior officers and the researcher as a moderator. This number of participants in each group is reliable as explained by Casey and Krueger (2008) that, a focus group should consist of three to ten members. In order to get participants for the focus group discussion, the researcher used a purposive sampling technique to obtain 8 participants.

Focus group discussions were conducted during evening hours between 04:15pm to 5:45pm at Dodoma Municipal Board room. This decision of time was reached as an agreement between the researcher and participants, since participants were busy during the morning hours to attend official activities. The discussions session took 90 minutes. This duration for a single focus group discussion is reliable as advised by Kirk and Miller (1986) that, focus group discussions should limit the time about one two hours, depending to the nature of the subject.

For ethical reasons, all research participants were not asked to give their names. This study therefore, has avoided using participant's names or nicknames in reporting the research findings. However, where quotations have been presented in this study, the sources of quotations are distinguished by using gender.

Before starting the focus group discussions, the researcher introduced himself to the participants and requested to record the conversation by using voice recorder.

The researcher opted to record the conversation in order to ensure that, the whole discussion is captured and provided complete data for analysis through listening to the recording. Then, it was transcribed manually by the researcher.

### **3.6.2 Secondary Data**

Kothari (2009) defines secondary data as data published and collected in the past or other parties. Secondary data can be obtained from different research strands. Prior documentation such as census, housing, social security, libraries progress report, electoral statistics and other related data base, are examples of secondary data.

In this study, secondary data were obtained from written or printed materials that had been produced in a form of training manuals, annual reports, books, treasury yearly circulars issued to LGAs. The researcher obtained approved accounting standards from the NBAA Hand Book (2004) which was useful in identifying the IPSAS. The researcher also obtained five sets of financial statements of DMC for five consecutively years (2010/2011 to 2014/2015) from the Office of CAG. Financial statements of DMC were used by the researcher in seeking the extent upon which, the approved accounting standards were applied in preparations and presentations of financial statements. In addition, he used Municipal financial progress reports and government financial guidelines; issued from time to time to get more information as far as the preparations and presentations of financial statements of LGAs was concerned.

### **3.7 Data Analysis**

Morgan (1997) defined data analysis as a process of systematically searching through and arranging interviews, transcripts, field notes and other materials that a

researcher has accumulated to increase his or her understanding of them and to enable such researcher to present what s/he discovered to others. In the context of this study, data were analyzed by using a descriptive and qualitative analysis.

Due to the nature of data collection techniques used in this study, (Semi-structured interviews and focus group discussions), data collected were a qualitative in nature. Qualitative data analysis, involves stages of data reduction, data interpretations and theme application (Denzin, 2000). This study, used a thematic analysis as a method for analyzing notes generated through field semi –structured interviews and focus group discussions.

Thematic analysis is one of the ways of analyzing informant’s talk about their experiences. The analysis, involves searching across a data set (example a number of interviews or focus groups or range of texts) to find repeated patterns of meaning (Hohman, 2006). During data analysis process, themes in each research question were generated and presented into categories. All responses which addressed similar phenomena or problems, were grouped together to form a single category of theme.

Descriptive statistics were used in order to present demographic characteristics of the respondents, through a frequency and percentages.

### **3.8 Reliability and Validity**

Reliability and validity are the two most important concepts in research arena (Kirk and Miller, 1986). The two concepts are explained below:

### **3.8.1 Reliability**

Reliability is the extent to which a scale is free of random error and thus produces consistent results (Merriam, 2009). Therefore, if the same set of test subjects is measured several times with the same or similar scales, the same or similar results will be expected to be obtained. The issue of reliability, was ensured by the researcher through different methods and tools during data collection including; semi structured interviews, focused group discussions and review of secondary data. The researcher used semi-structured interview to the DMC staff working in the department of finance also used focus group discussions method for the DMC senior officers to ensure reliability of data.

### **3.8.2 Validity**

Validity, refers to the degree to which the study accurately reflects or assesses the specific concepts, the researcher is attempting to measure (Kirk and Miller, 1986). The validity of this study was ensured by the usage use of different methods of data collection including semi-structured interviews, focus group discussions and documentary analysis. The researcher also carefully prepared interview guides based on the research questions. Thereafter, it was presented to the experts for validation. The comments from the experts were adhered in the constructions of interview guides so as to ensure validity of findings.

## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### 4.1 Chapter Overview

This chapter presents the research findings, analysis and discussions of the results. It begins by providing a profile of the respondents followed by discussions of the results. The presentations and interpretation of the main results are organized on the basis of the specific objectives.

#### 4.2 Profile of the Respondents

This section, describes the demographic characteristics of the respondents who participated on providing information. The study, examined the characteristics of the respondents in terms of gender, years of experience, age and education.

##### 4.2.1 Gender of the Respondents

Out of 58.3% of the respondents were males while 41.7% females. This indicated that majority of them at DMC are males (Table 1).

**Table 1: Sex of the Respondents**

<b>Gender</b>	<b>No of Staff</b>	<b>Percentage</b>
Male	07	58.3
Female	05	41.7
<b>Total</b>	<b>12</b>	<b>100.0</b>

##### 4.2.2 Years of Experience in the Position

The respondent's years of experience, is very relevant on the preparations and presentations of financial statements of DMC. Majority 50% had less than 5 years of experience in preparations and presentations of financial statements.

This implied that, financial statements were prepared by the council staff that had a low experience which resulted to a poor preparations and presentations of financial statements (Table 2).

**Table 2: Years of Experience in the Position**

<b>Category</b>	<b>Frequency</b>	<b>Percent</b>
Less than 05 Years	6	50.0
05-10 Years	3	25.1
11-15 Years	1	8.3
16-20 Years	1	8.3
Above 20 Years	1	8.3
<b>Total</b>	<b>12</b>	<b>100.0</b>

**4.2.3 Age of Respondents**

The Characteristics of their ages have revealed that, (50.0%) of them were aged between 26-35 years while 25% were 36-45, which showed that 75% of them were below 46 years ( Table 3 ) This implied that, most of the council staff were still of an economical active group.

**Table 3: Age of respondents**

<b>Category</b>	<b>Frequency</b>	<b>Percent</b>
26-35 Years	6	50.0
36-45 Years	3	25.0
46-55 Years	2	16.7
56 Years	1	8.3
<b>Total</b>	<b>12</b>	<b>100.0</b>

#### 4.2.4 Education of the Respondents

The Respondents were requested to classify their level of education. Results have portrayed that the graduate level of education dominated the participants, 66.7% were either undergraduates or masters holders. However, majority (91.7%) had never attained professional certificates such as the certified public accountant (CPAs). This implied that, most of the council accountants did not have a professional accounting qualification (Table 4).

**Table 4: Education Level of Respondents**

<b>Educational level</b>	<b>Frequency</b>	<b>Percentage</b>
Diploma	4	33.3
Degree	5	41.7
Masters	2	16.7
CPA's	1	8.3
<b>Total</b>	<b>12</b>	<b>100.0</b>

#### 4.3 Main Findings

This study, sought to explore challenges which faced the Tanzanian LGAs in the preparations and presentations of financial statements. Four research questions were raised namely; what is the process of preparation and presentation of financial statements at DMC? What were the International Public Sector Accounting Standards approved by NBAA, in the preparations and the presentations of financial statements in public institutions? To what extent the approved accounting standards were applied by DMC. And lastly, what were the challenges faced DMC in the preparations and presentations of financial statements?

This section, presents the main results, and is divided into four subsections. Each subsection represents one research question.

