

2015

# Impact of Fiscal Decentralization on Quality Financial Reporting at the Districts in Ghana

Abdul-Malik Seidu Zakaria  
*Walden University*

Follow this and additional works at: <https://scholarworks.waldenu.edu/dissertations>

 Part of the [Accounting Commons](#)

---

This Dissertation is brought to you for free and open access by the Walden Dissertations and Doctoral Studies Collection at ScholarWorks. It has been accepted for inclusion in Walden Dissertations and Doctoral Studies by an authorized administrator of ScholarWorks. For more information, please contact [ScholarWorks@waldenu.edu](mailto:ScholarWorks@waldenu.edu).

# Walden University

College of Social and Behavioral Sciences

This is to certify that the doctoral dissertation by

AMS Zakaria

has been found to be complete and satisfactory in all respects,  
and that any and all revisions required by  
the review committee have been made.

## Review Committee

Dr. Kevin Fandl, Committee Chairperson,  
Public Policy and Administration Faculty

Dr. Jeffrey Prinster, Committee Member,  
Public Policy and Administration Faculty

Dr. Linda Day, University Reviewer,  
Public Policy and Administration Faculty

Chief Academic Officer  
Eric Riedel, Ph.D.

Walden University  
2015

Abstract

Impact of Fiscal Decentralization on Quality Financial Reporting at the Districts in

Ghana

by

Abdul-Malik Seidu Zakaria

MA, University of Ghana, 2009

BSc, Central University College, Ghana, 2005

Dissertation Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Philosophy

Public Policy and Administration

Walden University

May 2015

## Abstract

This study examined the impact of fiscal decentralization on quality financial reporting at local government level in Ghana. The study is important because it provides development partners with the assurance that Metropolitan, Municipal, and District Assemblies (MMDAs) funds are used for their intended purposes. The study was based on the theory of local public expenditures, which posits that fiscal decentralization may enhance local capacities for service delivery. The key research question examined the extent to which fiscal decentralization has influenced quality financial reporting at the local level. The research design was quantitative, randomly sampling stakeholders in the local government structures including traditional rulers, assembly members, principal spending officers, budget officers, auditors, and accountants ( $n = 65$ ). Descriptive plots, Pearson chi-square, and multiple regression analysis were used to examine the relationship between the dependent variable of quality financial reporting and the independent variables of expenditure responsibilities, taxation powers, intergovernmental fiscal transfers, and borrowing powers. The results of the analysis revealed taxation powers to be the most significant contributor to quality financial reporting. Quality financial reporting improved internally-generated resources, reduced audit queries, and served as a basis for granting funds to MMDAs. The study recommends that MMDAs be given taxation powers to enable local assemblies to generate more revenue so as to minimize the need for the transfer of funds from development partners and central government. The significant social change implication of this study lies in giving MMDAs control of service delivery at the local level.

Impact of Fiscal Decentralization on Quality Financial Reporting at the Districts in

Ghana

by

Abdul-Malik Seidu Zakaria

MA, University of Ghana, 2009

BSc, Central University College, Ghana, 2005

Dissertation Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Philosophy

Public Policy and Administration

Walden University

May 2015

## Dedication

I dedicate this study to my Dad, Alhaji Seidu Zakaria of blessed memory who had the vision of giving his children the best possible start to life through education. The enduring legacy he left for the family is education. The study is also dedicated to Yagbonwura Tuntumba Boresa 1, King of the Gonja Kingdom in Ghana for the confidence he reposed in me by en-skinning me as a Chief and subsequently, my elevation to occupy the position of Chief of Staff in the Palace of the Gonja Kingdom. I remain indebted to the King and humbled by my status. Finally, to my two lovely daughters and son, Princess Kasha, Princess Kashintang and Prince Kanyiti, I dedicate this work in the hope that it would inspire them to strive for higher academic laurels, as they grow.

## Acknowledgments

My utmost gratitude goes to Almighty God for His abundant grace throughout this PhD journey. To my mentor and chair Dr. Kevin J. Fandl, I must show my deepest appreciation for his guidance and support in seeing me through this program. Dr. Jeffrey Prinster proved a wonderful committee member who by all standards exhibited the attributes of a caring father and a great supervisor. His video tape at my last residency in Atlanta on my dissertation kept me in check throughout the PhD journey. Special thanks to Dr. Linda Day, my URR member for providing constructive feedback on my dissertation. I remain extremely grateful to Mr. R. K. Tufuor, former Controller and Accountant General of Ghana for initiating and facilitating the idea to get officers in the Department to pursue PhD programs, of which I became the first beneficiary. My appreciation goes to MMDAs and key Local Government institutions in Ghana for taking keen interest in my study and supporting me with relevant information and materials. I sincerely acknowledge the support and assistance from my siblings especially my sisters (Muni, Mary, Soddy, Ruka and Alice). To my friends Hajji Bash, Felix Awuku Afeti, Ms. Lydia Lartey and Alhassan, I wish to express appreciation for the encouragement given me for which I remain extremely grateful. To Lepowura M. N. D. Jawula, I am grateful for the fatherly love and confidence he has shown in this academic endeavor. Finally, to my Mum, Hajia Ayisha, for her constant prayers and fair share in the anxiety and challenges of this process, I beseech the blessings of Almighty God to her.

## Table of Contents

List of Tables .....	vi
List of Figures .....	vii
Chapter 1: Introduction to the Study.....	1
Introduction.....	1
Background .....	7
Statement of the Problem.....	9
Purpose of the Study .....	11
Hypothesis.....	12
Research Questions .....	12
Significance of the Study .....	13
Assumptions and Limitations .....	14
Theoretical Framework.....	15
Nature of the Study .....	18
Types and Sources of Data .....	18
Scope of the Study .....	19
Summary.....	19
Chapter 2: Literature Review .....	20
Introduction.....	20
Decentralization .....	23
Meaning of Fiscal Decentralization .....	24
The Concept of Fiscal Decentralization.....	26

The Framework of Fiscal Decentralization.....	29
Principles behind Fiscal Decentralization.....	31
Elements of Fiscal Decentralization .....	31
Environment.....	32
Appropriate Functions .....	34
Revenues to Local Governments .....	35
Intergovernmental Transfer Mechanism.....	36
Borrowing Powers of Local Government .....	39
The Role of Development Partners.....	40
Expenditure Responsibilities .....	41
Revenue under Fiscal Decentralization .....	42
Fiscal Transfers.....	43
Financial Reporting.....	43
Inconsistency in MMDA and MDA Chart of Accounts .....	45
MMDA Auditing .....	47
The Role of Internal Auditing at MMDA Level.....	47
Auditing at MMDAs.....	48
Implications for Financial Reporting .....	49
Quality Assurance Framework .....	51
Accounting Profession and Ethics .....	52
Current Studies.....	58
Literature on Differing Methodologies.....	62

Variables .....	68
Dependent Variable .....	69
Quality Financial Reporting.....	69
Independent Variables .....	72
Expenditure Responsibilities .....	72
Taxation and Powers.....	73
Fiscal Transfers.....	75
Borrowing .....	76
Summary.....	78
Chapter 3: Research Method.....	80
Introduction.....	80
Purpose.....	81
Research Design and Approach .....	82
Research Population.....	82
Sample Size and Respondents .....	84
Sampling Frame .....	85
Procedures.....	86
Data Gathering .....	88
Instruments.....	89
Analysis.....	90
Hypothesis Testing.....	91
Hypothesis.....	91

Ethical Considerations .....	92
Summary .....	93
Chapter 4: Results .....	94
Introduction.....	94
Data Collection .....	94
Survey Distribution.....	95
Quality Criteria of Survey Instruments.....	98
Survey Instrument.....	99
Survey Result Analysis .....	100
General Analyses of Fiscal Decentralization .....	101
Correlation Matrix .....	109
Main Research Question 1. What impact does fiscal decentralization have on quality financial reporting at the local government level?.....	112
Multiple Regression Analysis .....	112
Justification for Selecting Models 1, 2 & 3 as the Best Models .....	113
Model Summary.....	115
Research Question 2. To what extent has quality financial reporting reduced audit queries? .....	122
Research Question 3. What impact does quality financial reporting have on internal owned funds generation at a subnational government level? .....	126
Research Question 4. How has the provision of quality financial reporting served as basis for granting funds to MMDAs?.....	128

Research Question 5. Will quality financial reporting lead to citizen participation in local governance? .....	129
Research Question 6. Will quality financial reporting stir and promote accountability and transparency at MMDAs?.....	131
Testing of the Hypotheses.....	133
Summary .....	135
Chapter 5: Discussion, Conclusions, and Recommendations.....	137
Introduction.....	137
Purpose of the Study .....	137
Summary of Related Literature.....	139
Summary of Methodology .....	140
Positive Social Change .....	141
Recommendations and Suggestions for Further Research.....	142
Conclusion .....	143
References.....	145
Appendix A: Recruitment Letter .....	163
Appendix B: Email to Participants .....	164
Appendix C: Consent Form .....	165
Appendix D: Survey Questionnaire .....	169
Appendix E: Signboards Demonstrating Economic Empowerment at the Local Government Level in Ghana.....	202
Appendix F: Permission Letter from Local Government Service Secretariat .....	203

## List of Tables

Table 1. Breakdown of Metropolitan, Municipal and District Assemblies in Ghana.....	83
Table 2. Number of MMDAs Surveyed and Accepted for the Study.....	95
Table 3. Distribution of Questionnaire by Region of MMDA: (Given out, Received, Rejected and Accepted) .....	97
Table 4. Correlation Matrix Table .....	111
Table 5. Coefficients.....	113
Table 6. Chi-Square Tests.....	134

## List of Figures

<i>Figure 1.</i> Fiscal decentralization factors affecting quality reporting at the Local Government Level in Ghana. ....	68
<i>Figure 2.</i> Quality criteria of survey instruments.....	98
<i>Figure 3.</i> Number of participants: Survey responses.....	100
<i>Figure 4.</i> General public awareness of the role of the District Assemblies as a vehicle for promoting development. ....	102
<i>Figure 5.</i> Assessment of the Implementation of the Fiscal Decentralization in the Assembly.....	103
<i>Figure 6.</i> Fiscal Decentralization of the Assembly. ....	104
<i>Figure 7.</i> Relevance of Fiscal Decentralization to the Socioeconomic Growth within the Assembly.....	105
<i>Figure 8.</i> How Fiscal Decentralization Empowers the Local People Economically.....	107
<i>Figure 9.</i> How Fiscal Decentralization Enhances Economic Growth and Development at the Local Level.....	108
<i>Figure 10.</i> Whether Assembly has Internal Control Measures to ensure Quality Financial Reporting.....	109
<i>Figure 11.</i> Ranking the Tax Collection Power of your Assembly. ....	117
<i>Figure 12.</i> How efficient is the Assembly in Mobilizing Revenue Locally. ....	118
<i>Figure 13.</i> Whether Granting Borrowing Powers to the Assembly Impacts on Quality Financial Reporting.....	119

<i>Figure 14.</i> Whether Fiscal Transfers have done a lot of Good to Fiscal Decentralization. .....	120
<i>Figure 15.</i> Whether the Central Government or other Agencies Transfer Funds to the Assembly on Regular Basis. ....	121
<i>Figure 16.</i> How the Laws/Regulations Governing the Inter-government Transfers Restrict the Assemblies from how such Funds are to be based.....	122
<i>Figure 17.</i> The extent to which Quality Financial Reporting helps to Reduce Audit Queries. ....	123
<i>Figure 18.</i> The Constitution of Ghana Prescribed the External Auditor for District Assemblies. ....	124
<i>Figure 19.</i> The District Assemblies have a Designated and Authorized External Auditor. .....	125
<i>Figure 20.</i> The Level of Audit Findings/Queries from your District Assembly from 2009 - 2013. ....	126
<i>Figure 21.</i> The Impact of Quality Financial Reporting on Internal Owned Funds Generation at the District Assembly. ....	127
<i>Figure 22.</i> How the Provision of Quality Financial Reporting Serves as the Basis for Granting Funds to Assemblies. ....	128
<i>Figure 23.</i> How Reporting Enhances Local Participation in Decision Making. ....	130
<i>Figure 24.</i> The Rank of Level of Effect of Quality Financial Reporting on Citizen Participation in Local Government. ....	131

*Figure 25. How Fiscal Decentralization Enhances Accountability and Transparency*

Process at the Assemblies. .... 132

*Figure 26. Whether there are Applicable Laws and Regulations that Establishes a*

Framework for the Timely Publication and Distribution for the Financial Statements.

..... 133

## Chapter 1: Introduction to the Study

### **Introduction**

The role of fiscal decentralization in local governance accountability has garnered attention amongst stakeholders in local government administration (Nguyen & Anwar, 2011). Many scholars have attributed the rising interest in fiscal decentralization to the positive impact it can have in enhancing transparency level (Amagoh & Amin, 2012). Fiscal decentralization deals with providing subnational governments the legitimate authority to preside over their finances and make critical fiscal decisions that relate to the provision of essential services to local citizens (Tanzi, 2002). Fiscal decentralization can be applied when local units are empowered and given greater autonomy over the creation, provision, and financing of public goods and services within their area of operation (Bjedov & Madies, 2010). Some scholars have argued that the quest for improvement in the field of financial reporting is not a matter of legislation or national laws (Arthur Anderson as cited by Miller, 2001). Systems must capture detailed financial data backed by an efficient storage and retrieval system in order to improve financial reporting. Adequate information can facilitate the full disclosure of material financial information, which in turn assists management in decision making that serves interested parties in credible ways (Kara & Kiliç, 2011). Local government machinery relies on financial reports to discuss and arrive at socioeconomic decisions that can promote the welfare of people. Financial reports create grounds for budgetary control where estimated revenues and expenditure can be compared to actual financial results in order to detect loopholes in budget performance for remedial activities. Further, an expert scrutiny of financial

reports allows for evaluation of the financial health and degree of compliance to accounting conventions and regulations (Brusca & Montesinos, 2010).

Empirical evidence has shown that there is a positive relationship between fiscal decentralization and economic growth (Akai & Sakata, 2002). What remains unclear is the degree and quality of governance that aids economic growth across countries. Economic, political, and sociocultural factors play an influential role in how governance systems differ from one country to another (Hall & Jones, 1999; Knack & Keefer, 1997; Mauro, 1995; Salinas & Salinas, 2007).

Periodic elections, electoral systems, and existence of a fair and transparent electoral framework for national and local elections have propelled quality governance to new heights in several countries including Ghana. The overriding argument for fiscal decentralization is that provision of goods and services are demand driven and are provided based on local tastes and conditions (Salman & Iqbal, 2011). This empowers local citizens and serves as a vehicle for economic participation. Countries that seek to achieve effective fiscal decentralization at local levels need to actively engage stakeholders including international development agencies in the budgetary process and application of funds (Pina, Torres, & Yetano, 2009). Fiscal decentralization policies are aided by a plausible policy framework backed by relevant laws and regulations which serve as a catalyst for economic takeoff (Salman & Iqbal, 2011). Subnational government structures risk becoming docile unless they are equipped with skillful manpower and systems to smooth their operations (Salman & Iqbal, 2011).

The interest in fiscal discipline has been precipitated by newly established democratic governmental systems in developing economies such as Ghana. Democratic governments create enhanced rights without any fear of victimization and political consequence. In many developing economies, barriers to free speech are being diminished based on the acceptance of the rule of law and universal democratic values (Tanzi, 2002). Central governments and local government performances are no longer measured using national benchmarks but are evaluated using international and global economic indicators. As the disposable income of citizens surge, they turn their attention toward decentralization (Bahl & Linn, 1992; Martinez-Vazquez & McNab, 2003). Fiscal decentralization is accelerated by individuals with disposable income, who desire an improved flow of goods and services (Chih-hung, 2007).

Prudent financial management practices in central and local government structures are critical in diminishing audit queries. Additionally, donors provide financial support to subnational governments when they find evidence of transparent and accountable governance. Fiscal decentralization transcends the boundary of accurate presentation of financial reports. It includes the provision of financial reports for public scrutiny in order to promote social accountability (Government Accounting Standards Board [GASB], 1987).

Prudent financial reporting also facilitates increases in local revenue generation and further deepens the roots of accountability, transparency, and good governance in national and local government structures. The main objective of preparing financial statements at national and subnational level is to meet the fundamental requirements of

financial probity (Mack & Ryan, 2006). The focal point of an effective financial reporting system is to facilitate preparation and submission of quality financial reports to stakeholders and other interest groups. This should be done in a timely manner to aid in decision making regarding the going concern status and state of affairs of the organization (Government Accounting Standards Board [GASB], 1987). Ideally, local government financial statements are to be made accessible for public scrutiny. In practice however, a formal request has to be made by an interested party to the local government, sometimes resulting in delay and uncooperative attitudes (Anessi-Pessina & Steccolini, 2007).

The rationale behind fiscal decentralization is to make public services available and affordable to local people. However, this can produce a contrary result if not well designed and implemented. This becomes even more pronounced when the national government retains total control over hiring and firing of local officials (Samimi, Lar, Haddad, & Alizadeh, 2010). Finance employees at the helm of financial reporting activities at the local government level are expected to uphold ethical and professional values in executing their day to day assignments. As part of their functions, they are in charge of providing expert advice on accountancy matters to principal spending officers on how to manage the public purse prudently (Financial Administration Act 654, 2003 of Ghana). However, in practice, the execution of financial reporting roles has been challenging. There have been reports of misapplication and mismanagement of funds by finance officers resulting in an adverse effect on the successful initiation and execution of infrastructural projects (Ogbonna & Appah, 2011). In Ghana the finance officers at

Metropolitan, Municipal, and District Assemblies (MMDAs) are representatives of the accountant general (Financial Administration Act 654, 2003 of Ghana). The accountant general serves as the advisor to the government of Ghana on all accountancy related matters (Financial Administration Act 654, 2003 of Ghana). Finance officers at MMDAs are therefore expected to play the crucial role of public fund custodians. Nonetheless, some finance officers engage in unethical behaviors because of inadequate capacity building, incompetence, weak leadership, insufficient internal control systems, and lack of discipline (Ogbonna & Appah, 2011). In Ghana, the Institute of Chartered Accountants (ICA) is the body mandated to regulate ethical behavior of accountants and where necessary to take appropriate disciplinary measures (including seizure of their certificates) in order to protect and project the image and integrity of the accountancy profession (Institute of Chartered Accountants Act 170, 1963 of Ghana). However, since 1963, the ICA has not adequately protected the state from income loss. Some finance officers display negative attitudes to work and engage in practices that are at variance with organizational ethics and regulations (Sims, 1992). Accounting professionals who once exhibited high ethical standards are now being accused of public fund mismanagement (Choi & Pae, 2011).

Unethical behaviors of finance officers are evident in the sittings of the public accounts committee of parliament of Ghana. In these sittings, some accountants and principal spending officers implicated in alleged financial impropriety must publically account for their stewardship at the end of each financial year. The process of calling public officers to account for their stewardship is usually telecast live on national

television and on radio stations in Ghana. Calling public officers to account for their stewardship is a constitutional requirement (Constitution of the Republic Ghana, 1992). It therefore comes as a little surprise when revelations of funds misuse, misappropriation and embezzlement are brought to public knowledge. The case of Enron is a classical instance of accounting manipulation made possible by capitalizing on the flexible application of accounting systems to disguise ailments in the financial performance of an entity (Healy & Wahlen, 1999).

Ethical compliance by public officers entrusted with public funds is an essential requirement (Financial Administration Act of Ghana, 2003, Act 654). Unethical behavior poses formidable barriers to a nation quest for accelerated development (Ajibolade, 2008). Politicians may not be able to escape public opprobrium because, on some occasions, they create the grounds for noncompliance of internal controls and exhibition of unethical behavior of public officers entrusted with managing public funds. Those officers found to be culpable of falsifying numbers should be held accountable for their actions (Miller & Turner, 2002).