#### 4.3.1 Process of Preparation and Presentation of Financial Statements

The first objective of this study was to examine the process of preparations and presentations of financial statements at DMC. In order to achieve this objective, a semi-structured interview technique was employed. Two main categories of themes were established under the research question. Each of the two categories contained a number of themes, where necessary, some extracts of texts from field notes are accompanied for clarification(s) (Table 5 )

**Table 5: Themes on Processes for Preparations and Presentations of Financial Statements**

The Main category of themes	Theme
Old process for preparations and presentations of financial statements	• Collection of source documents
	• Preparation of ledger
	• Preparation of trial balance
	• Preparations and presentations of financial statements
The Current process for preparations and presentations of financial statements	• Collection of source documents
	• Analysis of transactions
	• Journalizing transactions
	• Posting transactions to ledgers
	• Preparation of an unadjusted trial balance
	• Preparation of adjusting entries
	• Preparation of trial balance
	• Preparations and presentations of financial statements

#### **4.3.1.1. Old Processes for Preparations and Presentations of Financial Statements**

The main themes, that were identified under the process associated with the preparations and presentations of financial statements are: Collection of source documents, preparations of ledgers, and trial balance and lastly the preparation and presentation of financial statements (Table 5).

Results have shown that, majority favored the old processes to be followed during the preparations and presentations of financial statements at DMC. Therefore, it can be argued that the current processes was not followed, which meant that ,the accounts staff at the final section were not updated on the current processes hence they were not committed on the current issues in accounting matters. In connection to this, one staff participant had this to say;

*“I heard about the new processes for preparations of financial statements from my friend, who is working out of this council but in this council, It has been many years since Accountants were not trained for this matter, simply that management said they had no funds for it, we are not updated on the new accounting issues”*

(An interviewee man from finance department)

This has revealed that, there was a low in training the council accountants on contemporary accounting issues which would enable them to follow the current practice.

#### **4.3.1.2 Current Processes for Preparation and Presentation of Financial Statements**

Main themes that were identified under this category are: Collection of source documents, analysis of transactions, journalizing transactions, posting transaction into ledgers, preparations of an unadjusted trial balance, preparation of adjusting entries, preparation of trial balance and preparation and presentation of financial statements (Table 5).

Results have shown that minority favored the current processes to be followed during the preparations and presentations of financial statements. Personal efforts were applied by the accountants in order to understand and apply the current processes, as there was inadequate training which was conducted by the DMC to their accounting staff. In connection to this, one participant had this to say;

*“The employees in the accounts and finance department use money from their own pockets for the training purpose but very few of them can afford the training costs”*

(An interviewee woman from finance department)

Furthermore, findings have shown that, there was a contradiction on following the process of the preparations and presentations. As other council staff skipped some process (basic steps) towards them, they followed the old model process, in preparation and presentation of financial statements, which consisted only the four basic steps(the collection of source documents, preparations of ledgers, trial balance and finally the preparations and presentations of financial statements). On the other hand, other council accountants followed the current model which consisted the

eight basic steps (the collection of source documents, analysis of transactions, journalizing transactions, posting transaction into ledgers, preparations of an unadjusted trial balance, and preparation of adjusting entries, preparation of trial balance and preparations and presentations of financial statements). This implied, that, there was no a consistency in the preparations and presentations of them.

#### **4.3.2 Approved Accounting Standard by NBAA**

The second objective of this study was to identify the accounting standards approved by the NBAA, for the preparation and presentation of financial statements in public institution in Tanzania. For that purpose, this study sought to identify the approved accounting standards. This was done through a documentary review (NBAA Hand book, 2004). According to the NBAA Technical Pronouncement (2004) Tanzania migrated to the IPSASs with effect from 1st July, 2004. Public Reporting entities in the country are required to prepare their financial statements in accordance with IPSASs. The approved IPSAS, used for the preparation and presentation of financial statements of public institutions in Tanzania includes IPSAS 1 to IPSAS 31. These are detailed in the Literature Review (Page 12).

#### **4.3.3 Extent to which the Approved Accounting Standards are Applied in Preparation and Presentation of Financial Statements by DMC**

The third objective of this study was to determine the extent to which the approved accounting standards for the preparations and presentations of financial statements, in public institution are applied. According to NBAA, financial statements should be prepared by using IPSAS 1 to 31 Promulgated by the International Accounting Standard Board (IASB).

To meet this objective, the researcher applied the documentary analysis methods to examine the extent to which financial statements of the DMC for three consecutive years (2009/2010 to 2011/2012), if conformed to the approved IPSAS 1 to IPSAS 31, specifically, the financial statements prepared and presented by DMC were compared against the approved accounting standards. It was found out that, the DMC financial statements did not adequately follow the approved standards. These results are also supported by the CAG report of 2009/2010; 2010/11 and 2011/2012 in which, DMC obtained unclean audit report (qualified audit opinion), which called for a special audit for the year 2011/2012 in which, the same results (Unclean audit report) were obtained (CAG Report 2011/2012) (Table 6 ).

**Table 6: Trend of Audit Opinion for DMC**

Year of reporting	Audit Opinion obtained
2009/2010	Unclean audit report (Qualified audit opinion)
2010/2011	Unclean audit report (Qualified audit opinion)
2011/2012	Unclean audit report (Qualified audit opinion)

**Source:** CAG Report 2009/2010; 2010/2011; 2011/2012

#### **4.3.4 Challenges facing the DMC in the Preparation and Presentation of Financial Statements**

The fourth and last objective of this study was to identify the challenges faced by DMC in the preparations and presentations of financial statements. The objective was pursued to believe that, challenges prevailed and a focused group discussion method was used.

Three main categories of themes, were established under the research question, what were challenges facing DMC in the preparations and presentations of financial statements? Each of the three categories contained a number of themes.

The descriptions of them are provided and where necessary, some extracts of texts from field notes are accompanied for clarification (s) (Table 7 ).

**Table 7: Themes on Main Challenges faced by DMC in Preparation and Presentation of Financial Statements**

<b>Main category of themes</b>	<b>Theme</b>
Internal Control Systems	Use of manual accounting system
	Underutilization of IFMS/ EPICOR accounting system
	Lack of risk management framework
	Inadequate fraud prevention controls
	Ineffective internal audit function and audit committees
Capacity Building	Inadequate knowledge and skills
	Inadequate training on IPSAS and financial management system
	Shortage of experienced accountant staff
Financial matters	Late disbursement of funds
	Lack of funds to implement the accountancy activities

#### **4.3.4.1 Challenges Associated with Internal Control System**

Main themes that were identified under the heading above are: the use of manual accounting system, underutilization of IFMS/EPICOR accounting system, and the lack of risk management framework, inadequate fraud prevention controls, and ineffective internal audit function and audit committees (Table 7 ). The themes are explained below:

##### **(i) Use of Manual Accounting System**

Results indicated that, the usage of manual accounting system hindered the smooth preparations and presentations. This affected the accuracy of information presented and also consumes a lot of time as described by one participant:

*“We prepare subsidiary, detailed ledgers, trial balance, statement of financial position, statement of income and expenditure manually, this consume a lot of time”*

(A focus group man from finance department)

**(ii) Underutilization of IFMS/EPICOR Accounting System**

Findings show that, the utilization of the councils’ IFMS/Epicor accounting package was still at a low level because most of the modes of Epicor were not operated. Lack of refresher and user training on IFMS/Epicor, Epicor not compliant to IPSASs and implementation of Epicor Version 9.05 does not fully meet the requirements. This led to a low yield as Epicor accounting system was underutilized; this hindered the preparation and presentation of financial statements in time. The Municipal Treasurer’s comment on this issue was as follows:

*“Most of modes of Epicor Accounting System are not utilized and also the system is not compatible with the IPSAS”*

**(iii) Lack of Risk Management Framework**

It was found out that, the DMC lacked the risk management framework and did not undertake the recent risk assessment, to identify the existing risks and those emerged as a result of the changing environment and methods, of services delivery and the risk management policy and procedures were not established .In connection to this, one participant had this to say:

*“The Council budget is so limited, risk assessment is not done”*

(A focus group man from finance department)

The Council was expected to manage the key risks which were specific to their environment and include the controls related to risks that might have a material impact on the councils' financial statements.

**(iv) Inadequate Fraud Prevention Controls**

Another challenge identified was, inadequate fraud prevention controls. Fraud assessment of the council was not documented and there were no approved fraud prevention plans. There were no processes also that have been put in place by the councils' management, for identifying and responding to the risk of fraud in the council.