Development partners and international organizations have not only been encouraging countries to embrace fiscal decentralization, they have also been supporting and assisting countries to adopt and enhance decentralization programs as part of a broader enterprise of enhancing public sector reforms, thereby injecting efficiency in subnational administration (Grewal, 2010).

Notwithstanding, the increasing interest and broadening appeal of fiscal decentralization, the subject has generated some controversy (Grewal, 2010). Some

researchers have found that fiscal decentralization can even be counterproductive (Davoodi & Zou, 1998). While fiscal decentralization offers immense benefits in public sector governance, its desired impact on accelerating economic growth and development is still a matter of debate (Akai & Sakata, 2002). Researchers have argued that positive results of decentralization depend on institutional factors that are underpinned by societal norms and dynamics of an economy (Akai & Sakata, 2002). Other scholars are of the view that fiscal decentralization needs to be subjected to careful but critical analysis in order to ascertain the real effects of fiscal decentralization (Martinez-Vazquez & McNab, 2003).

### **Background**

In 1988, the Ghana government initiated the process of decentralizing major activities from the central government level to local units as required by the supreme laws of the country (Constitution of the Republic of Ghana, 1992). This initiative was intended to bring governance closer to the people and bridge the poverty gap between urban dwellers and rural residents. Apart from the Constitution of Ghana, decentralization and local government financial reporting systems have been backed by other subsidiary legislations such as Local Government Act, Act 462, 1993; Local Government Service Act, Act 656, 2003; District Assembly Common Fund Act, Act 455, 1993; Financial Administration Act, Act 654, 2003; and the Financial Administration Regulation L.I 1802, 2004.

The decentralization process in developing countries devolves power (political, administrative and financial) from national governments to subnational governments in

order to empower local people to have a role in deciding how and what kind of public goods and services should be provided for their consumption (Vo, 2010). Local resources under the decentralization initiative are not to be managed by officials who have very little knowledge of the basic needs and developmental challenges of the area (Constitution of the Republic of Ghana, 1992). However, after over two decades of implementing decentralization in Ghana, the objectives of decentralization have only been partially achieved. The 1992 Constitution of Ghana is unequivocal in attesting to the role fiscal decentralization plays in local governance and goes ahead to entreat central government to cede control of financial and administrative duties to local assemblies in order to create fertile grounds for local people to participate in decisions that sit in the heart of their living conditions (Constitution of Ghana, 1992, Article 35, section 6d).

While relevant legislations (Local Government Act, Act 462, 1993; District Assembly Common Fund Act, Act 455, 1993; and Local Government Service Act, Act 656, 2003) have been enacted to empower district assemblies in Ghana to assume ownership of their development agenda, the desire of some central government agencies to relinquish power have often been met with a lot of difficulties. Questions have been raised about accountability issues, mode of appointments of heads of local authorities, effectiveness and resourcefulness of assembly members and adequacy of citizens participation in local governance (Samimi et al., 2010). Although decentralization laws and regulations are in place, some aspects of the laws need review (Local Government Act, Act 462, 1993 and Financial Administration Act, Act 654, 2003 of Ghana), because they are difficult to implement. Review is needed in the following areas: composition of

sub district structures, roles of traditional authorities in local governance and collaboration, and the cooperation and coordination between assemblies and interest groups. The process of integrating district level departments, composite budgeting, implementation of Integrated Financial Management Information System (IFMIS), and staff control by district assemblies are ongoing. The Local Government Service Secretariat (LGSS) is leading the ongoing processes and plays a pivotal role in consolidating the fiscal decentralization process in the country (Local Government Service Act 656, 2003, of Ghana).

Some laws enacted during the last decade contradict the devolution of power and responsibility to the assemblies (Financial Administration Act 654, 2003 of Ghana). This has the tendency to hamper the need for consistency and sustainability in local level development. The appointment of finance officers in MMDAs is the responsibility of the controller and accountant general instead of the district assemblies (Financial Administration Act of Ghana, 2003, Act 654). The amount of authority delegated to officers at the local level to undertake planning, financial management, revenue mobilization, and Public Private Partnerships (PPP), among others remains a challenge to many district assemblies in Ghana (National Decentralization Action Plan of Ghana, 2004).

### **Statement of the Problem**

Accountability and transparency are on the rise due to resources being allocated from national government to subnational institutions, stakeholders interest in provision of public goods and services, internally owned resources, reduction in audit queries, and

increased funding. Quality financial reporting to stakeholders is a major instrument of satisfying and providing reassurance to users of financial information that resources released to the MMDAs were actually utilized for projects that were been earmarked and prior approval secured. The provision of quality financial reporting shows a strong compliance to financial rules and regulations which will eventually lead to a decline in audit queries (Miller, 2002). The problem is that while the contribution of fiscal decentralization to economic growth is known, what remains unknown is the level to which fiscal decentralization impacts on quality financial reporting at the local level, which in turn affects audit queries, internal owned resources and access to funding that this study has examined.

It is becoming increasingly challenging to monitor and keep pace with different external reporting requirements (Pilcher & Dean, 2009). Researchers have focused attention on quality financial reporting that can assure judicious use of funds at the local level. Citizens have expressed confidence in national and local economies that display quality financial reports and international financial institutions are prepared to inject more resources into such economies (Kloby, 2009).

Metropolitan, municipal, and district assemblies were used for this study because of their core role in advancing local governance in Ghana. Metropolitan, municipal, and district assemblies are service providers and a vehicle in transforming the welfare of people at subnational levels (Golem, 2010). Quality financial reporting covers compliance to laws, conformity to accounting standards and conventions, adequate disclosure of funds acquired, disbursement of funds and preparation of financial

statements for scrutiny of users within stated times (Turner, 1999). Accurate and reliable provision of financial statements is typical of quality financial reporting systems.

Internally owned resources, reduction in audit queries and access to grants are other practical attributes of quality financial reporting, which the study has considered.

The study covered internally owned resources, reduction in audit queries, and access to funding as the moderating variables. A moderating variable is an element which follows a systematic pattern of modifying the substance in the connection between a predictor and criterion variable (Sharma, Durand, & Gur-Arrie, 1981). The moderating variables were selected because of their practical appreciation, uniqueness, and complete nature in determining quality financial reporting compared with others which are more theoretical and are unable to stand alone as a measure of quality financial reports (International Accounting Standard Board [IASB], 2008). A dependent variable is linked to an independent variable. Researchers have usually set their sights on dependent variables because the dependent variable reflects the eventual result of the research (Leroy, 2011). Quality financial reporting is the dependent variable in this study.

There is a connection between independent and dependent variables because independent variables constitute the mode of measurement for the research findings (Leroy, 2011). The independent variables in this study are: expenditure responsibilities, taxation powers, intergovernmental fiscal transfers, and borrowing powers (Tanzi, 2002).

### **Purpose of the Study**

The purpose of this study was to quantitatively examine the impact of fiscal decentralization on quality financial reporting at the local government level in Ghana.

Additionally, the study examined if there is evidence of a decline in audit queries and increased internally generated resource mobilization as a result of enhanced quality of financial reports at the local level. Further, the importance stakeholders, central governments and development partners placed on monthly, quarterly and annual preparation of quality financial reports as basis for granting funds to local authorities were also examined.

### **Hypothesis**

The following hypotheses were examined:

$H_0$ : Fiscal decentralization has no positive impact on quality financial reporting at local Assemblies.

$H_1$ : Fiscal decentralization has a positive impact on quality financial reporting at local Assemblies.

### **Research Questions**

The primary research question the study addressed is: To what extent has fiscal decentralization impacted on quality financial reporting at the local level in Ghana?

Detailed discussion of the nature of the study is contained in Chapter 3. The study also finds answers to the following specific research questions:

1. What impact does fiscal decentralization have on quality financial reporting at the local government level?
2. To what extent has quality financial reporting reduced audit queries?
3. What impact does quality financial reporting have on internally owned funds generation at a subnational government level?

4. How has the provision of quality financial reporting served as basis for granting funds to MMDAs?
5. Will quality financial reporting lead to citizen participation in local governance?
6. Will quality financial reporting stir and promote accountability and transparency at MMDAs?

### **Significance of the Study**

The study provides a quantitative insight and statistical comprehension on the impact of fiscal decentralization on quality financial reporting at subnational level of governance in Ghana using a cross sectional survey. Fiscal decentralization affects the quality of financial reporting, revenue generated, and expenditure patterns in local governance. Expenditure decisions, taxation powers, borrowings, and intergovernmental fiscal transfers are the components of fiscal decentralization that are generally decentralized. These components affect the operations of local authorities including the quality of financial reporting (Tanzi, 2002). The need to measure the extent of the impact was what engaged the attention of this research. Therefore, the emphasis of this study was to measure the impact of fiscal decentralization on quality financial reporting and to evaluate the significance of quality financial report in generating internal resources, access to grants, and reduction in audit queries. The study also contributed to the discourse on fiscal decentralization in academia and public sector reform.

The attainment of quality financial reporting is enhanced when adequate accounting records are kept (Kara & Kiliç 2011). In addition, when principal spending officers adhere to internal controls in authorizing and approving fund disbursements,

accountability, and transparency will be enhanced leading to improved financial reporting (Internal Audit Act of Ghana, 2003, Act 658). Further, financial reporting is guided by concepts and conventions of accounting (Healy & Wahlen, 1999). Strict adherence to these principles will positively impact accounting report quality. The missing link in empirical literature was how fiscal decentralization can influence the preparation of quality financial reporting because there were limited studies conducted regarding the impact of fiscal decentralization on quality financial reporting of MMDAs in Ghana.

The findings of this study have added to the body of existing knowledge, literature and understanding about the subject of fiscal decentralization and its impact on quality financial reporting at the local level in Ghana. This study is significant in the sense that it:

1. Allows for practical identification of frameworks of quality financial reporting of MMDAs in Ghana.
2. Provides further insights into the concept of fiscal decentralization amongst local people.
3. Serves the needs of key stakeholders (traditional rulers, assembly members, development partners, principal spending officers, and accountants) of MMDAs and a reference material for intellectual discourse on fiscal decentralization.

### **Assumptions and Limitations**

The following assumptions were made: Targeted respondents in this study were free from bias in providing responses; and traditional authorities, development partners,

assembly members, principal spending officers, accountants, internal auditors, and budget officers at MMDAs were available and willingly participated in the study. Further, the assumption was made that the respondents completed the questionnaires objectively and their identities were treated as confidential. Additionally, it was presumed that Statistical Package for the Social Sciences (SPSS) and Microsoft Excel were appropriate means for measuring the designated variables and analyzing the research data. The researcher exhibited objectivity from the commencement of this research to completion because of the quantitative nature of the study. Additionally, the researcher interest in this work was academic in nature and therefore included limited subjective influences.

### **Theoretical Framework**

The theoretical framework for this study was based on conventional theory, which claims that fiscal decentralization has the potential of rewarding and enhancing the capacities of local governments to deliver public services that benefit the citizenry and improve their economic fortunes (Tiebout, 1956). However, some experts have stated that the potential benefits of fiscal may never be realized (Tanzi, 2002).

More often, government spending is expected to bring relief to the vulnerable and the less privileged in society. However, some studies view the involvement of state apparatus in steering affairs of national economies as a proponent for ethnic violence (Steinberg & Saideman, 2008). While central government is interested in managing and stabilizing the economy, local government is most interested in meeting the needs of local people. Some social scientists regard decentralized governments to be autonomous

because decisions are made locally, resulting in enhanced democratic practices (Honne, 2003).

The rationale for state intervention at the local level is centered on the provision of public goods such as security, health, education, and economic infrastructure. However, not all localities have the same preferences for pure public goods and therefore, participation appears involuntary. For instance, a pacifist is opposed to military expenditure but is not left out from its consumption and being compelled to pay for what they are not interested in. This challenge of public goods led to the proposition of club products, starting from the seminal studies of Buchanan (1965) and Olson (1965), where nonmembers are excluded and joining is not mandatory.

The theory of club goods that relate to decentralized fiscal systems needs to be explored. The theory seeks to explore the optimal size of jurisdictions and its function of providing local public goods. It predicts that individuals are inclined to select and reside in areas where local delivery of services matches their personal preferences if they have a choice (Tiebout, 1956). Administrative decentralization creates differentiation of policies among local units. Therefore, since the quest for public services vary amongst the people those with similar preferences can congregate in a common local area where their tastes are better served (Oates, 1972; Treisman, 2000).

Fiscal decentralization programs can have a direct positive impact in reducing frustrations with centralized states. The reason is local governments must satisfy the local needs before those of the central government (Golem, 2010). Regular occurrence of violence does not interrupt local government as does situation when civil war. It is the

lack of management of these upheavals that could have criminal consequences. The effect of collective denial in explaining the occurrence of violent conflict cannot be underestimated as in the role of gaps between aspirations and fulfillment in generating conflict (Gurr, 1970). Traditional societies have structures and procedures for managing and resolving violent behavior in societies, but as societies increase in numbers and wealth, pressure is put on the existing structures and norms that automatically breakdown the social contract (Bates, 2001). Violence can only abate after significant frustrations amongst feuding groups are reduced to minimum levels and their economic fortunes improved. Consequently, a relationship can be drawn between economic advancements and regular violence because an increase in one leads to a decline in the other (Bates, 2001). The aforementioned reaffirms the conflict mitigating view of decentralization found in cross border scholarly works. Conflict mitigation is aided by providing a group the autonomy to steer its own affairs, and engage energy and efforts in more productive and lucrative ways of lessening tensions. It also enables the group to concentrate on utilizing scarce resources to enhance social stability and economic prosperity (Brancati, 2006).

The conflict mitigating role of decentralization can also be examined from the broader viewpoint of federalism as in the case of Indonesia where decentralization is seen as a process compelling federalist responses developed by the unitary state to diminish threats of secession through the channel of enhanced decentralization (Bardhan, 2002).

### **Nature of the Study**

Fiscal decentralization can be analyzed in qualitative and quantitative terms. Qualitative research is aimed at providing nonquantifiable understanding on how financial resources are utilized by local authorities on behalf of their citizens (Duk-yun, Jun-ho & Young-mi, 2005). Quantitative research is geared at acquiring statistical insights on the extent to which resources are judiciously utilized for the benefit of citizens by local authorities (Seung-Jong, 2001). The study adopted the quantitative aspect because the researcher is seeking to attain statistical insights into how fiscal decentralization can enhance quality financial reporting. Moreover, the study aims at measuring how quality financial reporting can lead to widening internally generated funds and reduction in audit queries. This approach is appropriate because the study also used statistical tools to measure the impact of fiscal decentralization on quality financial reporting at the local level in Ghana. Because the study was quantitative in nature, the researcher will replicate the findings and conclusions in similar MMDAs in the country, and beyond.

### **Types and Sources of Data**

In view of the quantitative nature of the study, the research environment and willingness of the targeted respondents to provide data was crucial. The researcher adopted the survey approach for data collection. In the quest to obtain original data for the purpose of achieving the objectives of this work, structured questionnaire was the main data collection instruments with the objective of seeking data that can be analyzed numerically (Creswell, 2009).

The data was collected from the MMDAs in Ghana.

### **Scope of the Study**

This research covered MMDAs in Ghana. Targeted respondents in the MMDAs included traditional authorities, assembly members and management staff. The management staff were drafted from the administrative, finance, budget and internal audit units of the MMDAs.

### **Summary**

Chapter 2 includes a review of existing literature and how contemporary research findings deal with the subject regarding the impact of fiscal decentralization on quality financial reporting. The chapter began with a description of fiscal decentralization. The chapter continued with a discussion of the relevant literature that challenges the results of the research. The chapter concluded with reviews of previous and recent works on the concept and empirical underpinnings of fiscal decentralization.

Chapter 3 discusses the methodology used in data collection and analysis in order to achieve the objectives of this work and find answers to research questions posed by this study. This chapter utilized regression analysis as a tool to analyze the impact of fiscal decentralization on quality financial reporting. The chapter included the philosophical standpoint of this study, research approach, description of the sample population, sampling size and methods, ethical orientation, measures, and methods of data analysis.

## Chapter 2: Literature Review

### **Introduction**

In a decentralized environment, MMDAs have the power to govern (decide and implement policies), generate their own resources, prepare their own budgets and disburse funds without direction and control from central government. Attaining comprehensive decentralization entails direct transfers of authority from central government to subnational governments to enable them perform their responsibilities using their own recruited employees to promote accountability in local government administration (Gonza, 2008). Fiscal decentralization deals with delegation of authority to local authorities in order to allow them to preside over provision, management and financing of goods and services within their jurisdiction. Some researchers focus their view of fiscal decentralization on local assemblies being entrusted with the authority and responsibility of generating and collecting revenues and determining their own expenditure patterns (Nguyen & Anwar, 2011).

Local authorities are closer to their residents and are in a position to determine and meet resident needs. This allows a better match between the taste of local citizens and public goods and services selected and provided by MMDAs (Golem, 2010). Thus, local authorities emerge as central pillars in the management of local resources compared with a centralist system of managing public funds for decentralized units. Studies reveal that only in a few countries are local authorities fully decentralized because in most jurisdictions, central government maintain spending and taxation powers (Bahl & Bird, 2008). Local citizens will develop the muscle to demand greater accountability when

decentralization is comprehensively pursued and implemented (Alexeev & Habodaszova, 2012). The attainment of full decentralization remains a distant prospect in most countries and Ghana is one of such countries. Partial decentralization occurs when local authorities exercise control over patterns of their expenditure without corresponding authority to generate revenue and manage their human resource base which is essential in achieving a complete decentralized system (Kardar, 2006). Ghana local government system is partly decentralized. Clearly, the subject of fiscal decentralization goes beyond the assignment of expenditure responsibilities to local authorities. The basis of fiscal decentralization is how resources are generated and utilized towards provision of goods and services for the benefit of the local people (Stein, 1999). In view of the fact that revenues lag behind expenditure in most local authorities, decentralized states end up with perennial fiscal imbalances, which are normally salvaged by the central government. Such interventions from central governments are often unreliable and also defy the very logic of decentralization. It can be concluded that government intervention is only a temporary measure which does little to deal with the causes of the financial disequilibrium at the MMDAs. At the heart of fiscal decentralization is self financing (Treisman, 2006). This is possible if national governments empower local authorities and put in place appropriate structures to promote financial autonomy. Central governments need to insulate themselves against rushing to bail out MMDAs so that local authorities will realize the exigencies of achieving financial equilibrium (Miaja, 2005).

While it is generally perceived that fiscal decentralization brings about efficiency in the provision of public goods and services, there are no theoretical or empirical

underpinnings concerning its impact on quality financial reporting at local government levels (Bahl, 1999).

Literature search started as early as my topic for the study was contemplated, bearing in mind that literature review will help not only in reading and evaluating significant works that are relevant to my research topic but also will help in defining my research problem and develop my dissertation. Hence searches were aimed at locating and accessing the relevant textbooks (or chapters or sections), peer reviewed journal, articles and up to date reports. Libraries and computer via internet searches were mostly conducted. Some key words in my topic were used as a guide in most of the literature searches in the internet and the Walden library. These key words include decentralization, impact of decentralization, fiscal, expenditure responsibilities, taxation powers, intergovernmental fiscal transfers and borrowing powers. Internet searches included open access sources such as Google, Google scholar to read or download materials. Boolean searches were also done.

The chapter reviewed and discussed some empirical and theoretical literature on fiscal decentralization and quality financial reporting at subnational government levels (district assemblies). A section of this chapter was dedicated to the review of concepts and principles of decentralization. The chapter also reviewed the elements of decentralization. Quality financial reporting system at the MMDAs level in Ghana was the next to be discussed. It started with reviewing accounting and financial reporting practice and delved into related issues of internal and external auditing and their

implications on financial reporting. Chapter 2 was concluded with scrutiny of literature on quality financial reporting and ethics of the accounting profession.

### **Decentralization**

Studies find that the concept of decentralization has varied meaning and purpose depending on the perspectives of a scholar. Notwithstanding the variety of meanings, it is agreed that decentralization is generic in nature (Homme, 2003). Decentralization involves ceding authority of decision making on the part of national authorities to local government administrators on matters that affect the welfare of local people (Oates, 1999). In the purest sense, decentralization involves transfer of revenue generation authority to lower levels of governance (Hammond & Tosun, 2011). Two major forms of political and administrative decentralization that are being practiced by most developing countries are deconcentration and devolution (Mahwood, 1993; Tordoff, 1994). Deconcentration is the transfer of operational and workload powers within the same set up from the top (centre) to the local units. Devolution on the other hand, involves granting of autonomy and powers to local units to enable them operate independently from central government structures (Mahwood, 1993; Tordoff, 1994). It involves passing of relevant legislations and designing policy frameworks to allow MMDAs discharge their roles and responsibilities. The decentralization process in Ghana is geared towards devolution.

Countries and scholars define the subject of decentralization differently.

Decentralization is defined as the transfer of power to autonomous local bodies who decide on provision of goods and services and manage revenues available to the local unit

in an effective, efficient and economic manner (Homme, 2003). Decentralization deals with central authority releasing specific administrative and fiscal functions to local authorities (Hammond & Tosun, 2011). The process of decentralization is not a one stop shop. It is a gradual and incremental process which requires consistency and commitment of leadership at the centre to ensure effective implementation. It also requires solid support from all stakeholders, constant revision of the process by technocrats to detect flaws so that corrective measures can be taken to forestall events getting out of track (Muçollari & Katro, 2010).

### **Meaning of Fiscal Decentralization**

Fiscal decentralization deals with a governance system in which subnational governments are strengthened with the autonomy to generate own funds and embark on expenditure that can deliver sustainable livelihoods to the local people (Smoke, 2003). Also, fiscal decentralization involves central governments shedding financial roles and responsibilities to local authorities (Xie et. al., 1999). Some scholars opine that, the term fiscal decentralization does not have a clear cut definition (Bird & Vaillancourt, 1998). However, other scholars in their attempt to find meaning to fiscal decentralization interpret the term to mean delegation of authority to subnational governments to engage in decision making on financial matters (Akai & Sakata, 2002). Fiscal decentralization deals with local governments being mandated by central governments to marshal their own resources in order to meet their budgeted expenditure (Weingast, 1995). Fiscal decentralization works best when subnational governments rely on internally generated

funds to finance their developmental projects without recourse to funds from central government purse (Gu, 2012).

Fiscal decentralization has occupied the attention of policy makers and national planners in the quest to hasten the pace of national prosperity (Dick- Sagoe, 2012). Fiscal decentralization has therefore become one of the central themes in devising strategies for national development (Bahl, 2000b). The fact that local elections play a key role in local administration creates strong grounds for local participation in subnational planning and development (Kee, 2003). The significance of fiscal decentralization has been outlined by Kee (2003):

1. Meeting the needs of local constituents by central governments has been elusive culminating in a rethink of strategies that equips subnational governments with the capacity to spearhead the development agenda of their communities.
2. Regional and local governments have been found to be productive partners in the search for balanced development and
3. There is now a groundswell of influential advocates for central government to cede some taxation and expenditure functions to subnational governments because of their appreciable knowledge of the local terrain which is a recipe for delivering demand driven development oriented services.

Fiscal decentralization should not be implemented in a vacuum. The drive towards decentralization should be anchored on delivery of cost effective services. The dominant argument in favor of fiscal decentralization lies in its ability to stir active

participation of local citizens in determining public goods and services that best serve their interest (Musgrave, 1983).

### **The Concept of Fiscal Decentralization**

Fiscal decentralization refers to transfer of power from the centre to local units. Local units then assume responsibility for managing local resources in terms of providing social and economic infrastructure to the local people (Tanzi, 2002). Fiscal decentralization has the potential of promoting judicious use of resources. Besides, it strengthens local government systems to deal with the demands of local population and channel resources into services that best serve the needs of the people (Oates, 1972). Fiscal decentralization has often been credited with providing the impetus for accelerated economic prosperity in municipalities across the United States of America (Stansel, 2005).

Implementation of fiscal decentralization remains a challenge to many countries and the situation is even more pronounced in many developing economies despite the strong advocacy from development partners and international financial institutions (Padda, Hyder & Akram, 2011). There is no single level of governance system in any country. In every state, the level of governance system is usually multifaceted. In Ghana, the governance system is in three tiers; central, regional, and district levels (Constitution of the Republic of Ghana, 1992). The central government of Ghana exercises control over the entire national boundary. Regional and district levels of governance exercise authority over specified areas in the country (Constitution of the Republic of Ghana, 1992). Intergovernmental fiscal affairs deal with how funds are disbursed (transferred) between

the various levels of government. Thus, fiscal decentralization provides the basis of funding in order to set decentralization in motion. It also determines the quantum of expenditures and revenues that are generated among the various levels of government (Abingdon, 2008).

It is worth noting that not all fiscal decentralization reforms impact on the capacities of local authorities. Where fiscal empowerment is adequate, it allows MMDAs to take charge of managing their expenditures and revenues without external interferences and manipulation. Fiscal decentralization can therefore be referred to as the fiscal transfer of power to the local administrators to enable them undertake their own developmental initiatives devoid of manipulation or interference from central government (Lindaman & Thurmaier, 2002).

Where there is fiscal transfer of power to local units, it signals that the local units are mandated by law to exercise unrestricted authority in delivering public goods and services to the citizens in their area of jurisdiction (Local Government Act of Ghana, 1993, Act 462). Financing of expenditure items largely depend on how roles and responsibilities are managed at the local level. The concept of fiscal decentralization is not the mere transfer of funds to various local units, but how much devolution and control the local units are able to superintend over the custody, integrity, safety, use and management of those funds. One way of measuring the level of fiscal decentralization is to examine the extent to which:

1. Provision of goods and services are undertaken by MMDAs.
2. Control over local unit funding (taxes and revenues).

3. Direction and control of local government to superintendent over other funding avenues in their locality (Lindaman & Thurmaier, 2002).

Implementation of fiscal decentralization is not enough to practically empower MMDAs and local communities to achieve the much needed development they crave for (Oates, 1972). Leadership of local authorities are instrumental in deepening the fiscal decentralization process as well as assuring accountability, transparency and good governance at the local level (Local Government Act of Ghana, 1993, Act 462).

A way of assuring good leadership at local levels is to insulate the helm of district assemblies against political appointments. Where the leadership is politically appointed or perceived to be politically aligned, the citizenry will not be able to hold leadership accountable because the leadership does not owe allegiance to the people but the central government, which is the appointing authority (Ferejohn, 1986). Another area that might impact negatively on the performance of local authorities is central government administrative control over local government staff (Manor, 1999). For instance, in Ghana the employees of local authorities are seconded from government Ministries, Departments and Agencies (MDAs). Although a symbolic transfer of staff from civil service to local government service has been regularized in 2010, a lot of work such as reviewing existing laws and empowering MMDAs with the needed human and financial resources remains to be done in order for the assemblies to own their staff.

The drive towards fiscal decentralization will require an overall development of the human resource capacities at MMDAs to enable the staff handle administrative, planning and financial management issues for robust accountability and good governance

(Guess, 2007). Participation and dialoguing between the various stakeholders (local, regional and central governments) is essential in attaining the objectives of fiscal decentralization (Faridi, 2011).

### **The Framework of Fiscal Decentralization**

Delegation of tax and expenditure authority to subnational governments is a complicated exercise. National decision makers set their sights on attaining efficiency and equity when issues of fiscal decentralization are being discussed. Decentralization experts tend to focus on devolution of powers, taxation, responsiveness, accountability and coordination (Kee, 2003).

Fiscal decentralization concentrates on sharing core functions such as stabilization, distribution and allocation amongst various tiers of government (Musgrave, 1959).

Central to the stabilization function is the overall macroeconomic management of the economy using taxation and expenditure as critical instruments. Central government control of the stabilization function has strongly been advocated especially in developing economies where macroeconomic fluctuations have assumed perennial dimensions. Central government needs to maintain the stabilization function because it has the jurisdiction over the macro management of the economy (Smoke, 2001).

It is the primary duty of central governments to plug the gaps between the rich and the poor thereby redistributing incomes. In supporting central governments to retain the stabilization function, the following assumptions were considered: (a) Central governments should have a broader tax net that can be cast wide enough to effect income

redistribution, and (b) Subnational governments should have a narrower tax regime which disables them from undertaking any meaningful income redistribution.

Subnational governments have been touted to have the acumen to judiciously allocate resources. The delivery of public goods and services such as national defense and national health is however better served by national governments. Nevertheless, local authorities should be given some leverage over generation of owned resources and determination of public expenditure because they are in good stead to match local goods and services to local wants and priorities. This study is therefore anchored on the standpoint that fiscal decentralization should include local leverage over marshalling local resources and expending same in providing value to local citizens (Musgrave, 1959). The study does not seek to attribute stabilization and distribution functions to subnational governments in its subsequent discourse on fiscal decentralization.

In assigning allocation functions to local administrators, the following guidelines were outlined (Oates, 1993):

- The neutrality of local revenue generation through taxation especially on local consumer buying behavior should be assured.
- Local citizens should be adequately briefed on the merits and demerits of local tax regimes.
- Injection of equity in tax imposition and collection.
- Institution of a tax scheme that is simple and less cumbersome to administer.

Once some level of revenue and expenditure functions have been ceded to subnational authorities, fiscal decentralization is deemed to have occurred regardless of the quantum of revenue or expenditure (Akai & Sakata, 2002). A scholar underscores the importance of this framework in influencing decisions regarding the category of taxes and expenditure functions that needs to be ceded to local authorities (Kee, 2003).

### **Principles behind Fiscal Decentralization**

Transfer of authority to local authorities to enable them assume ultimate responsibility over fiscal functions covers four areas namely: (a) taking over revenue generation powers, (b) the ability to determine expenditure patterns, (c) the capacity to beef up revenues through borrowing, and (d) engagement in intergovernmental fiscal transfers (Vo, 2010).

Many scholars concur to the broad elements of fiscal decentralization emphasizing that fiscal decentralization finds practical expression when local government machinery assume the reigns of revenue generation, expenditure determination and deal with central government on intergovernmental transfers (Malik, Hasan, & Hussain, 2006).

### **Elements of Fiscal Decentralization**

Having considered the broad perspectives of fiscal decentralization, it is important to discuss elements that drive a good fiscal decentralization program. Such elements are environment, appropriate functions, adequate internally sourced revenues, intergovernmental fiscal transfer system and access to local capital (Malik et al., 2006). Each of these elements is now discussed.

## **Environment**

The critical enabling environment for fiscal decentralization begins with a legal framework which guarantees and bequeaths the process with some level of power to govern (Salman & Iqbal, 2011). This provides the path on which decentralization is initiated and nurtured but it does not by any means guarantee successful fiscal decentralization (Smoke & Lewis, 1996). A number of countries have managed to attain the legal mandate but they are yet to attain full decentralization. A case in point is Indonesia, where the country has embraced fiscal decentralization after a legislation backing a complete decentralization initiative was passed in 1974 but the attainment of complete fiscal decentralization remains a distant prospect (Smoke & Lewis, 1996). It is worth noting that a number of hurdles have to be cleared before a concrete and strong foundation for sustainable fiscal decentralization can be laid. The case of Ghana is illustrated.

The process of decentralization was adopted by the Ghana government in response to the developmental needs of the citizenry. Central to decentralization is the devolution of power to the ten (10) regions in Ghana in an attempt to allow local units to govern, allocate and administer the local assemblies in a more efficient manner (Constitution of Ghana, 1992). At the inception stage, the Ghana government invited development partners and international economic giants to assist in designing a road map to building and attaining a viable decentralization system.

A major anchor to the decentralization process in Ghana is the development of institutions and relevant laws and regulations (e.g. Local Government Act 462, 1993;

Local Government Service Act 656, 2003) and a general policy framework to support and strengthen the process.

Although it is the responsibility of the Ministry of Local Government and Rural Development (MLGRD) and Local Government Service Secretariat (LGSS) to implement and coordinate all decentralization programs, the laws (Local Government Act 462, 1993; Local Government Service Act 656, 2003 of Ghana) also empower the central government to constitute an inter-ministerial committee to assist in dealing with implementation challenges. The same cannot be said to be true in other developing countries where fiscal decentralization programs are rigid, unstructured, poorly coordinated and left in the direction of central agencies whose existence in some cases are threatened by decentralization. The finance and local government ministries are among the broad purpose ministries which spearhead and handle issues of decentralization in many countries (Smoke, 2000a).

Inadequate local revenue generation has become a major hurdle in fiscal decentralization processes in many countries (Freinkman, 2010). Recognizing the role of local revenue in facilitating the process, Ghana has designed a number of transfer programs and laws that facilitates the transparent transfer of funds to local authorities (District Development Fund and District Assembly Common Fund of Ghana, 1993, Act 455). The District Assembly Common Fund (DACF) and the District Development Fund (DDF) are but some of the transfer initiatives aimed at boosting local revenue generation among local authorities in Ghana.

The continuous support of successive national governments toward MMDAs in Ghana has been consistent. Historically, the trend has been to empower the centre with the view of building national unity. With decentralization spreading, the central government system has ceded some fiscal and administrative powers to subnational levels as required by relevant laws, although central government still retains major taxation powers and continues to feed MMDAs with some level of financial resources (Hankla, 2008).

### **Appropriate Functions**

The challenge to fiscal decentralization on the expenditure side has more to do with weak political will to implement the concept than fear of decentralizing wrong services (Bahl & Linn, 1992; Shah, 1994). Irrespective of legal backing, central government institutions have adopted a lackadaisical approach to decentralizing functions because they quail at the prospect of losing power and resources to MMDAs. Some agencies of central government see local units as rivals and consistently make the process of decentralization cumbersome (Paul & Smoke, 2001). Further, where the process of decentralization is fast tracked and MMDAs lack the structures and capacities to handle these new responsibilities, central government agencies are quick at citing the sub performances at the MMDAs and use such excuses as cover to truncate the decentralization effort (Ruhung, 2005).

The way forward is to treat each MMDA based on their needs and capabilities to handle certain services. Active citizen participation in designing and development of services is essential in ensuring acceptance. Well informed and educated stakeholders,

improved accountability and judicious management of resources can enhance performance at MMDAs (Callahan, 2002).

### **Revenues to Local Governments**

In many instances, national government releases funds to local units but the quantum of the funds leaves a lot to be desired (Bahl & Linn, 1992; Shah, 1994). Consequently, MMDAs continue to dabble in the quagmire of inadequate funding. To ameliorate the situation, MMDAs are expected to redirect their scarce resources on mobilizing revenues through the few channels that usually have the propensity of yielding higher income returns (Bahl & Linn, 1992; Shah, 1994). For instance, local authorities in developing countries often redirect their efforts towards property taxes and user charges. It has been argued that property tax which constitutes the main source of locally generated revenue has not been cast wide to cover a lot of properties owing to low managerial acumen at MMDAs. Besides, user levies are often set at levels far below economic rates thereby generating little income which has adverse effect on economic viability of MMDAs (Ruhung, 2005).

Property rates are visible and reliable sources of revenue and if well harnessed could generate a steady inflow of internally generated funds. With broad based participatory approach and sensitization programs, acceptance and buy in of property and user rates as sources of revenue, revenue mobilization at MMDAs could be improved in the medium to long term. Local residents may pour scorn on local taxes if they find service delivery to be below par (Alexeev & Habodaszova, 2012).

User charges could be broadly implemented to cover many local public services, which in turn will widen and increase the revenue base of local authorities. In situations where consumption and cost can be attributed to the provision of service, it creates justifiable grounds for user fee charges. In today competitive environment clients are prepared to pay for services if they are assured of quality, uninterrupted and reliable services. Involvement of stakeholders and other interest groups in the fixing of charges are backed by law and this facilitates acceptance of increased user fees (Local Government Act of Ghana, 1993, Act 462). Supporters of fiscal decentralization anchor their arguments on the idea that if MMDAs assume ultimate responsibility for setting and controlling their own tax machinery, local citizens who obviously will be the target of these taxes will feel more obliged to hold the local authorities accountable (Freinkman, 2010).

### **Intergovernmental Transfer Mechanism**

Intergovernmental transfer systems are instituted by central governments to meet the shortfall in revenues because many local units are unable to finance their entire expenditure from internal resources captured in their annual budget estimates for the fiscal year (Oates, 1972). In such situations central governments could transfer funds to cover local unit fiscal imbalances. This will allow local authorities to operate at equilibrium. The system could also be used to redistribute and offset fiscal capacity differences among local units. Besides, the transfer system is used to encourage local expenditures (Hankla, 2008). The objectives of an intergovernmental transfer system are tailored around the objective. It is worth noting that different types of transfers are meant

for different purposes. For example, unconditional grants are best for redistribution purposes, whilst conditional grants are used to encourage spending on specific services (Hankla, 2008).

Transfers if not well managed could lead to macroeconomic challenges. For instance, if considerable funds are allocated to local units each year without corresponding inflows to central government coffers, this could impact negatively on the fiscal imbalance. This challenge could be measured against the output of providing local units with the required resources to take advantage of the potential microeconomic gains and service delivery. The way forward is modest transfer and close monitoring from the centre (Vo, 2008b). With the expected improvement in the capacities of local units to handle finances prudently, the quantum of transfers will be moderately increased. Transfer systems work best when the distribution formula is unbiased and transparent (Malik et al, 2006).

Local units are interested in borrowing to finance capital intensive projects and other aspects of their operations because of their inability to raise enough revenue. However, since most of the services are social in nature, they are unable to generate income and therefore repayment becomes a challenge in most cases (Oates 1972; Bird et al, 2000). In view of this, countries are putting in place mechanisms to reduce the default rate of local authorities through the enactment of legislations which sets a ceiling and restricts local units from borrowing beyond certain amounts (Local Government Act of Ghana, 1993, Act 462). The process for granting loans to local authorities include, vigorous appraisal process to ensure that those projects can generate income to pay back

the loan facility (principal and interest) within the stipulated period of time. The difficulty is how to define local authorities who really need assistance in the form of grants in order to finance their ever increasing expenditure (Vo, 2010). In situations where MMDAs default in loan repayments, the responsibilities of debt settlement are put on the shoulders of central government and in some cases development partners (Manor, 1999).

The bailout gives the central government and development partners undue influence over the operations and borrowing activities of local authorities. Such interferences constitute a breach of the basic tenets of decentralization. Considering the current pace of local authority initiatives and availability of human resources, local authorities should be able to raise and manage their loan repayments without much difficulties having recourse to the centre for support (Peterson, 2000).

It should be emphasized that local units may not have solid grounds to borrow funds if they are financially supported by central government or development partners. If allowed to access both, there is the tendency that the local units will misuse the resources. If that occurs, loan repayment plus interest by local authorities will be an uphill task. Central government will then have to set in to pay the debt (Oates, 2005).

To overcome the challenge of loan repayment amongst local units, there is the need for local authorities to hold stakeholders sensitization workshops and group dialogue on funding sources, utilization and mode of repayment (Bailey, Asenova, & Hood, 2012). This approach will give the general public a sense of belonging, ownership and direction as to how funds are raised by the local units. The approach of getting stakeholders to talk and discuss pertinent issues affecting their lives has some merits.

First, it empowers local residents to have a say in the developmental direction of their community. Further, citizen engagement allows local authorities to fix realistic user charges to rake in much desired revenue. Further, it allows MMDAs free hands to operate more economically and efficiently. Such an interactive platform with its positive impact on revenue could strengthen the ability of local units to settle their debts (Alexeev & Habodaszova, 2012).