The nature of the indicators of fraud noted above impairs the internal control systems indicating a high risk of concealing management fraud and/or employees' fraud at various managerial and/or operational levels of the council's respectively. Inadequate fraud control management led to a fraud not being prevented and detected by the council management. This also affected the preparations of true and fair financial statements. For example, one participant in the focus group discussion had this to say:-

*“Every year, the External Auditors explains the Council Management, that the Council have indicators of red flags such as missing payment vouchers, instances of revenue not banked, payments without supporting documents, misstatement of financial statements, missing revenue receipt books. Payment of salaries to ghost workers which are viewed as symptoms of fraud. Unfortunately these instances occurs every year”*

(A focus group man from finance department)

**(v) Ineffective Internal Audit Function and Audit Committees**

The Municipal Chief Internal Auditor explained that, despite efforts made to strengthen the internal audit function, there were still capacity gaps that needed to be addressed, in order to make the internal audit function more effective. Audit committees are still not effective. There was also no proper audit charter that would give the function strategic direction. It was also noted that, the internal audit unit had an outdated internal audit manuals to guide the staff on work methodology and procedures. It was also noted that, in the DMC the internal audit staff were a few to meet the needs of the council, given their size and the geographical coverage.

Among the roles of internal auditors and audit committee, is to review the prepared draft of financial statements before being submitted to CAG for audit purpose (LGFM, 2009). With the automation of accounting processes and the introduction of IFMS – Epicor Version 9.05, the need for a strong internal audit and audit committee functions to mitigate the associated risks of computerized accounting environment is crucial. In connection to this, one participant had this to say:-

*“There is a limited budget for the internal audit unit, also we don’t have working tools such as computers, cameras, this hinders the efficiency of the audit unit”*

(A focus group woman from finance department)

**4.3.4.2 Challenges Associated with Capacity Building**

Main themes that were identified under the heading above are: Inadequate knowledge and skills, training on IPSAS and financial system and, a shortage of experienced council accountants (Table 7).

**(i) Inadequate Knowledge and Skills**

Results have shown that, in assessing and selecting the accounting staff team for the preparations and presentations of financial statements, team members must possess a required body of knowledge and skills of accounting. This is essential for the preparations and presentations of quality financial statements. Results showed that, there was inadequate knowledge and skills of accounting and finance which hindered smooth preparation and presentation of financial statements, in the DMC as it was found out that only one Municipal Accountant had a CPA qualification. One participant had this to say:

*“ The council do not consider on additional knowledge required for the council accountants, some time we use our little money we have from our pocket to develop our self ”*

(A focus group woman)

**(ii) Inadequate training for Accountants on IPSAS and Financial Management Systems**

Field results have shown that, there was inadequate training for accountants on IPSAS and financial management systems in DMC. This was due to a limited budget, as commented by the Municipal Treasurer:

*“Council accountants are not trained on IPSAS due to limited funds”*

Council accountants, should familiarize themselves with the provision of IPSAS, this is possible through training on IPSAS and financial management system.

### **(iii) Shortage of Experienced Council Accountants**

Results showed that, there was a shortage of experienced council accountants, as well a low capacity of retaining the qualified accounting staff. For example, a few trained council employees who acquired CPAs find better jobs in parastatal institutions or private organizations. This is supported by the DMC director's comment:

*“Many workers in the finance department use the Municipality as a training ground, when they acquire accounting experience they go to work to TRA, BOT and other reputable organization seeking green pasture. They no longer want to work for the Councils”*

(A focus group woman)

#### **4.3.4.3 Challenges Associated with Financial Matters**

Main themes that were identified under the heading above are: late disbursement of funds and, lack of funds to implement the accounting activities (Table 4.7). The themes are explained below:

##### **(i) Late Disbursement of Funds**

It was found out that; funds from the treasury to run the council operations activities were not received on time. In most cases, funds were received at late dates. This hindered the smooth running of council's operations activities, including the preparations and presentations of financial statements. The DMC treasurer commented as follows:

*“Funds are late disbursed to the Council and it leads to late implementation of the Council projects, as a result citizens and other agencies are blaming on the slowness of implementing the council projects as well as for preparation and presentation of financial statements in time”*