### **Borrowing Powers of Local Government**

Local government ability to access credit has been subjected to immense central government control. Central government control is manifest in stringent arrangements and guidelines to local assemblies which stifle their creativity in service delivery (Bailey, Asenova, & Hood, 2012). Borrowing to finance recurrent expenditure has attracted negative commentary from practitioners. However, local authorities should consider borrowing for capital projects after appraisals show such projects are economically viable. Fiscal balance is defined as the difference between expenditure and total owned resources. If local government expenditure is not properly balanced with available resources, the alternative is to borrow to offset the deficit (Bailey, 2002). Borrowing is appropriate for projects which are capable for paying back the total cost of investment. Entities borrow to undertake capital intensive projects which are capable of paying back within repayment period. Loans should not be used for recurrent expenditure because the possibility of repayment remains an uphill struggle (Bailey, Asenova, & Hood, 2012). Local borrowing is usually hampered because most local units especially the less endowed ones suffer from low credit ratings. It is imperative for central government to

put in place a well defined local government framework for borrowing and issuing bonds to enable local authorities access credit in order to overcome budgetary constraints. Local government ability to effectively plan and execute developmental programs remains a daunting challenge because of central governments stranglehold on key issues of local governance such as taxation. This situation takes a turn for the worse when release of funds from central government is fraught with delays and uncertainty thereby slowing down the pace of delivery of essential services (Stanton, 1996).

Failure to design and regulate local borrowing could have adverse impact on the larger economy because local governments might overspend on unproductive projects or programs. Since local governments are part of the public sector, their inefficiencies are transferred to the central government. As long as the central government is presumed to be favorably disposed to bailing out local units, there is a high probability of local governments running into budget deficits (Bailey, 1999, 2002).

In view of the risk of default on the part of local units, central governments often require local units to balance their budgets without resorting to borrowing. Although MMDAs in Ghana are autonomous in terms of their ability to borrow, there is a legal limitation for borrowing (Local Government Act of Ghana, 1993 Act 462). Discussion on the present situation of the fiscal decentralization process in Ghana will now follow.

### **The Role of Development Partners**

Development partners and international organizations are key stakeholders in decentralization advocacy and implementation and they continue to play significant roles in driving and supporting fiscal decentralization programs in many countries. However,

there are indications where international development partners are not keen in supporting gradual and strategic decentralization processes. The rationale behind development partners disinterest in the gradual process is because, the process is often time consuming and likely to slow down speedy release of funds (Manor, 1999). Development partners often find their way round this potential barrier and initiate and fund projects in specific regions. This allows them to implement their action plans in line with their objectives. Such projects are insulated against central government inputs and in some occasions, there is evidence of rifts between international development partners and national governments with central government often accusing development partners of disregarding best practices in mutual cooperation (Jonathan, 2002). Development partners often develop relationships with local units, and deal with them directly without consulting central government which leads to competition for control of the decentralization process. This approach of development partners slowdown the achievement of intended objectives of decentralization (Paul & Smoke, 2001).

### **Expenditure Responsibilities**

Assumption of expenditure responsibilities by local authorities is frequently the first step towards implementation of fiscal decentralization (Gonza, 2008). Fiscal decentralization usually involves a transfer of authority and responsibility to subnational governments to empower them to assume assignment responsibilities which gives rise to accountability on the part of local government management (Thiessen, 2001). Taking over expenditure responsibilities depend on certain indicators that propel performance at local units. The nature of service delivery determines how expenditure responsibilities are

assigned at any particular point in time. For instance, all levels of government involvement may be essential in ensuring primary health care delivery at different levels. To obtain maximum contribution of the various levels, the principle of subsidiary engagement should be employed in determining which level of government should undertake specific responsibilities. The rationale behind the principle is to obtain maximum performance from the various levels of governance. Where the lowest level of government is capable of undertaking a task, the unit should be provided with the needed support to function successfully (Kardar, 2006).

### **Revenue under Fiscal Decentralization**

Once the assignment of expenditure responsibility has been determined, the next question is what revenue sources are available to the local unit to finance the assigned expenditure (Malik et al., 2006). The fact is that local units can hardly generate sufficient revenue locally to match their expenditure assignments. It is important to consider which revenue sources are ideal for sound local governance since certain taxes are better managed at central government level. For instance, local governments should be assigned stable sources of revenue for ease of administration and cost effectiveness. Efficient and effective services are rendered by local governments when they have access to adequate and stable resources (Qian & Roland, 1998).

There is the perception that central governments are unwilling to cede responsibility to local authorities as far as revenue mobilization is concerned. One school of thought opines that, fiscal inequality springs up when there is revenue decentralization (Malik et al., 2006). Some well endowed local units are able to generate substantial

revenues whilst others struggle and end up mobilizing scant resources. In such situations central government has the critical responsibility to instill parity through transfers. This promotes balanced national development. Community tensions and intertribal hostility subsides when national government release funds to local structures in a proportionate way thereby promoting equity and fairness in the distribution of the national cake (Oates, 1972)

### **Fiscal Transfers**

In view of inadequacies in central government subventions to local authorities, intergovernmental transfers are often the option to assure revenue sufficiency and regional equality (Hankla, 2008). The term transfer is referred to as grants, subventions or local government subsidies. They are used for varied objectives including financing fiscal imbalances. Fiscal transfers have not done a lot of good to fiscal decentralization. Most often, central government uses fiscal transfers to direct and intervene in the activities of local governments (Heredia-Ortiz & Rider, 2011).

### **Financial Reporting**

In response to the enactment of the Local Government Act, Act 462, 1993, the law that regulates the formation of district assemblies (Local units) in Ghana, the controller and accountant general who serves as chief accounting officer to government is mandated to set up district treasury offices in the district assemblies throughout the country. The setting up of the district treasury offices is to facilitate the process of fiscal decentralization. The treasury offices are in charge of receiving, disbursing and transferring funds to appropriate authorities (Financial Administration Act of Ghana,

2003, Act 654). The move was a significant step towards deepening the fiscal decentralization process in the country. Among other functions, the treasury offices were to handle salaries and wages, pensions and all other administrative payments in the districts. This initiative has placed a considerable burden on the principal spending officers at the MMDAs. Accountants are better placed at promoting adherence to sound financial practices by championing the establishment of firm accounting principles and taking a frontline role in their strict compliance (Arthur Anderson as cited by Miller, 2001). The absence of a comprehensive MMDAs accounting manual hindered the consistency of financial reporting in Ghana until 2011, when MMDAs accounting manual was officially launched. The only document the MMDAs relied on to prepare accounts was the financial memoranda of the district assemblies, which had its own short comings. Although MMDAs submitted their financial reports regularly in line with relevant laws, what could not be guaranteed was the quality of such reports (Financial Administration Act of Ghana, 2003, Act 654; & Financial Administration Regulation of Ghana, 2004, L.I. 1802). The absence of an accounting manual may have affected uniform and consistent financial reporting systems for the MMDAs because there was no reliable manual to provide guidelines for preparing and presenting financial reports to appropriate authorities. To ensure uniformity in the preparation of financial reports globally, some audit giants posit that the implementation of International Financial Reporting Standards (IFRS) requires caution, because it calls for an appreciation of different country systems as well as local entities accounting processes (PricewaterhouseCoopers, 2008). The rationale behind the design of the accounting manual was to provide a uniform

procedural guidance on how MMDAs are to prepare and present financial reports (Financial Administration Regulation, L.I 1802, 2004 of Ghana).

### **Inconsistency in MMDA and MDA Chart of Accounts**

The controller and accountant general is mandated by law to prepare and present public accounts (consolidated financial reports) in line with the Financial Administration Act, Act 654, 2003, Financial Administration Regulation, L.I 1802, 2004 of Ghana and Generally Accepted Accounting Practice (GAAP). The challenge is how to consolidate the financial reports of MMDAs with that of government Ministries, Departments and Agencies (MDAs) because each of them uses different set of codes in preparing financial reports. The differences make it difficult for effective consolidation of local government financial reports with that of central government. The MMDAs chart of accounts has six (6) expenditure items whilst the MDAs have four (4) expenditure items.

The system of managing and preparing accounts at the local level is largely done manually with the exception of few local authorities. Where the local authorities leverage on technology to prepare their accounts electronically, the system is often unreliable with regular reports of system breakdowns. It is the wish of the local units that with the coming into operation of the composite budgeting and the Integrated Financial Management Information System (IFMIS), all assemblies in Ghana will be on the same platform (network). This will facilitate the process of consolidating the financial statements of MMDAs with that of central government. Currently, all the district assemblies in Ghana are using either manual or electronic systems to prepare financial

reports, until the end of 2015 where all local units are expected to be on the platform of the IFMIS.

Besides the statutory requirement (Financial Administration Act 654, 2003 and Financial Administration Regulation, L.I 1802, 2004 of Ghana), all local authorities are required to prepare and present monthly financial reports to the appropriate state institutions. The assemblies are also expected to prepare different sets of financial reports to meet requirements of development partners. The request for different sets of accounts by development partners make the work load at the finance wing of local authorities challenging. Studies suggest that resources required for preparing financial statements to comply with external reporting requirements are enormous and in some cases fail to meet the expectations of internal stakeholders (Pilcher & Dean, 2009). One of the reasons why local authorities prepare different sets of reports is because they lack the bargaining power to defend their positions when dealing with development partners demands for separate reports.

Almost all sources of funding local authorities emanate from transfers with the exception of few metropolitan and municipal local authorities who are capable of relying on their own resources to finance infrastructural development. These transfers from central government are fraught with delays making it difficult for local authorities to efficiently plan and manage their cash inflows and outflows.

Salaries and pension are centralized and managed at the national level. Therefore, local authorities have very little control over the processing and management of salaries and pensions.

## **MMDA Auditing**

An effective auditing system is needed as part of the efforts at achieving success in the financial reporting system at the local level (Miller, 2002). Auditing occurs when the auditor general or his accredited representatives at regular intervals review the operations and financial reports of local authorities and call public officers to account for their stewardship (Audit Service Act of Ghana, 2000, Act 584). Audit exercises requires sound technical expertise, honesty and good interpersonal skills to ensure plausible judgments (Beattie, Fearnley & Brandt, 2004). The accountability process in Ghana provides for both internal and external audits at the central, regional and local levels. The auditor general is responsible for conducting external audit whilst the Internal Audit Agency (IAA) headed by the director general of the internal audit agency coordinate the functions of local authorities internal audit units (Audit Service Act 584, 2000 & Internal Audit Agency Act, 658, 2003 of Ghana).

### **The Role of Internal Auditing at MMDA Level**

Internal control systems are designed to provide some level of assurance to management in respect of how resources of the local authority are safeguarded against mismanagement and corruption (Internal Audit Act, Act 658, 2003 of Ghana). However, internal control systems in most local authorities are flouted and this makes regular reviews of business process of the local authorities cumbersome and in some cases impossible. Until mid 2000s, internal audit units in many of the local authorities in Ghana were nonexistent. In Ghana local authorities are required by law to recruit internal auditors to assist management to review business and financial processes, institute

internal controls and ensure compliance (Internal Audit Agency Act 658, 2003 of Ghana). Another important requirement expected of all local authorities in Ghana is the composition of Audit Report Implementation Committees (ARIC). The ARIC has the mandate of reviewing all audit report recommendations and play a lead role in the implementation of such recommendations (Audit Service Act of Ghana, 2000 Act 584). Though all local authorities have fulfilled the legal provision of setting up ARIC, what remains unclear is whether the local authorities implement the audit recommendations.

The inability of internal auditors to prepare and submit quarterly reports to management and the IAA board is another challenge impacting adversely on the performance of many local authorities in the country. The quarterly reports enable management and the board to fashion out policies aimed at improving the financial management services in the local authorities (Audit Service Act of Ghana, 2000 Act 584). However, many internal auditors do not prepare an internal audit report which makes it difficult for management to design new internal control policies. As a result, independent audit reports usually reveal material breach of accounting standards in financial statements (Rezaee, 2003).

### **Auditing at MMDAs**

The audit service of Ghana is mandated by the Audit Service Act, Act 584, 2000 to perform external audits in all the 216 local authorities annually. The yearly audit is expected to be carried out by the auditor general or his accredited representatives. The auditor general is the appointed auditor of government agencies including the local authorities (Constitution of Ghana, 1992). It is the sole responsibility of the auditor

general to review the accounts of all MMDAs and to express an opinion on the state of affairs of MMDAs with respect to the true and fair manner financial reports are prepared and presented (Constitution of Ghana, 1992). Development partners rely on audit reports of the auditor general to inform decisions they take in connection with granting additional support and assistance to MMDAs. For instance, the basic condition for any MMDA to qualify for Functional Organizational Assessment Tool (FOAT) grant is the preparation and presentation of quality financial statements. In addition, the auditor general is expected to have expressed an unqualified opinion on the financial statements as a form of assurance that the financial report is complete, accurate, relevant, reliable, consistent and that the accounts were prepared in line with the GAAP (Wilson & Katteius, 2001). However, the multiplicity of audit requirements from development partners is affecting the ability of the auditor general to audit the financial statements of MMDAs in a timely way. The auditor general in fulfilling this mandate sometimes has to rely on private auditing firms to audit the MMDAs accounts. The continuous auditing of MMDAs by the auditor general has the potential of reducing the number of audit queries each year, This will impact positively on the quality of financial reports prepared by MMDAs and improve fiscal discipline (Patton & Bean, 2001).

### **Implications for Financial Reporting**

Since Ghana operates a unitary system, the levels of government accounts (central and local) are consolidated as public accounts annually and submitted to the president, parliament and other statutory bodies for their attention (Constitution of Ghana, 1992). The focus on comprehensive financial reporting at all levels of government is an essential

ingredient in enhancing the accountability and transparent process in the country. High quality financial reporting embodies disclosure of material facts which leads to the presentation of financial statements that exhibit the true state of financial operations of an entity (Robinson & Munter, 2004). The attributes of quality financial reporting in the public sector is not different from that of the private sector. Such attributes of valuable financial reports are completeness, accuracy, consistency, reliability, relevance and conformity to relevant standards and legislations (Government Accounting Standards Board [GASB], 1987).

Quality financial reports serve not only central and local government needs but also serve the requirements of development partners and the general public. These stakeholders are interested in finding how effective resources have been utilised in providing public goods and services. The annual consolidation of accounts to the president of Ghana and parliament is a constitutional requirement the auditor general has to meet annually (Constitution of Ghana, 1992). The requirement allows the citizenry and other interest groups to have access to the financial reports at all times and to ask questions where necessary. Also, there is the need to make information available for the attention of economic management teams at the local, national and international levels to enable them make informed decisions about the state of the national economy. Quality financial reports reveal how much resources were generated and disbursed within a specific period of time for the attention of stakeholders. Quality financial reporting is an attitudinal issue and not a set of defined financial practices. If the attitude of the

professional accountant is right, it will enhance the chances of preparing quality financial reports (Miller, 2002).

### **Quality Assurance Framework**

The subject of quality has gained increasing attention in the past couple of decades. Debate has not abated on whether an entity should strive for zero tolerance for financial defects or make cost benefit analysis a focal point of managerial decision making (Li & Rajagopalan, 1998). Some experts link quality to be a product of profound understanding of systems (Deming, 1982).

Financial reporting and accountability can be assured when there is an effective and efficient monitoring and evaluation mechanism in place. A good monitoring and evaluation system should not overlap each other. Efforts of inspectors at the Ministry of Local Government and Rural Development (MLGRD), internal auditors, monitoring and evaluation officials and the Controller and Accountant General (CAG) monitoring units appear to be conflicting and duplicating their functions on several fronts. Indeed, there appear to be gaps and lack of harmonization amongst the agencies as far as coordinating the activities of MMDAs are concerned. For instance, Controller and Accountant General Department (CAGD) and MLGRD, respective laws (Financial Administration Act 654, 2003 & Local Government Act 462, 1993 of Ghana) establishing their existence allow them to make request for the same set of financial information from MMDAs. However, there appears to be little focus on Medium Term Expenditure Framework (MTEF) compliance, which is essential in accelerating economic growth at the MMDAs. The activities of the MLGRD inspectors, the internal auditors, various monitoring and

evaluation units within the MMDAs is to support management with timely information so that corrective measures can be taken to mitigate if not eliminate mismanagement, misapplication, embezzlement, corruption and noncompliance. Investments in quality improvement are crucial to attaining quality financial reportage (Li & Rajagopalan, 1998).

### **Accounting Profession and Ethics**

Financial accounting is not immune to cultural influences. In many respects, financial accounting represents a cultural mark of modernity and can therefore be amenable to cultural and business environmental pressures (Hopwood as cited by Brusca & Montesinos, 2010). Accountants usually account for transactions using accrual basis of accounting or cash basis. The accrual basis is comprehensive and an ideal approach for effective financial reportage. The adoption of accrual based accounting however, requires well organized structures and systems where information gathering is smooth (Kara & Kiliç, 2011). There are very few developed countries (e.g. United Kingdom) that practice the accrual concept of accounting. The use of the accrual concept is fraught with challenges associated with information gathering and application (Hoek & Der, 2005). The cash basis on the other hand only recognizes cash transactions and does not take into account transactions that do not involve the inflow and outflow of cash. Accounting transactions are recorded in the relevant book of accounts only when actual cash is paid or received. Cash based accounting fails to recognize and capture non cash accounting transactions such as credit purchases and credit sales, movements in assets and liabilities and accrued expenses (Hoek & Der, 2005). The cash accounting system is the convention

that is being used in the public sector of Ghana for accounting and reporting of all financial transactions. Although, several attempts have been made toward implementing accrual system of accounting, a lot more needs to be done. Strong structures and systems are needed to make it work. Comprehensive reporting is essential in facilitating information sharing and accuracy of information. Full disclosure in the provision of reports is essential in averting the provision of misleading information to existing and potential investors, and other interest groups (Pina, Torres, & Yetano, 2009). The global financial crisis underscored the essence of comprehensive financial reporting at all levels of operations and the need for global accounting guidelines that will make fair value accounting practice mandatory (Rajni & Parmod, 2012). Detailed reporting is a significant feature that supports high quality financial reports (Ogbonna & Appah, 2011). The recent financial and economic meltdown could be traced to non observance of fair value accounting (Rajni & Parmod, 2012).

From the foregoing, a lot is expected of the public accountant. It is therefore incumbent on all the members of the accountancy fraternity to be guided by professional codes of conduct in order to safeguard the state from mismanagement and embezzlement (Nwagboso, 2008). Professional groups which ignore the need to inject ethics and guidelines for professional conduct of its registered members stand the risk of losing their integrity and public goodwill and may attract sanctions from regulatory bodies (Loeb, 1971). Recent events (corporate collapse worldwide), has brought the accountancy profession into disrepute following series of sub performances by accountants reflected in the provision of misleading accounting information. This gives support to the point that

the professional accountant should be mindful of the code of ethics governing the accountancy profession, and should refrain from actions and inactions that could impugn on the accountant integrity (Dann, Fisher, Swanson, & Schmidt, 2007). To overcome the challenge and public perception about the accounting profession as well as minimize if not eliminate dubious practices in the public sector, various bodies and associations developed regulations and procedures with the primary motive of instilling ethics in the accounting professional (Nwagboso, 2008; Aguolu, 2006; Jenfa, 2006; & Institute of Chartered Accountants of Nigeria [ICAN], 1998). Some of the fundamental ethics worth discussing are:

**Integrity.** It involves having a trust worthy character and being sincere and honest in dealing with partners, stakeholders and counterparts. Fairness and truthfulness are essential ingredients of integrity (Jones, as cited by Anessi-Pessina & Steccolini, 2007). The motto of the Institute of Chartered Accountants Ghana (ICAG) is integrity. This explains why accountants are expected to cling to the tenets of integrity. Essential ingredients of integrity include the need for all accounting professionals to be straightforward and exhibit honesty in their professional, personal and official duties. It is expected of all members of the profession to be straight forward and honest in performing professional services (Nwagboso, 2008). Integrity constitutes a litmus test of professionalism because it guides accountants to be thorough, focused and perform their functions with a touch of excellence. It is assumed that when an accountant displays integrity, everything else stands up (Osioma, 2000).

**Objectivity.** It is an obligation on accountants to be fair, honest and avoid conflicts of interest in their dealings with clients. The environment that accountants operate puts them at risk of breaching codes of conduct because of some returns, which come their way (Choi, & Pae, 2011). The code of conduct places a responsibility on the professional accountant to adhere to basic tenets of objectivity. International Financial Accounting Committee (IFAC), 2006 code of ethics spells that to assure objectivity means operating and applying the relevant standards of professionalism at all times, which in turn yields excellent performance that meets the expectation of the public.

**Professional competence.** It deals with possessing relevant expertise and experience to undertake a given assignment. The accounting profession frowns on members who undertake assignments for which they have no appreciable knowledge or competence (International Financial Accounting Committee [IFAC], 2006). Members of the profession are expected to desist from accepting to deliver accounting services which they lack the necessary competencies to execute (International Financial Accounting Committee [IFAC], 2006).

**Confidentiality.** It behooves on accountants not to divulge information they come into contact with in the course of their work for personal gains. Accountants are therefore expected to be tight lipped concerning information that strikes them as sensitive and they are not expected to go public. The leakage of confidential information could jeopardize the interest of the corporate entity if care is not taken to preserve the confidentiality of such information (Aguolu, 2006).

Clients are expected to provide auditors with all relevant information to enable the auditor undertake the assignment (Companies and Allied Matters Act [CAMA], 1990). In view of the regulation, professionals are expected to keep all information and classify them as confidential materials and abstain from using such information for personal interest and private gain (Jenfa, 2006).

**Professional behavior.** The behavior of accountants in executing an assigned task should be in conformity with the code of conduct of the profession. The accountant should not involve in collection of bribe taking or act in a manner which will cast doubt on the reputation and integrity of the profession (Companies and Allied Matters Act [CAMA], 1990).

**Technical standards.** Accountants are not expected to use personal discretion in determining the mode of treating accounting transactions. At all times, accountants are expected to act in conformity with technical and professional guidelines set up by relevant bodies of the profession such as IFAC, IASC, ICAN, and ICAG.

**Independence.** Independence means being unbiased and impartial in rendering professional judgment when executing professional assignments. Independence may be defined as being truthful and impartial in expressing an opinion with regards to a given assignment. Auditors must demonstrate to users of accounting information that the opinion and judgment of the auditor emanates from an independent mind. Independent auditors execute their assignments by noting and reporting on material deviations and vouching records that have been prepared in conformity with accounting standards and in compliance with accounting rules (Willekens, 2008).

**Financial reporting.** Financial reporting is the means by which principal spending officers entrusted with public funds give an account of their stewardship to stakeholders (Adebayo, 2005). Although the accountant is normally not the Chief Executive Officer (CEO) or the principal spending officer of an entity, the CEO relies on the accountant expertise and advice when it comes to issues of finance and accounting. The responsibility for the preparation of financial statements is a delegated responsibility because of the expertise and training of the accountant (Financial Administration Act 654, 2003 of Ghana). Therefore, the preparation of financial reports by the accountant is anchored on delegated authority to carry out that responsibility. Ultimate responsibility resides in the bosom of the CEO and not the accountant. In order for financial reports to pass the quality test, financial reports must be complete, consistent, timely, accurate, relevant and reliable and prepared in line with relevant laws and standards (Hirst et al., 2004). Further, the auditor general must have expressed an unqualified opinion in respect of the true and fair nature of financial affairs of the entity (Audit Service Act of Ghana, 2000 Act 584).

Financial reports should further disclose in clear terms how much funds were generated and utilized during the period and results thereon. Financial reporting is the tool through which principal spending officers communicate financial information to stakeholders and investors (Obazee, 2005). Managers and investors rely on accurate financial information to enable them make plausible investment decisions about their firm continuous existence and investments in the organization (Harvey & Knight, 1996).

### **Current Studies**

The paper explored current practices on fiscal decentralization and quality financial reporting at the local government level in Ghana. The IASB and FASB (2002) set certain standards with the objective of safeguarding assets and investment of shareholders. In May 2008, the FASB and the IASB published an improved conceptual framework for financial reporting (Financial Accounting Standards Board [FASB], 2008a; International Accounting Standard Board [IASB], 2008). The publication reflected positively on the quality of financial reporting in the public sector (Financial Accounting Standards Board [FASB], 1999; International Accounting Standard Board [IASB], 2008). The following is a discussion aimed at throwing more light on the various insights provided in prior literature regarding modes of evaluating financial reporting quality.

The accrual and value relevance approach deals with earnings and quality measurement. The approach assumes that managers should have the expertise and experience needed in managing earnings by choosing the appropriate accruals measurements (Dechow et al., 1995; Healy & Wahle 1999). The reverse side of the model is that since the method is being selected by the manager based on discretion, the selection affects decision usefulness and the quality of financial reports (Brown, 1999; Van Tendeloo & Vanstraelen, 2005). The advantage behind discretionary accruals lies in the ease with which it is calculated based on the information presented in the financial reports (Dechow et al., 1995; Healy & Wahlen 1999).

Value relevance models are where quality financial reporting information is measured using accounting figures and stock market information (Barth et al., 2001; Choi et al., 1997; Nichols & Wahlen, 2004). The model predicts that the market value of an entity is the stock price, whereas the figures in the financial reports represent the historical value of the firm. Besides determining the stock price, the method is used to calculate earnings quality which includes earnings persistence, predictive ability, and variability (Francis et al., 2004; Schipper & Vincent, 2003). Evaluating the completeness of quality financial reports in most research is a challenge because quality goes beyond just the accounts preparation (Beretta & Bozzolan, 2004; Cohen et al., 2004; Gearemynck & Willekens, 2003; Hirst et al., 2004).

Basic qualitative characteristics such as relevance, reliability, consistency and accuracy are essential in determining the quality of financial reporting information (Beretta & Bozzolan, 2004). However, these characteristics do not give full understanding of how quality is measured. On the other hand, understandability, comparability, verifiability and timeliness can improve decision usefulness when the fundamental qualitative characteristics are established but are unable to determine financial reporting quality with certainty (International Accounting Standard Board [IASB], 2008).

**Relevance.** Relevance deals with the prospect of making a positive difference in decisions made by users of financial information such as shareholders (International Accounting Standard Board [IASB], 2008). Researchers put a greater premium on earnings quality with little emphasis placed on financial reporting quality. In this

connection, the idea of relevance is affected by its limited scope and thereby minimizing its efficacy as a complete measure. The concept of relevance fails to set its lens on nonfinancial information and the availability of future information to interested parties (Jonas & Blanchet, 2000; Nichols & Wahlen, 2004).

Predictive value involves the ability of the entity to generate future cash flows by relying on past financial data as a guide. Besides, it focuses on the capacity of the managers to utilize past earnings to predict and forecasts expected earnings (Francis et al., 2004; Lipe, 1990; Schipper & Vincent, 2003). Venture capitalist find information useful when it assists them in forecasting future business trends (International Accounting Standard Board [IASB], 2008). The role of nonfinancial information in aiding plausible managerial decision making especially in the area of predictive value and risk assessment has often been acknowledged by finance and business practitioners (Jonas & Blanchet, 2000).

**Fair value.** Fair value accounting provides greater meaning and assimilation of the going concern concept compared with historical cost concept. Contrary to the historical cost, fair value accounting releases more relevant and reliable information on the current and market value of assets and not the past purchase price which may have been affected by price level adjustments due to inflationary trends (Maines & Wahlen, 2006; Schipper & Vincent, 2003). More often, when predictive value engages the attention of experts, the use of fair value attracts favorable commentary than historical cost (Barth et al., 2001; Hirst et al., 2004; McDaniel et al. 2002; Schipper, 2003; Schipper & Vincent, 2003).

**Faithful representation.** This deals with the presentation of financial data that is free from bias and material errors. Verifiability, accuracy and provision of adequate information are core ingredients of representation (Beasley, 1996; Jonas & Blanchet, 2000; Cohen et al., 2004; Dechow et al., 1996; Gaeremynck & Willekens, 2003; Kim et al., 2007; Maines & Wahlen, 2006; McMullen, 1996; Rezaee, 2003; Sloan, 2001; Willekens, 2008).

However, the exclusive reliance on financial reports is not a sufficient measure of faithful representation because empirical economic events such as the realistic prospect of securing a hefty profitable deal is not contained in financial reports (Botosan, 2004). Faithful representation is also based on some assumptions which cannot be sacrosanct (Maines & Wahlen, 2006). Previous works find that managers gloss over accounting policies in favor of using discretion to attain diverse accounting objectives (Kothari, 2001).

**Understandability.** To promote understanding of financial information by users of financial information such as shareholders, employees, suppliers, community, media and government, horizontal style of presenting financial statements was changed to vertical style. Information that is not amenable to comprehension by stakeholders will not be serving any useful purpose because stakeholders place value in the contents of financial statements in order to make decisions (Willekens, 2008). Such decisions include transfer of shares, provision of credit and diluting or increasing investments. To facilitate understanding, financial information is usually presented after careful summary, classification and recording of relevant information so that interested parties can make

sense out of the presentation without recourse to expert assistance (Curtis, 2005). Information is deemed to be understandable when stakeholders can derive useful meaning out of it (International Accounting Standard Board [IASB], 2008). Clarity and transparency are some of the ingredients that can help stakeholders understand financial statements (Curtis, 2005; International Accounting Standard Board [IASB], 2006; UI& Clowes, 2004; Jonas & Blanchet, 2000).

**Timeliness.** Timeliness of information aid stakeholders to make business decisions that capitalize on business opportunities before they miss out. Information fulfils the quality of being timely when it is presented at the right time, to the right stakeholders and at the right venue. The provision of information that arrives after opportunities are gone or when foreseen threats have occurred will only attract the wrath of users of the information (International Accounting Standard Board [IASB], 2008). In the public sector, the law stipulates periodic financial reports are to be prepared and presented at specific times. Failure to meet the timelines means the information stands the risk of being less useful to decision makers. In the next section, empirical literature on fiscal decentralization and quality financial reporting is reviewed.

### **Literature on Differing Methodologies**

There are substantial literature on fiscal decentralization and its connection with economic prosperity in the international arena. The same cannot however be said at the national level. Various studies provide different outcomes regarding the potential benefits of fiscal decentralization. The merits of fiscal decentralization in theory has gained widespread acceptance amongst scholars. However, the significance of the theory on

federalism remains uncertain (Bahl, 1999). The absence of accurate and reliable tools for evaluating local government finances coupled with the central system of governance in the developing countries are ingredients that has affected the increased emphasis on local government finance. Teaching Quality Assessment (TQA) has now become an important tool used to overcome these challenges of advanced economies (Beattie & Collins, 2000). This study applies to Ghana which has a unitary government system.

The political ideology, historical antecedents and economic events help shape the understanding and practice of public sector financial management. This notwithstanding, all countries practice and operationalize more than one level of government which necessitates the use of intergovernmental fiscal system in the process of fiscal decentralization (Bird & Vaillancourt, 1998). Four issues are of interest when it comes to intergovernmental finance in any country (a) expenditure assignment: who does what? (b) revenue assignment: who levies and collects taxes? (c) how are imbalances between the revenues and expenditures of local units handled? (d) to what extent should fiscal entities attempt to adjust for the differences in needs and capacities among different governmental imbalance (Tanzi, 2002)?

A study conducted by some scholars focus on the origins, theoretical underpinnings and application of fiscal decentralization in developing countries. They provide a summary of conventional fiscal decentralization theory and reflect on its relevance in developing countries. Further, their work includes a review of some postulations about the strengths and weaknesses of fiscal decentralization and empirical evidence thereof. They conclude with ideas regarding the mechanics of redesigning,

reengineering and formulating appropriate and effective fiscal decentralization systems and policies in developing countries (Smoke & Paul, 2001).

Theorists and practitioners have come to the conclusion that the implementation of fiscal decentralization in a sustainable and beneficial way in developing countries is contingent on the provision of enhanced powers to the key actors in the decentralization process than it pertains now (Bahl & Bird, 2008). In many developing countries there are potentially sound structures, skills, strategies and systems that local authorities could use to enhance revenue generation. For instance, property rate, business operating permit fees, user charges, building permits fees, parking tolls and market tolls all constitute reliable and prudent sources of local income.

Case study analysis reveals that intergovernmental fiscal relationship is bound to occur in any country. In India and Brazil, local authorities have been given extensive fiscal autonomy with powers to fix tax rates without attracting the controlling glances of central government (Bird, 2012). It should be noted that although the local authorities have the autonomy, there is still the need for central government to focus attention on general consumption of taxes that constitute the main source of regional government revenues as well as property taxes on which local governments mainly depend. Nigeria, unlike India and Brazil operates on federalism and therefore, its fiscal system is heavily reliant on oil revenues than any other source of revenue (Bird, 2012). Not all countries have faith in fiscal decentralization though. China and Russia are two notable cases of countries that have navigated towards centralization instead of decentralization. The central government of China and Russia continue to have firm grips on local taxes. The

allocation of taxes to local authorities needs to be handled carefully in order not to jeopardize central government finances (Bird, 2011). Local authorities need to exhibit greater accountability to the people and central government control over local authorities should be minimized (Oates, 1972).

Studies on fiscal decentralization and economic growth of developing economies provided mixed results. This study now presents some insights. In a study that utilizes a sample of 17 developed countries spanning the period of 1947-1991, the researchers find a significant negative connection between economic advancement and revenue decentralization. The analysis of the study however, fails to trace the impact of fiscal decentralization on quality financial reporting in developing economies (Phillips & Woller, 1997).

Researchers conducted an assessment of the impact of fiscal decentralization on economic growth in the USA economy covering the period 1948 –1994, using the three levels of governments. The study concludes that economic growth is propelled more by state spending than by government expenditure on fiscal decentralization (Xie et al., 1999).

Further, a study explores the influence of fiscal decentralization on economic growth trends in China over a 23-year period (1970–1993). Regression analysis was utilized with Gross Domestic Product (GDP) as the dependent variable and fiscal decentralization, rural reforms, per capita real GDP among others as the explanatory variables. The study draws a conclusion that fiscal decentralization positively contributes

to the process of economic growth (Lin & Liu, 2000). The focus of this study hinged on the relationship between fiscal decentralization and quality financial reporting.

Another study researches into the strengths and weaknesses of fiscal decentralization. The study focuses on Organization for Economic Co-operation and Development (OECD) countries covering the period 1975–1995. The study was conducted using pure cross sectional techniques leading to the conclusion that economic performance of high earning OECD countries and reliance of local authorities on their internally generated funds to finance their developmental agenda bears no correlation (Thieb, 2001). This study considered the impact of fiscal decentralization on quality financial reporting in Ghana.

The impact of fiscal decentralization on economic performance of OECD countries spanning the period 1973–1998 was studied. The study utilizes local expenditure and determines the average of (fiscal decentralization and income per active working class) as growth variables. The research posits a positive impact fiscal decentralization made on national economic growth. The study was however, silent on the actual causes of growth (Thiessen, 2003). This research considered the relationship between fiscal decentralization and quality financial reporting at the local government level in Ghana.

Other scholars explore into the connection between decentralization of expenditure and revenue and their impact on economic growth for some European States using bivariate estimation technique. They find that local tax and non tax revenue

autonomy represents internally generated funds for local government and serves as triggers for subnational economic prosperity (Ebel & Yilmaz, 2004).

Research into 29 provinces in China was also undertaken. The study was conducted within the period of 1970–1999. Two ways fixed effects panel data method were used for purposes of analysis. Growth of non state agricultural employment considered dependent variables and ratio of local expenditure to central expenditure in a province represented by independent variable. The analysis led to the conclusion that revenue fiscal decentralization impacts positively in opening avenues for private employment (Jin et al., 2005).

Further studies delve into the theory regarding the relationship between fiscal decentralization and economic expansion for Pakistan based on time series data for the period 1972–2005. The outcome indicates that fiscal decentralization is a catalyst for speedy economic growth. The research uses the OLS method based on difference operator for estimating parameters and further uses the first order moving average process. The study finds some decentralization variables positive and significant and others negative and insignificant (Malik et al., 2006). Their study lacks a definite conclusion on the impact of fiscal decentralization on quality financial reporting which is the main interest of this study.

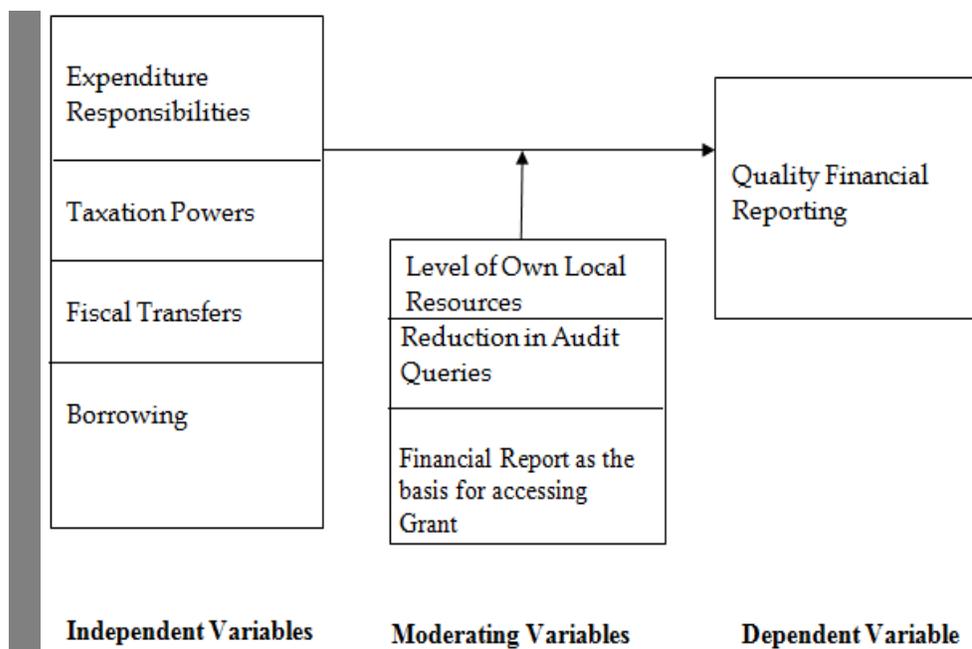
Recent study surveyed the role of local decentralization on United States (US) county population, employment generation and surge in real income. They explain that local decentralization spurs local economic growth but that the effects differ by government performance and economic indicators. It further suggests single purpose

governments per square mile had a positive effect on metropolitan population and increase in employment avenues but finds no significant impact on non metropolitan counties (Hammond & Tosun, 2009). Their findings indicate that fiscal decentralization at local government level means differently for metropolitan and non metropolitan counties. The study was silent on the impact of decentralization on quality of financial reporting which this study explored.

### Variables

A variable is any issue which is the focal point of a study (Vogt, 2005).

The theoretical framework of the study is depicted in Figure 1:



*Figure 1.* Fiscal decentralization factors affecting quality reporting at the local government level in Ghana.

## **Dependent Variable**

### **Quality Financial Reporting**

Dependent variable represents the outcome emanating from the influence of the independent variable (Kalof et. al, 2008). In this study the dependent variable is quality financial reporting. Local government performance is inherently linked to the scope and nature of intergovernmental fiscal transfers and quality financial reports prepared and presented by principal spending officers. It should be emphasized that the inability of local authorities to make real meaning of their political and administrative autonomy due to inadequate funding triggers the collapse of the decentralization initiative.