**(ii) Lack of Funds to Implement the Accounting Activities**

Field results showed that, the finance department received insufficient funds to run its activities. For example, insufficient funding created difficulties on fulfilling the roles and responsibilities of the accountancy activities in the DMC. As regard to this, one participant had this to say:

*“The Council fails to implement finance and other activities due to the fact that, very little amount of money from Treasury, were disbursed to the Council, for example for the year 2014/2015 only 25 % of money were received for finance department”*

(A focus group woman from finance department)

Thus, sufficient funds should be provided relative to the size of accountancy responsibilities.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter, presents the summary, conclusions and recommendations of this study, and is organized in four sections, which are; summary of findings, conclusions, recommendations and area for further studies.

#### **5.2 Summary of the Findings**

The main objective of this study was to explore challenges facing the Tanzanian LGAs in the preparations and presentations of financial statements. This section provides a brief summary of answers to the four research questions presented in chapter one.

##### **5.2.1 Process of Preparations and Presentations of Financial Statements of DMC**

Findings have shown that, some of the accounting staff used the old process for the preparations and presentations of financial statements while others applied the current process. Majority of the council accountants used the old process which comprised four steps ( collection of source documents, preparation of ledgers and trial balance, and preparation and presentation of financial statements) while few staff used the current process, which consisted (collection of source documents, analysis of transactions, journalizing transactions, posting transactions, preparation of unadjusted trial balance, preparation of adjusting entries, preparation of trial balance and preparations and presentations of financial statements).

The reason was a low pace of training of council accountants on contemporary accounting issues, which could enable council accountants to follow the current accounting practices.

### **5.2.2 The Accounting Standards Approved by NBAA for Preparations and Preparations of Financial Statements in LGAs**

According to the findings, NBAA approved accounting standards to be used for the preparations and presentations of financial statements. According to NBAA Technique pronouncement (2004), financial statements, should be prepared and presented by using IPSAS 1 to 31 promulgated by the International Accounting Standard Board (IASB). Tanzania migrated to the IPSASs with effect from 1st July, 2004. Public reporting entities in the country are required to prepare their financial statements in accordance with IPSASs.

### **5.2.3 The Extent to which the Approved Accounting Standards are Applied by DMC in the Preparations and Presentations of Financial Statements**

It has been revealed that, the preparations and presentations of the DMC financial statements did not adequately follow the approved accounting standards. As a result, in most cases draft of the financial statements of DMC were withdrawn by CAG and attracted special audits to be carried by CAG.

### **5.2.4 Challenges facing DMC in the Preparation and Presentation of Financial Statements**

It was found out that, in preparations and presentations of financial statements, DMC faced challenges which are classified into three groups namely: Challenges concerned with internal control systems (usage of manual accounting system,

underutilization of IFMS/EPICOR accounting system, lack of a risk management frame work, inadequate fraud prevention controls, ineffective internal audit functions and audit committees,); challenges concerned with capacity building (inadequate knowledge and skills, inadequate training on IPSAS and financial management system, and shortage of experienced accountant staff) and lastly challenges related to financial matters ( late disbursement of funds and lack of funds to implement the accountancy activities).

### **5.3 Conclusions**

The study findings demonstrate that, DMC experiences a number of challenges in preparations and presentations of financial statements. The major challenges include challenges associated with internal control systems, challenges associated with capacity building, and challenges associated with financial matters. In order to prepare quality financial statements and facilitate sound decision making, these challenges must be addressed by DMC and the central government as recommended in the following section (Section 5.4).

### **5.4 Recommendations**

This section, presents recommendations of this study. They are organized in two categories: To the LGAs and to the Central Government as explained below:

#### **5.4.1 Recommendations to the LGAs**

**(i) LGAs should abide to Approved Accounting Standards Issued by NBAA**

LGAs should ensure that financial statements are prepared and presented according to the IPSASs. This requires an adequate training of employees.

Therefore, LGAs should set adequate funds for training their employees to professional certification such as CPA, ACCA, CISA and the like. Seminars and a system of short courses should be used to keep them up to date in new accounting environments, to keep competent staff at the right track and also to avoid staff turnover.

**(ii) Strengthening the LGAs Audit Committee and Internal Audit Unit**

With the implementation of IPSASs, there was a significant change in the disclosures required in the financial statements. The audit committee should be given sufficient opportunity to review the unaudited financial statements before being submitted to auditors. Furthermore, training should be provided to the elected members so as to become more engaged with the context of the financial statements so that members were better placed to challenge officers on reported figures. Operational independence should be enhanced to internal audit unit when reporting to the Audit Committee and to become accountable to the Accounting Officer.

**(iii) Full Utilization of Integrated Financial Management System (IFMS)/Epicor Accounting System**

Another important area to be taken into account is the migration from Epicor Accounting System version 7.35 to Epicor Accounting System version 9.05. It is recommended that, all LGAs should implement fully the usage of Epicor Accounting System version 9.05 centralized to PMO-RALG. This would help to have smooth bank reconciliation for a different type of funds in a single bank account.

**(iv) LGAs to Strengthening Financial Statement Preparation and Presentation Process**

The LGAs' financial statements are an integral part of accounting for the stewardship of their resources. The objectives of government accounting, is to provide useful information to guide the decision making process of other potential users, such as Parliament, National Audit Office (NAO), financial entities, investors, employees, tax payers, media and civil society organizations. There is a need to improve and follow the financial statements preparations and presentations process.

**(v) Enhance Risk Management Framework**

The LGAs need to regularly monitor and update their risk management frameworks to ensure that, it is an effective element of LGA's processes and procedures to deliver services, to its community. The councils should ensure that, risk management plans are in place and they are monitored and reported on regularly. In the absence of active plans, councils are not in a position to respond in a timely way/manner to risks, which may have an adverse effect on their operations. The effective audit committees can play a pivotal role in monitoring and assessing councils' risk management activities. This would be significantly enhanced by an effective internal audit functions and audit committee

**5.4.2 Recommendations to Central Government**

**(i) Timely Disbursement of Approved Funds to LGAs**

Information on funds transferred to LGAs should be released to the councils as soon as funds have been transferred to them.

This information should have a clear clarification on the purpose of the transferred funds. Timely disbursement of approved funds is important to ensure planned activities, are implemented smoothly and timely, including the preparations and presentations of financial statements.

**(ii) Employment of Accountants for LGAs**

It is strongly recommended that, the Central Government-Presidency Office in collaboration with the PMO-RALG should ensure accountants were employed to fill the vacancy as per LGAs human resource establishment. In addition to that employed accountants should be equipped with working tools which could suit their working environment.

**5.5 Areas for Further Research**

Areas recommended for further research include the following:

- The study has covered a small portion of the LGAs as it was conducted in one LGA (DMC). Therefore, findings may not be generalized to reflect the situation of all LGAs. Hence, a similar study can be carried out in other LGAs across the country.
- Furthermore, a research may be conducted in other public institutions such as, the Central Government and other Parastatal Institutions to find out, the effectiveness of accounting systems in generating financial statements.

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## APPENDICES

### Appendix 1: Interview Guide

- 1 For how, long you have been engaged in the preparations and presentations of the council financial statements and at what capacity?
- 2 What are basic steps /process followed in preparation and presentation of council financial statements?
- 3 Are there any approved accounting standards followed during the preparations and presentations of council financial statements? If yes identify them?
- 4 At what extent approved accounting standards, are applied in the preparations and presentations of the council financial statements?
- 5 Do all relevant information and resources, for the preparations and presentations of financial statement available in time?
- 6 Have your financial statements being withdrawn from CAG Office? What are the reasons for withdrawals?
- 7 Are there any challenges, you have faced during the preparations and presentations of council financial statements? Explain them
- 8 What could be done to overcome the challenges?

## **Appendix 2: Focused Group Discussion Guide**

- 1 What challenges do you face during the preparations and presentations of the council financial statements? Explain them.
- 2 What could be done, to overcome the challenges of the preparations and presentations of financial statements in your Council?