Intergovernmental fiscal rules and guidelines determine expenditure patterns and revenue sources of local governments as well as the construction of the transfers system and access to loans (Bird, 2000).

Fiscal decentralization depends on the ability of local governments to manage revenues and expenditures in a more transparent manner. The inadequacy and sometimes the absence of an efficacious local financial management system threaten to weaken the enterprise of bringing services to the door step of the local population (Malik et al., 2006). In the absence of a workable financial management system, achieving accountability will be elusive because local governments are susceptible to wasteful and corruptible financial behavior (Baltaci & Yilmaz, 2006).

As indicated earlier, the dependent variable in this research is quality financial reportage. The ability of metropolitan municipal and district assemblies to generate their own local resources, access grants and attain a down scaling of audit queries are the

moderating variables. Although there are varieties of moderating variables that shape the determination of quality financial reports, the three (3) variables are given premium in this work because of their uniqueness and completeness.

For example, it is a practical reality that when audit queries assume a downward trend and where auditors issue and express an unqualified opinion that the financial statements of local authorities represent a true and fair view, it epitomizes a clean slate of health being given to the quality of the financial reporting system. Further, an unqualified opinion means that accounting concepts and conventions are to a large extent been adhered to in the preparation of the final accounts (Rivenbark & Roenigk, 2011).

The second moderating variable takes a perspective that looks at the approaches MMDAs employ in their bid to raise funding using their financial reports as a bargaining tool. In Ghana, local authorities are in poll position to access funds such as the District Development Facility (DDF) when they meet or surpass the fundamental legal requirement of preparing financial reports (Financial Administration Act of Ghana, 2003, Act 654). These requirements are met when the auditor general expresses an unqualified opinion that the financial reports are devoid of material errors, full disclosures have been made and that the financial statements represent a true and fair state of the financial affairs in the assembly (Audit Service Act of Ghana, 2000, Act 584). Clearly, for a financial report to be given an unqualified opinion by an auditor, it means the financial statements are supported by documents and financial records that have been verified and proved beyond reasonable doubts that books of accounts have been kept in accordance

and in compliance with the historical concept, prudence, consistency and materiality conventions (Government Accounting Standards Board [GASB], 1987).

The final moderating variable is the local authority's ability to secure its own resources locally. Central government has been the principal source of revenue for the local authorities. When MMDAs are able to marshal enormous internally owned resources, it puts them in good stead to engage in productive activities such as the hiring of qualified and experienced employees. It also enhances and strengthens their capacity to commence and successfully execute infrastructural projects (Local Government Act of Ghana, 1993, Act 462). On the other hand, when MMDAs lack the wherewithal to embark on local fund raising, their lifeline emanates from central government. Such financial lifeline is often accompanied with conditions and restrictions. The last moderating variable is tailored to measuring how the MMDAs can draw strength from their internally generated funds to improve and enrich the quality of their financial reportage by recruiting and leveraging on expertise of qualified staff in the preparation and presentation of their accounts.

Financial accountability is aimed at widening the frontiers of transparency in the acquisition and utilization of the public purse. It also tries to inspire governments at whatever level to manage public funds prudently and judiciously in order to maintain and boost the integrity of governance, financial systems and reporting (Sahgal & Chakrapani, 2000).

### **Independent Variables**

Independent variables connote elements that have the propensity of exerting some influence on another variable (Vogt, 2005). The independent variables in this study are: Expenditure responsibilities, taxation powers, intergovernmental fiscal transfers and borrowing powers (Tanzi, 2002). The various variables are now discussed.

#### **Expenditure Responsibilities**

The primary measure of fiscal decentralization is assumption of expenditure responsibilities. Putting expenditure responsibilities on the door step of local units is an important step in enhancing the participation of the citizenry in local decision making. Releasing of personnel and secession of authority to local government apparatus leads to more sensitivity towards prudent expenditure and sufficient revenue generation on the part of local governments (Salman & Iqbal, 2011).

A genuine spirit of decentralization requires assigning meaningful levels of expenditure responsibilities to local units with service autonomy so that they can respond to local needs with dispatch and exert some level of operational control. Importantly, local units need authority and discretion to manage the resources allocated them productively (Bird et al., 1995). In defining responsibilities there should be clear lines of communication devoid of ambiguities so that the central government will not interfere with the decision making of the local units. Clear designation of roles and responsibilities is instrumental in shaping accountability relationships at all levels of governance (Kloby, 2009). The issue of service delivery calls for attention between central government and local government business. The main focus is to determine how best central government

can be supportive and constructive but not restrictive (Faridi et al., 2012). Another hurdle that needs to be surmounted is the level of control central governments have over local authorities which tends to stifle local government initiatives and at times make them less responsive to local tastes and preferences (Bird et al., 1995).

Clear assignment of service responsibilities requires a layout that defines the mandate of the various levels of government. Failure to put in place clearly defined responsibilities breed confusion and leads to sloppy performance. In China and Vietnam, there were no clear cut demarcations between national government functions and roles, responsibilities of local authorities. This ignited a stormy wave of confusion which proved to be counter productive (Mountfield & Wong, 2005). There is therefore the need to strike a fine balance between central and subnational governments in order to get decentralization on a successful pedestal (Faridi et al., 2012).

### **Taxation and Powers**

The next important measure of fiscal decentralization is taxation powers of the local authority. Oates (1972) decentralization theorem emphasizes that local governments should focus on creating superior value to the local citizenry by rendering essential services in a cost effective manner. Other studies made revenue the central theme of their definition adding that fiscal decentralization finds meaning when national government cedes tax collection authority to subnational administration (Alexeev & Habodaszova, 2012). The rationale and spirit of decentralization is for the local units to govern and manage their own resources without the direction or interference from the central government (Faridi et al, 2012). Where there is disequilibrium between local expenditure

and revenue generation, most local authorities are bereft of ideas about the revenue generating strategies to employ in order to secure funds to plug the resource gap. This slows down the pace of local economic drive (Bahl & Schroeder, 1983).

The way forward in deepening the fiscal decentralization process is for central government to provide incentives through enhanced power of revenue mobilization opportunities so that local authorities will initiate the entire cycle of revenue generation rather than running to the center for support any time resources run dry (Faridi et al., 2012). Since there are no prescribed lines of providing revenue opportunities to local authorities, central government should take into consideration the local environment and expenditure levels to devise formulae for revenue allocation (Bahl, 1999). Local revenues represent the inflows that local authorities generate internally via levies imposed in their areas of operations (Bird, 2000; Bird & Vaillancourt, 1998).

In many jurisdictions, the central government interferes with local revenue generation activities thereby putting undue impediments and restrictions on how the local units operate. Local governments are mandated to supply their yearly financial statements to accredited state institutions for audit. Those who fail to do so risk sanctions (Patrick, 2010).

In Ghana, all MMDAs are rating authorities with the power to impose levies and collect local taxes without recourse to central government (Constitution of Ghana, 1992). The MMDAs are the only institutions that have been granted legislative powers to levy taxes within their area of operation without recourse to parliamentary approval (Constitution of Ghana, 1992). To facilitate consistency at the MMDAs regarding the

imposition and healthy administration of levies, additional taxes an MMDA seek to levy within its jurisdiction must first be approved by the MLGRD through LGSS which exercises oversight responsibility over local government structures and systems (Local Government Act 462, 1993 of Ghana). Where local units owned resources are not enough to meet both recurrent and capital expenditures, the option available to local units is borrowing with its attendant restrictions (Financial Administration Act 658, 2003 of Ghana). Restrictions imposed by central governments are aimed at limiting the scepter of local authorities embarking on unproductive ventures that cannot yield desired returns to be used to pay back borrowed funds only for central government to be called to defray the debt (Campos & Hellman, 2005).

### **Fiscal Transfers**

Following closely on the heels of taxation provision of fiscal decentralization is the intergovernmental transfer system. Central to fiscal decentralization are fiscal transfers from state governments to local governments (Muçollari & Katro, 2010). The initiation and design of any intergovernmental transfer system has a direct impact on all levels of governance ability to raise and rely on taxation revenue for development. Four elements determine fiscal transfer systems; distributable pool, allocation pool, purpose of the transfer system, and design and management of the system. Intergovernmental transfers are expected to be carried out in a transparent, predictable, equitable and stable manner (Muçollari & Katro, 2010). Where a transfer system is not well structured, local units will continue to depend on central government for financial support at all times because that is the easier option available. Intergovernmental transfers play a pivotal role

in ensuring balanced development in order to promote national cohesion (Heredia-Ortiz & Rider, 2011). When designing a transfer system, the first objective is for the system to be temporary. Such an objective gives local authorities an indication that the transfer process will not continue infinitely. Transfers are susceptible to misuse and many pundits have called for internal resource generation to be prioritized (Heredia-Ortiz & Rider, 2011). This serves as a constant reminder to MMDAs to work towards financial independence because reliance on central government for financial support is not sustainable. For instance, in Ghana, over dependence of local governments on intergovernmental transfer revenues, coupled with uncertainty over the amount of funds and the time such funds will be available to the MMDAs has often led to a meltdown in local government operations (Khemani, 2006).

### **Borrowing**

Empowering local authorities with legal powers to engage in borrowing is another backbone of fiscal decentralization. Several advanced economies adopt control mechanisms to regulate capital expenditure of local government entities (Bailey 1999, 2002). Borrowing gives rise to imperatives of repayment of principal plus interests. This makes the idea of borrowing to finance local development a serious business that calls for meticulous thought. Structures and systems to guide borrowing and its uses should be strengthened to avoid leakages and engagement in unproductive ventures (Bailey, Asenova, & Hood, 2012).

Borrowings are used by institutions to undertake long term projects which are capable of generating economic returns that can be utilized in paying back the principal

and interest within stipulated time frames. Access to loans from the financial and capital markets give local governments an opportunity to finance productive local investment needs which they could not have financed as a result of low internally generated funds (Bailey, 2002). It should be noted that heavy reliance on borrowing by local units has the tendency of destabilizing macroeconomic indicators and throwing the entire economy out of gear. In Argentina (late 1990s), unstructured intergovernmental systems threw the economy into a state of disequilibrium. In Brazil and Argentina, disingenuous local expenditure and weak application and disregard of prudent fiscal practices and internal controls in budgeting and budgetary control resulted in macroeconomic ailments (Dillinger & Webb, 1999). To minimize such occurrences many central governments have put in place measures to limit, and even in some cases prohibit the access to debt capital by local governments (Bailey 1999, 2002). In developing countries such as Ghana, the existence of inefficient markets led to constraints in local borrowing. The maximum amount MMDAs in Ghana can borrow is the equivalent of \$ 650.00. This amount as it stands now is grossly inadequate and is far removed from financial realities of the time. Any amount in excess of \$ 650.00 must be guaranteed by the central government through MLGRD (Financial Administration Act 654, 2003 of Ghana).

Where the intergovernmental transfer system is unable to meet the investment needs of local authorities the alternatives for local units is to borrow funds for such investment projects. Therefore, creating a reasonable balance between central government restrictions and satisfying investment requirements of local authorities is the way forward to deliver the much needed development (Bailey, 2002).

## Summary

The perusal and scrutiny of extant and contemporary literature on fiscal decentralization did not give a conclusive focus on how fiscal decentralization propels economic growth and prosperity. A scholar reinforces the view that fiscal decentralization does not always lead to better allocation of resources within the public sector (Oates, 2007).

Most empirical research work tends to lay premium on the allocation of resources to local authorities from central government as a yardstick for the evaluation of fiscal decentralization. Also a number of recent studies have explored the impact of fiscal decentralization in various countries. The research conducted by some scholars suggests that the measurement tool used in the study is a valid and reliable approach to assess financial reporting information quality. This measurement tool contributes to improving the quality assessment of financial reporting information (Van-Beest, Braam, & Boelens, 2009). It also fulfils a guideline from both the FASB and the IASB to make the qualitative characteristics operationally measurable. However, the measure is tailored towards theory than practice and lacks substance to be used in this study.

A study delve into the relationship between financial reporting standards and its impact on quality financial reporting posit that when financial reporting standards are adhered to, it contributes to the preparation and presentation of quality financial reports. Their position ignores other factors that contribute to quality financial reportage apart from financial reporting standards (Jara et al., 2011). Their approach is not comprehensive enough to be used for this study.

Most studies undertaken examine the under currents that foster the positive relationship between fiscal decentralization and economic prosperity. The gap that exists after detailed scrutiny of relevant literature is the impact of fiscal decentralization on quality financial reporting and how that directly relates to internally generated funds and downsizing in audit queries as the grounds for providing additional resources to local governments.

The design of this study was chosen based upon careful review of existing fiscal decentralization and quality financial reporting literature. The next chapter discusses the methodology, setting, sample, instrumentation, and analysis that were used to conduct the study.

## Chapter 3: Research Method

### **Introduction**

This chapter deals with the philosophical stance, research approaches, description of the research design, sampling size and methods, data gathering instruments, data analysis, and ethical considerations of the study. The philosophical standpoint demonstrates the philosophy that guided this work from start to finish. The philosophical stance is the first layer in research methodology that has to be dealt with in order to have a pathway towards the achievement of the research objectives. The research approach also presents itself as a guide as to how the research navigates towards the attainment of the research objectives. An overview of the research design underscored the reasoning behind the topic selection. Sample frame and size dealt with the pool of targeted respondents and the criteria for selection of respondents for gathering of original data.

This study adopts the philosophical standpoint of positivism. The positivist philosophy is employed when the study is geared towards findings and conclusions with the propensity of being replicated in other situations of similar characteristics (Gill & Johnson, 1997). This has a bearing on the research approach that needs to be used. Positivism gives cause to the use of quantitative research and utilization of large samples to facilitate the drawing of quantifiable conclusions that can lead to generalizations. The reliance on large samples for quantitative research is based on the positivism approach to enable the outcomes of the research to be generalized (Ahiauzu, 2007).

The positivism approach allows researchers to use statistical analysis and provides avenues for making numerical findings that can lead to clear conclusions. Thus, by

collecting data from targeted respondents from selected MMDAs, it is possible to draw conclusions that are applicable and meaningful to all district assemblies in Ghana when fiscal decentralization and its impact on quality financial reporting issues are discussed. Positivism rides on highly structured methodology and that is why this study utilized structured questionnaires to gather quantitative data. In adopting this approach, the researcher exercised an appreciable level of objectivity to allow for independence of data collection and analysis. The positivism research approach assumes that the researcher interest is not affected by the outcomes of the work (Remenyi et al., 1998). Based on this assumption, the researcher was expected to exhibit objectivity since he is deemed to have no interest in the outcome of the study.

### **Purpose**

The arch objective of this work was to evaluate the impact of fiscal decentralization on quality financial reporting at the local government level. The relevance of fiscal decentralization has found space and attention in empirical literature. These studies have espoused the positive role decentralization plays in ameliorating poverty and sparking economic growth. Where gaps exist was whether there is any link between fiscal decentralization and the quality of financial reporting at the local levels of governance. Assessing the effectiveness of accountability at the local government level remains a challenge to government, development partners and the general public. Users of financial information attach credibility and reliability to financial statements that have attracted an unqualified opinion from external auditors (Rivenbark & Roenigk, 2011).

With so many funding sources available to MMDAs, it is difficult to evaluate the impact of quality of financial reporting at the local government level. Delays in presenting financial statements and weak financial monitoring systems have left enormous doubts over levels of accountability at MMDAs. These challenges have opened ways for research that was now focusing attention on the impact of fiscal decentralization on quality financial reporting. There was also the need to monitor and evaluate revenues generated internally, audit queries and access to grants by MMDAs.

This study set its sight to establish the association that exists between fiscal decentralization and quality financial reporting at the local level of governance in Ghana.

### **Research Design and Approach**

The study is quantitative in nature and adopted approaches that led to using statistical models to assess how fiscal decentralization can provide the impetus for the attainment of quality financial reporting at local level of governance. Specifically, the study examined the relationships between fiscal decentralization and quality financial reporting. Multiple regression analysis was appropriate for this study because participants were retrospectively reporting their fiscal decentralization and financial reporting experiences. Participants provided responses to structured questionnaires and scores from the SPSS and Microsoft Excel reflected the level of the impact of fiscal decentralization on quality financial reporting at the local level.

### **Research Population**

The population of the study comprised local government stakeholders of MMDAs. At the moment, there are 216 MMDAs in Ghana and the breakdown is as

follows; 6 metropolis, 49 municipalities and 161 districts. The Greater Accra region hosts the capital city of Ghana which is Accra. Greater Accra region is the smallest in terms of land mass and the region district assemblies are; 2 metropolis, 9 municipalities and 5 districts. The rest of the 9 regions consist of 4 metropolis, 40 municipalities and 156 districts. All MMDAs were created and governed by the same law, (Local Government Act, Act 462, 1993). All 16 local assemblies in Accra come within the three principal categories namely metropolitan, municipal and district assemblies. Table 1 shows the distribution of local authorities according to various regions in Ghana.

Table 1

*Breakdown of Metropolitan, Municipal and District Assemblies in Ghana*

Region	Metropolitan	Municipal	District
Ashanti	1	7	22
Brong Ahafo		8	19
Central	1	6	13
Eastern		8	18
Greater Accra	2	9	5
Northern	1	1	24
Upper East		2	11
Upper West		1	10
Volta		5	20
Western	1	2	19

*Note.* Adapted from Local Government Service Secretariat, Ghana. (2009) with permission.

### **Sample Size and Respondents**

In order to achieve an appropriate sample for this study, a scientific method was utilized. Using a more reliable basis (g-power), it reveals that for a one tailed test at  $p < .05$ , to detect an effect size of .30 with a power of at least .80, the study would require a sample of at least 65 participants (Kraemer & Thiemann, 1987). A sample size of 65 met the criteria for the study. The sample size was large enough to allow for generalizations and replication of findings in similar areas.

The targeted respondents of this study were samples of traditional authorities, assembly members, development partners, principal spending officers, finance officers, internal auditors and budget officers. These categories of stakeholders have been earmarked to provide responses because they were key actors in the fiscal decentralization and financial reporting theatres of local assemblies in Ghana (Local Government Act 462, 1993 of Ghana). In view of the relevance of the subject, the targeted participants were selected based on the following reasons: That, they were appropriate in terms of the subject and that they can also be relied upon for responses and also they were accessible.

Furthermore, they were matured enough to provide informed consent. In addition, they were presumed to have the experience, training and understanding of fiscal decentralization and public sector financial management. Moreover, their educational background and status within the society equips them with the requisite comprehension and cognitive skills to respond appropriately to the questionnaires.

This study employed probability sampling in the selection of respondents. Specifically, simple random sampling was used in this work. All targeted respondents have an equal opportunity of being chosen for this study.

As part of due diligence, approval was solicited from LGSS, which is the agency responsible for coordinating the activities of MMDAs in Ghana. The approval letter of the LGSS copied all the 216 MMDAs and the MLGRD (Appendix F). The consent of the institutions and the targeted respondents have the combined effect of obtaining data in a friendly environment. This up swelled the response rates.

### **Sampling Frame**

The number of MMDAs in Ghana totaled 216: 6 metropolis, 49 municipalities and 161 district assemblies (see table 1). A metropolitan assembly is a city or local government unit with a population of over 250,000 whilst a municipal assembly is a town assembly with a population of over 95,000. The district assembly is the smallest which is a group settlement with a minimum population of 75,000 and a maximum of 95,000. The list of MMDAs in Ghana was retrieved from the LGSS website. Some MMDAs have no official website. The MMDAs with official websites suffered a weakness of being out of date. Contact details of the principal spending officers were however available. The contact details proved useful with the researcher relying on them to distribute questionnaires and permission letter. The permission letter was given by the LGSS head office, Accra to respondents. A copy of the permission letter is attached (appendix F). Response rate was 100% resulting in the retrieval of all questionnaires that were distributed.

All respondents prior to the questionnaire were sent invitation letters followed by consent forms. The invitation letter explained the purpose of the survey and provided contact information of the sponsor in the event the respondent had any questions or concerns about the survey. A total of 160 questionnaires were distributed to targeted respondents and all the questionnaires were recovered. The researcher sorted the retrieved questionnaire resulting in the acceptance of 65 questionnaires while the rest (95) were rejected as indicated in Table 3. Fifteen out of the 65 questionnaires accepted to participate in the follow up test retest. Questionnaires were sent a week later to the 15 respondents who expressed interest in participating in the test retest survey. The test retest exercise was to ensure that, participants were not influenced to participate and also to offer them an opportunity to reflect on their earlier response. Telephone calls were made to participants to verify the accuracy of addresses. All the 15 respondents affirmed their earlier position with no change to their earlier answers.

### **Procedures**

A document introducing the subject as well as an informed consent form were distributed to target participants through their personal mailboxes, personal delivery or by post whichever was appropriate to the specific participant. In each case, a guideline on how to start and complete the questionnaire successfully was attached. Personal delivery became appropriate when a targeted MMDA have no functional post office. Postal means of distribution favored wider geographic coverage but late response rates were often high. In this regard, personal retrieval was adopted in some cases when postal delivery time is expected to delay, which worked well. The consent form provided a summary about the

study in order to allow respondents to obtain some understanding of the research work. The research procedures, mode of response, confidentiality, non compulsion and ethical considerations were some of the issues that were contained in the consent form (appendix C).

A second consent form was sent for the attention of those who opted for the test retest of the study. Relevant contact details such as telephone numbers, and postal addresses were provided so that clarifications and additional questions regarding the research and responses provided can be transmitted to the researcher. Officials who expressed interest in participating in the study were required to sign an informed consent form and return it to the researcher through mail or post whichever was deemed appropriate for the participant.

Targeted respondents who expressed their readiness, availability and acceptance of the rules of engagement of the study were given a coded pack of questionnaires. Information collected were treated as confidential and the identities of the respondents are not to be disclosed in writing the report. The results of this study would be disseminated through seminar presentations, policy briefs and peer reviewed publications. However, the identities of the respondents would not be disclosed during such dissemination platforms.

The questionnaires contained questions on the profile of respondents and proceed to have structured questions on fiscal decentralization, quality financial reporting, Internally Generated Fund (IGF), audit queries, and access to granting funds. The researcher was aware that some of the officers have worked in more than one district.

However, for the purposes of this study the participants were asked to limit their information to their current duty post when completing the questionnaires.

The existing participants who exhibited willingness to participate in the follow up test retest study received two copies of the questionnaires one week after the initial study deadline. This was to authenticate their initial responses and also ensure that, the researcher does not have any influence in their initial responses. They were asked to complete the questionnaires in the same manner as they did earlier. Completed questionnaires were returned to the researcher postal address in the enclosed, stamped envelope respectively. The mailed completed questionnaires were compared with their original format which the researcher mailed to them. Personal visits were used to complement the retrieval process of the questionnaires in order to improve response rates, which yielded tremendous (100% response rate) result. A column was reserved for participants to express their interest in receiving feedback. Research was transmitted in the same manner the data collection instrument was administered.

### **Data Gathering**

The data was collected through the use of highly structured questionnaire in an attempt to achieve comparability of outcomes of the study (Siniscalco & Auriat, 2005). A survey was undertaken to examine the variables using structured questionnaires. The survey strategy was conducive to the deductive approach adopted in this study. Using the survey also allows for the gathering of colossal quantity of original data from targeted respondents in an efficient and economical manner (Saunders et. al., 2000). Surveys also

facilitate control of the research process. Exercising control over the research work is crucial in validating the findings and conclusions of this study.

### **Instruments**

A structured questionnaire was designed to elicit responses from participants. Close and open ended questions formed part of the questionnaire (appendix D) with the sole aim of exclusively answering the research questions. Likert Scale was also used as part of the questionnaire design. Secondary information such as annual financial statements was gathered from the records of CAGD, office of the common fund administrator and district development fund secretariat to aid the analysis. Financial reports is not just gathering data and presenting the information to stakeholders; rather, it is expected to aid stakeholders appreciate the going concern status of the entity and to enable them take decisions (Hamilton, 2005).

The questions covered areas such as participant, educational level, name of MMDA, telephone number and position held. The questions hinged on critical areas of the dependent, independent and moderating variables. Thus questions on fiscal decentralization, quality financial reporting as epitomized by falling audit concerns, access to grants from development partners, and increased internally generated funds were posed. The questionnaire measured the degree to which the researcher has perceived the respondent understanding about fiscal decentralization and quality financial reporting concepts peculiar to his or her district and recommended policy alternatives where necessary to deepen fiscal decentralization and enhanced quality financial reporting at the

local level. To add more credence to the reliability of the data, a further test retest was conducted on the sub sample of the predetermined population.

### **Analysis**

The study used of SPSS software to run multiple regression analysis by examining the interrelationship between quality financial reporting (dependent or response variable) and a number of explanatory (independent) variables such as expenditure responsibilities ( $b_1$ ), taxation powers ( $b_2$ ), intergovernmental fiscal transfers ( $b_3$ ), and borrowing powers ( $b_4$ ).

Mathematically: the linear regression equation is given as:

$$Y = a_0 + a_1b_1 + a_2b_2 + a_3b_3 + a_4b_4 + \varepsilon;$$

Where  $Y$  is the Quality financial reporting, the dependent variable,

$b_1$  is the expenditure responsibilities

$b_2$  is the taxation powers

$b_3$  is the intergovernmental fiscal transfers

$b_4$  is the borrowing powers

Where  $a_0$ ,  $a_1$ ,  $a_2$ ,  $a_3$ , and  $a_4$  are unknown constants whose value will be estimated by regression analysis from the SPSS output.

$\varepsilon$  is the random error term.

Computer software SPSS and Microsoft Excel were used to assist in data analysis. The Excel was used for descriptive analysis whiles the SPSS was used for inferential analysis. The instruments utilized for measurement of the variables in this study were amenable to numerical analysis such as regression analysis.

The results of the analysis find answers to the research questions posed in the study. The research questions and hypotheses were listed again for review. The following research questions were posed after an in depth scrutiny of existing literature in the area of fiscal decentralization and quality financial reporting.

The primary research question the study addressed is: To what extent does fiscal decentralization impact on quality financial reporting at the local level in Ghana? The study also finds answers to the following specific research questions:

1. What impact does fiscal decentralization have on quality financial reporting at the local government level?
2. To what extent has quality financial reporting reduced audit queries?
3. What impact does quality financial reporting have on internally owned funds generation at a subnational government level?
4. How has the provision of quality financial reporting served as basis for granting funds to MMDAs?
5. Will quality financial reporting lead to citizen participation in local governance?
6. Will quality financial reporting stir and promote accountability and transparency at MMDAs?

### **Hypothesis Testing**

#### **Hypothesis**

$H_0$ : Fiscal decentralization has no positive impact on quality financial reporting at local assemblies.

$H_1$ : Fiscal decentralization has a positive impact on quality financial reporting at local assemblies.

At 5% (0.05) significant level, the above hypothesis was tested using Pearson's chi square test to either reject or fail to reject the null hypothesis ( $H_0$ ): Fiscal decentralization has no positive impact on quality financial reporting at local assemblies. Or accept the alternative hypothesis ( $H_1$ ): Fiscal decentralization has a positive impact on quality financial reporting at local assemblies.

Since the study deals with examining the impact of fiscal decentralization on quality financial reporting, it was imperative that the null and the alternative hypotheses were tested to verify the authenticity of the research.

### **Ethical Considerations**

The researcher was guided by ethical considerations in order to safeguard the sanctity of this work (Loeb, 1971). In this regard, the express consent of all targeted respondents were solicited before questionnaires were administered. The confidentiality of all participants were assured and guaranteed. Whilst targeted respondents were given every encouragement to fully participate in this study through the provision of appropriate responses, they were given the option to opt out if they deem it necessary. By explicitly stating the objectives and significance of this study, the researcher was optimistic about active participation of targeted respondents.

All records and information received in this study were treated as confidential. Access to the information was limited to the researcher alone. Targeted participants who have some apprehensions about the purposes of this research and raise concerns were

allowed to opt out without fear. The researcher did not envisage any direct or indirect risks for participating in the study. Participants were informed of their right not to complete the questionnaire if they harbor some discomfort. The receipt of a signed informed consent form means the targeted respondent had concurred to participate in the study under terms explicitly expressed in the form.

### **Summary**

The study employed quantitative research strategies. The study population includes stakeholders and workers of the local government institutions in Ghana. A sample size of 65 respondents was determined and simple random sampling was employed to sample participants in this study. A structured questionnaire was used for the data collection. Informed consent was solicited and obtained from all respondents. The data collected were treated as confidential. The data collected were analyzed in aggregate and no other person had access to the data apart from the principal investigator. The next chapter presents the results from the analysis of the data.

## Chapter 4: Results

### **Introduction**

District assembly refers to metropolitan, municipal and district assemblies constituting the highest political authority of a locality which is stipulated in a legislative instrument. The legislative instrument specifies among others the jurisdiction, powers, responsibilities, functions and membership of the district assembly. Each district assembly shall be a legal entity, operating as a body corporate with the status of a going concern having a functional succession plan with a common seal with the capacity to sue and be sued (Local Government Act, Act 462, 1993 of Ghana).

The Chapter is organized in two broad sections. Data collection, survey distribution, survey instrument and supporting tables on MMDAs and respondents, makes up the first section. In the second segment, the survey data were analyzed having in mind the hypothesis and research questions in order to present relevant answers that will answer the research questions and also meet the objective of the study which was to determine the impact of fiscal decentralization on quality financial reporting.

### **Data Collection**

The main source of data collection was questionnaires using the survey method. For purposes of clarity and depth of understanding, some open ended questions were added to the close ended questions to solicit participants view.

Quality financial reporting as the dependent variable and expenditure responsibility, taxation powers, intergovernmental fiscal transfers and borrowing powers as independent variables on the other hand exist to make a hypothesis testing possible.

Further, utilizing questionnaire yielded detailed information needed to provide appreciable understanding of fiscal decentralization and its impact on quality financial reporting. Fiscal decentralization is a major primary step in enhancing decentralization process and there was the need to examine it, in order to present a detailed account of its impact on quality financial reporting at the local government level in Ghana.

### Survey Distribution

Sixty five participants responses were accepted for the analyses (see figure 3). Three participants from metropolitan, 22 were from municipal and 40 participants from district assemblies answered the surveyed questionnaires correctly as indicated in Table 2. The total number of district assemblies in Ghana are 6 metropolitan, 49 municipal and 161 district assemblies, totaling 216 MMDAs.

Table 2

#### *Number of MMDAs Surveyed and Accepted for the Study*

Region	Metropolitan	Municipal	District
Central		Assin North	Agona East
		Effutu	Assin South
		Mfantseman	Awutu Senya East Awutu Senya
Eastern		East Akim	Akuapim South
		Kwahu West	Akuapim North
		Lower Manya Krobo	Asuogyaman
		New Juaben	Kwahu East
		Nsawam	Kwahu North
		West Akim	Kwahu South
		YiloKrobo	Suhum

*table continues*

Region	Metropolitan	Municipal	District
Greater Accra	Accra	Adenta	Ada West
	Tema	Ga East	Danme East
		Ga West	Dangme West
		Ga Central	
		Ga South	
		LA-Nkwantanang-Madina	
		Ledzokuku-Krowor	
Northern	Tamale	Yendi	Bole Bunkprugu- East Gonja Kpandai MampruguMoadu North Gonja Savelugu/Nanton Sawla-Tuna- Tolon West Gonja West Mamprusi Zabzugu/Tatale
Upper East		Bawku	Bongo
		Bolgatanga	Builsa Builsa South Kassena Nankana Kassena Nankana
			DaffiamaBussieIs sa
			Jirapa
			LambussieKarni
Upper West		Wa	Nadowli Sissala East Sissala West

*table continues*

Region	Metropolitan	Municipal	District
Volta		Hohoe	Biakoye Jasikan Kadjebi
Totals	3	22	40

*Note.* Field Data, 2014.

Table 3

*Distribution of Questionnaire by Region of MMDA: (Given out, Received, Rejected and Accepted)*

Region of MMDA	Given out	Received	Rejected	Accepted
Central	20	20	13	7
Eastern	26	26	12	14
Greater Accra	16	16	4	12
Northern	26	26	12	14
Upper East	13	13	6	7
Upper West	11	11	4	7
Volta	25	25	21	4
Ashanti	12	12	12	0
Western	11	11	11	0
Total	160	160	95	65

*Note.* Field Data, 2014.

Data collected was verified as part of quality control. The data collected was scrutinized as a check for accuracy. This was important to ensure credibility and reliability of data collected which will augur well for replication of this study. Upon receipt and appraisal of the completed questionnaires, it was discovered that some of the questionnaires did not meet the set criteria of adequacy and completeness. Sixty five survey instruments met the quality criteria and were used for the data analyses. The rest of the answered questionnaires totaling 95 were rejected as outlined in Figure 2.

### Quality Criteria of Survey Instruments

The criteria became necessary in view of the importance of the study and the need to rely on data that can be relied upon for completeness and objectivity. Fiscal decentralization continues to generate intense interest from stakeholders and this study needs to be anchored on accurate and relevant data whose outcomes can be a credible source of reference for academic work, professionals and practitioners (see Figure 2).

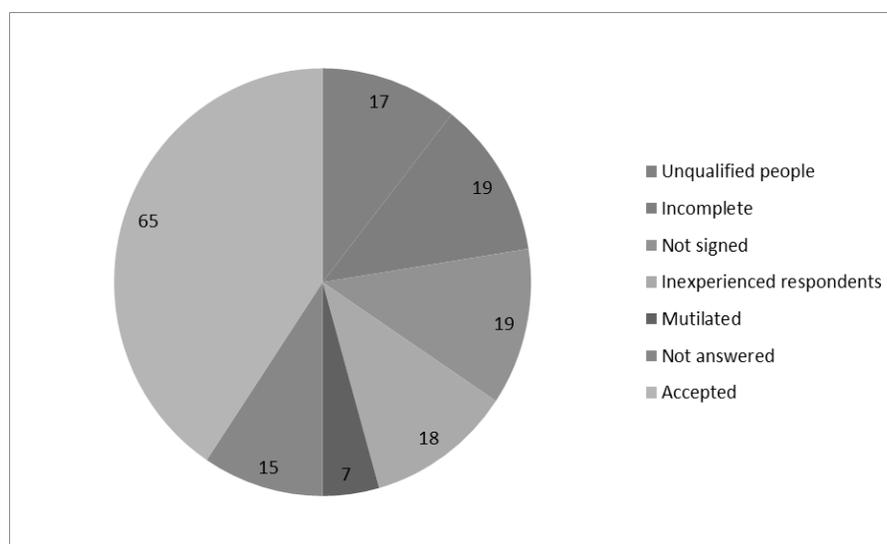
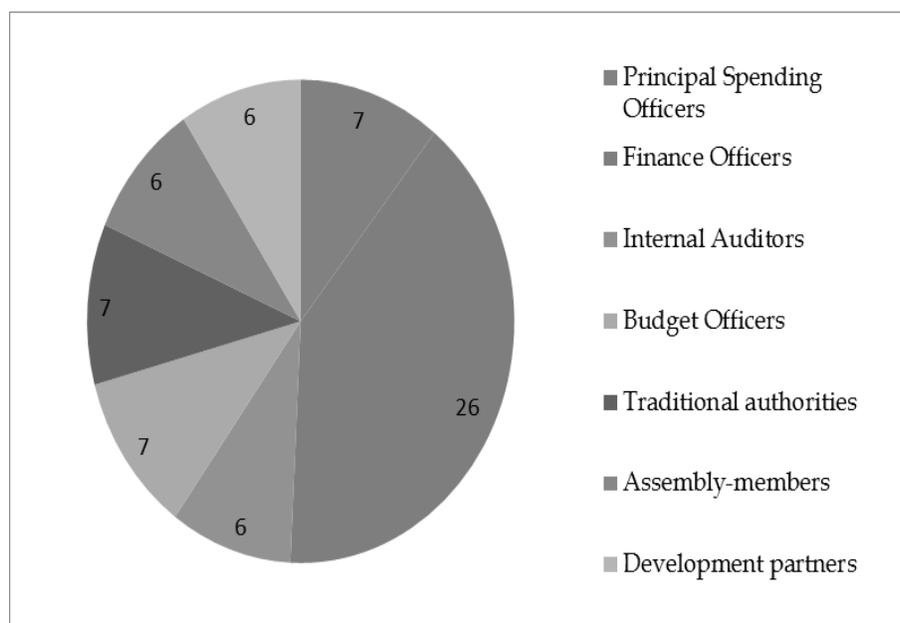


Figure 2. Quality criteria of survey instruments.

### **Survey Instrument**

The contents of the questionnaire were designed by the researcher in order to elicit relevant information that will meet the objectives of this work. The study survey developed questions geared towards soliciting information on fiscal decentralization and its impact on quality financial reporting in Ghana. Also included in the variables for measurement were access to granting funds, internally generated funds and audit queries which constitute the moderating variables. The questionnaire covered 5 broad areas with over 104 questions. Within the 104 questions, several questions had binary response format with open ended attachment and others were of Likert format with multiple responses.

The questionnaires were distributed to two categories of people. The permanent staff (managers of the assemblies) who were public officials and mainly responsible for fiscal decentralization and financial reporting in the various MMDAs constituted the first segment. The other category includes stakeholders who make use of financial information or are associated with fiscal implementation at the MMDAs. The first group consists of principal spending officers, finance officers, internal auditors, and budget analysts whilst the other categories were assembly members (law makers), development partners and traditional rulers within the districts. The distribution analysis is shown in figure 3.



*Figure 3.* Number of participants: Survey responses.

### **Survey Result Analysis**

Some scholars view data analysis as an exercise of extracting meaning from raw facts under a study (Fossey, Harvey, McDermott, & Davidson 2002). Data analysis strives to find logic and understanding to data collected (Anfara et. al 2002). This section provides a detailed explanation of how data for this study were analyzed. A scholar posits that data is raw in nature and provides very little insight to a researcher and this calls for processing and interpretation of data in order to derive understanding of data collected (McNabb, 2008). The second part of this chapter is outlined in the following section. The research questions and hypotheses were analyzed using multiple regression analysis, descriptive plots and Pearson chi square. The regression analysis was conducted using the stepwise method to examine the interrelationship between the response variables (quality financial reporting) and explanatory variables (expenditure responsibility, taxation

powers, intergovernmental fiscal transfer and borrowing powers). The data to analyze the research questions and hypothesis were presented using the SPSS and Microsoft Excel.

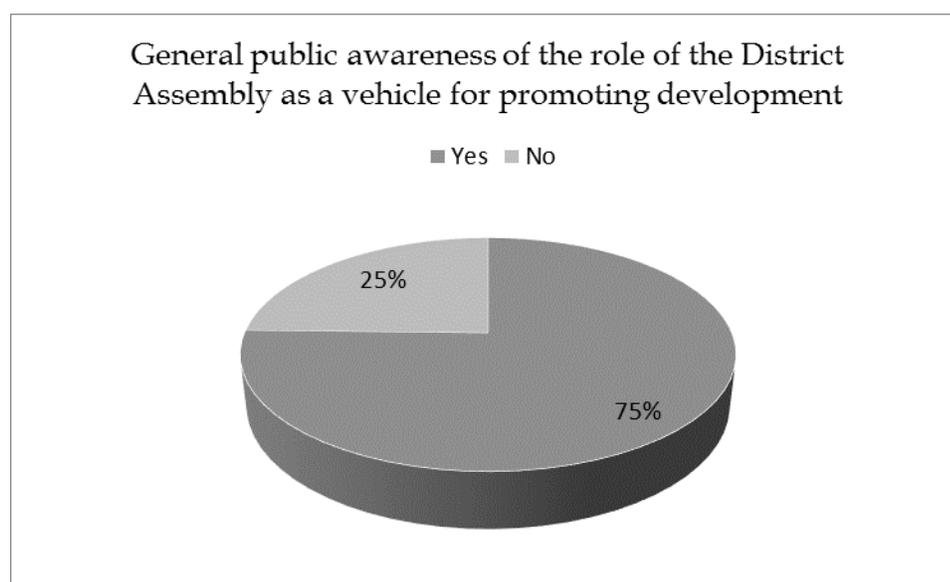
The primary research question the study addressed is: To what extent does fiscal decentralization impact on quality financial reporting at the local level in Ghana? The study also finds answers to the following specific research questions:

1. What impact does fiscal decentralization have on quality financial reporting at the local government level?
2. To what extent have quality financial reporting reduced audit queries?
3. What impact does quality financial reporting have on internally owned funds generation at a subnational government level?
4. How has the provision of quality financial reporting served as basis for granting funds to MMDAs?
5. Will quality financial reporting lead to citizen participation in local governance?
6. Will quality financial reporting stir and promote accountability and transparency at MMDAs?

### **General Analyses of Fiscal Decentralization**

In order to give credence and pave a solid background for thorough analysis of the field data, the researcher conducted a thorough analysis of the responses provided by respondents. Firstly, respondents were asked whether they were aware of the role of the MMDAs as an engine for promoting development. Seventy five percent of the respondents revealed that, they were aware of the role of MMDAs as an engine for

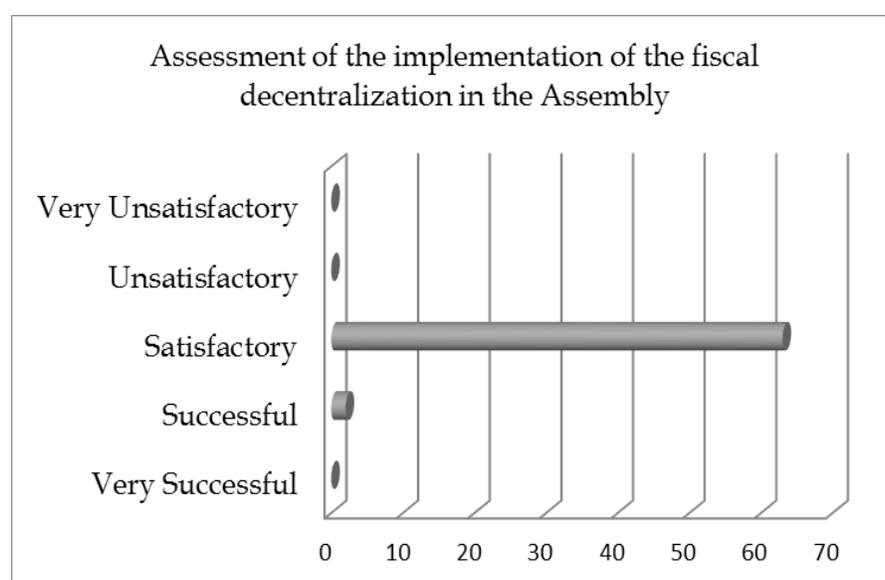
promoting development at the local level and 25% indicated that they were not aware as shown in figure 4. The respondents provided further explanation in the open ended questions. In doing so they hinted that, the infrastructure development at the local levels today, were all done either through or in collaboration with the district assemblies. Any support coming to the locality must necessarily pass through the district assembly. The understanding of the respondents is consistent with the spirit of the Local Government Act, Act 462, 1993 of Ghana.



*Figure 4.* General public awareness of the role of the district assemblies as a vehicle for promoting development.

Further, participants were asked to assess the impact of fiscal decentralization program on the MMDAs. Majority of the participants representing 96.92% said fiscal decentralization programs on the assemblies were satisfactory whilst 3.08% described the decentralization program as successful (see figure 2). Throwing more light on the open

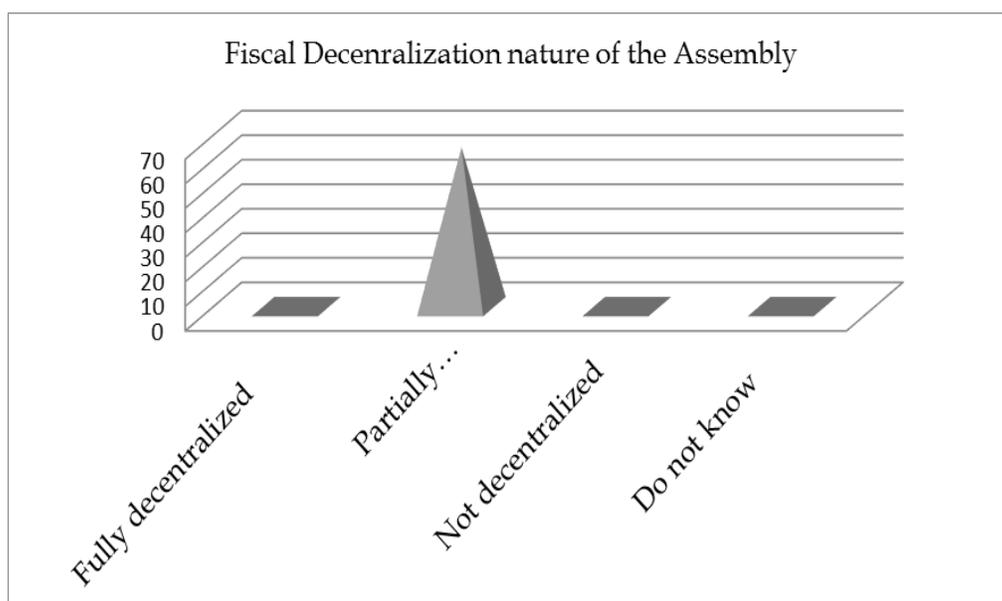
ended question, participants stressed that a lot more could have been achieved if management of district assemblies engaged all stakeholders in the planning, budgeting, financing and implementation of policies and programs. They posited that assembly members who are the law makers have a huge role to play in advancing fiscal decentralization programs in the country. The appreciation of respondents of the subject is in line with the Local Government Act, Act 462, 1993 of Ghana.



*Figure 5.* Assessment of the implementation of the fiscal decentralization in the assembly.

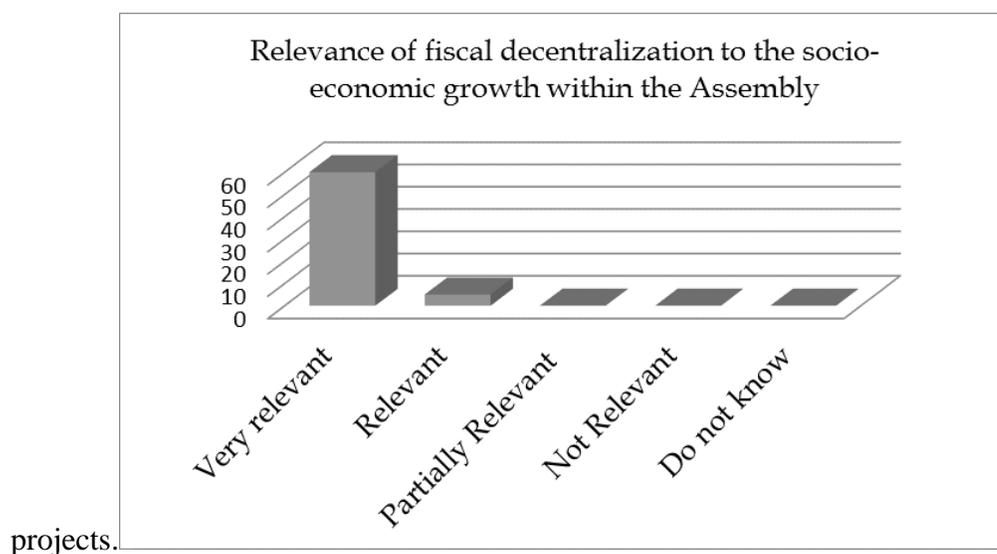
Participants were asked about the level of decentralization in their assemblies. The respondents unanimously agreed that their assemblies were partially decentralized as shown in figure 5. In responding to the open ended questions, the respondents admitted that although in theory MMDAs are decentralized units including the ceremonial transfer of staff from central government to local government service as required by the Local

Government Act, Act 462, 1993, more needs to be done in terms of reviewing some of the existing local laws and encouraging development partners to use local systems to ensure total decentralization. To buttress the case of partial decentralization, the respondents cited a situation where development agencies providing financial support to district assemblies to fund projects dictate the mode and systems of preparing and submitting financial returns rather than using local government financial systems thereby contravening the Financial Administration Act, Act 654, 2003 and Financial Administration Regulation L.I 1802, 2004, of Ghana. Besides, some existing local laws (e.g. Financial Administration Act, Act 654, 2003, Financial Administration Regulation L.I. 1802, 2004, and Public Procurement Act, 658, 2003), gives central government the power to regulate the finances and budgeting procedures of local assemblies which defeat the purpose of decentralization.



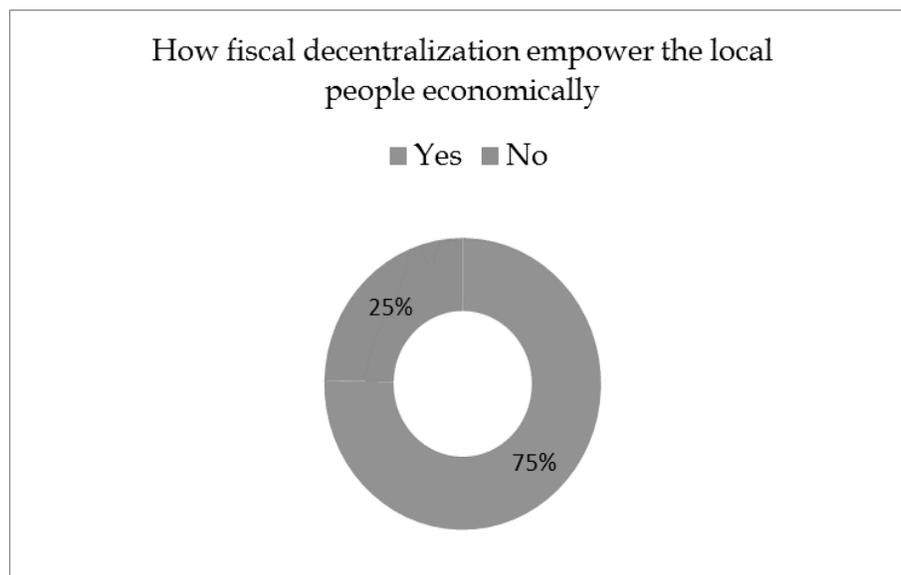
*Figure 6.* Fiscal decentralization of the assembly.

In addition, the respondents were asked about the relevance of fiscal decentralization to the socioeconomic growth of the assembly. About 92.31% indicated that it is very relevant and 7.69% stated that it is relevant as displayed in figure 6. Some of the respondents revealed in the open ended questions that without fiscal decentralization, decentralization in general cannot stand. Many local assemblies would have remained where they were if decentralization was not backed by fiscal decentralization. Fiscal decentralization provides the needed resources for local authorities to thrive. All the participants who attested to the fact held the view that the relevance of fiscal decentralization to socioeconomic growth of any assembly in Ghana cannot be underestimated adding that it is through fiscal decentralization that assemblies are able to undertake development



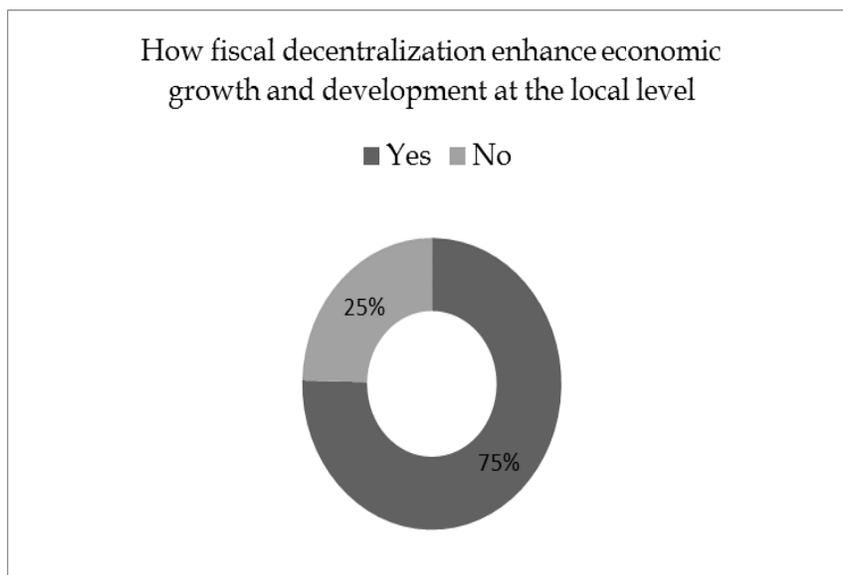
*Figure 7.* Relevance of fiscal decentralization to the socioeconomic growth within the assembly.

The respondents were asked whether fiscal decentralization results in economic empowerment of local citizens. Seventy five percent (75%) respondents confirmed that fiscal decentralization empowers local people economically whilst 25% dissented as shown in figure 7. Through fiscal decentralization more resources are channeled to local government authorities which is spent on the local economy. Currently, the MMDAs are obliged to adopt labor intensive mechanisms during construction of infrastructure such as road under a concept referred to as Ghana Support Opportunities Project (GSOP), which is supported by the central government and World Bank see appendix E. The GSOP concept allows MMDAs to use local labor in construction activities of the assembly in order to create jobs and reward labor. It is now a common sight to find laborers busily working on construction sites in order to earn income. Local government practitioners who participated in the study corroborated this view stressing that whenever a new district assembly is created, economic avenues such as restaurants, guest houses and offices spring up to provide services to the personnel of the assembly resulting in brisk business.



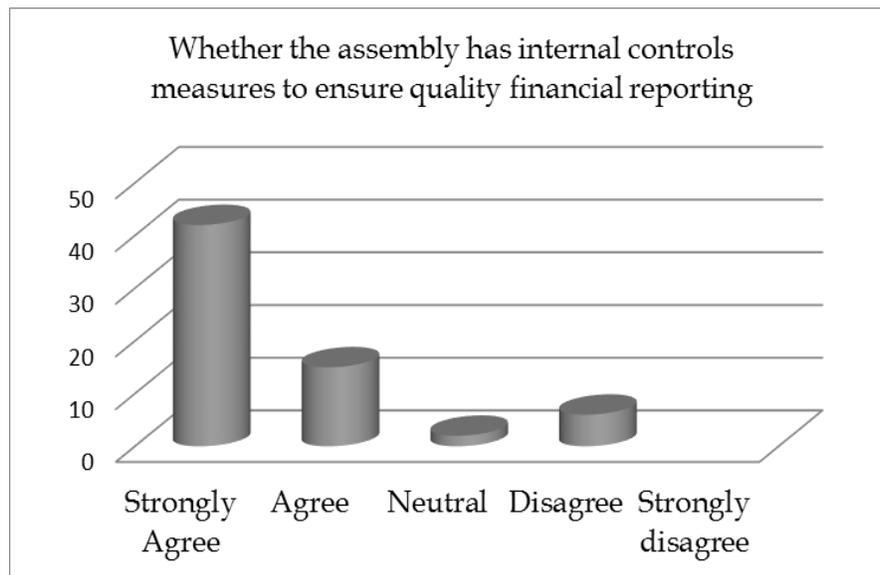
*Figure 8.* How fiscal decentralization empowers the local people economically.

Additionally, there was a question as to whether fiscal decentralization enhances economic growth and development at the local level. Majority of the respondents (75%) stated that it does and the remaining 25% said it does not as in figure 9.



*Figure 9.* How fiscal decentralization enhances economic growth and development at the local level.

Finally, a question was asked to the participants as to whether the assembly has internal control measures to ensure quality financial reporting. The Likert response format was obtained and 42 of the respondents strongly agree, 15 agree, 2 neutral, 6 disagree and none of the participants strongly disagree that the assembly has internal control measures to ensure quality financial reporting as indicated in figure 10.



*Figure 10.* Whether assembly has internal control measures to ensure quality financial reporting.

### Correlation Matrix

The researcher began the model building procedure by first producing the Pearson correlation matrix of the explanatory variables together with quality financial reporting from SPSS package. The researcher then examined the correlation matrix to find out whether or not there is any form of association between each of the predictors and the dependent variable, quality financial reporting. Where the correlation coefficient of the predictors are high in excess of 0.5 than it does suggest that there is some sort of association between the independent variables and the dependent variable.

The correlation matrix produced from the SPSS package (see Table 4) shows higher correlation coefficients,  $r$ , between taxation powers and expenditure responsibilities with value of  $r$ , 0.748. Also, quality financial reporting and taxation

powers are moderately correlated with correlation coefficients  $r$ , 0.420. However the borrowing powers, intergovernmental fiscal transfers and expenditure responsibilities do not seem to correlate well with quality financial reporting and their correlation coefficients from the table range from 0.284 to 0.314 in absolute values.

Correlation matrix does not however give details about the relationship between the predictors and predicted and can sometimes lead to inappropriate conclusions. The researcher therefore proceeds and conducted multiple regression analysis.

Table 4

*Correlation Matrix Table*

	Independent Variables	Quality Financial Reporting	Expenditure Responsibilities	Taxation Powers	Intergovernmental Fiscal Transfers	Borrowing Powers
Pearson Correlation	Quality Financial Reporting	1	0.314	0.42	-0.324	-0.284
	Expenditure Responsibilities	0.314	1	0.748	-0.102	0.092
	Taxation Powers	0.42	0.748	1	-0.136	0.123
	Intergovernmental Fiscal Transfers	-0.324	-0.102	-0.136	1	0.092
	Borrowing Powers	-0.284	0.092	0.123	0.092	1
Sig. (1-Tailed)	Quality Financial Reporting	.	0.005	0	0.004	0.011
	Expenditure Responsibilities	0.005	.	0	0.21	0.233
	Taxation Powers	0	0	.	0.14	0.164
	Intergovernmental Fiscal Transfers	0.004	0.21	0.14	.	0.233
	Borrowing Powers	0.011	0.233	0.164	0.233	.
N	Quality Financial Reporting	65	65	65	65	65
	Expenditure Responsibilities	65	65	65	65	65
	Taxation Powers	65	65	65	65	65
	Intergovernmental Fiscal Transfers	65	65	65	65	65
	Borrowing Powers	65	65	65	65	65

*Note.* Field Data, 2014.

**Main Research Question 1. What impact does fiscal decentralization have on quality financial reporting at the local government level?**

**Multiple Regression Analysis**

In order to adequately deal with the primary research question, the multiple regression model was developed using the stepwise method for all the explanatory variables. This method was preferred because it adds the explanatory variables to the model one after the other at a time. It begins with the variable that has or exhibited the highest correlation with the predicted variable, in the case of this research it was quality financial reporting. If an explanatory variable is found not to be contributing significantly to the dependent or predicted variable, it is only proper for it to be eliminated. The method is especially useful if the independent variables were very large and the researcher wants to include only those contributing significantly to the model. After critically examining the output from the SPSS for the regression model, the researcher considered models 1, 2 & 3 on the stepwise regression model table model as the best models. These models can be represented in the form:

$$Y = a_0 + a_1b_1 + a_2b_2 + a_3b_3 + \varepsilon;$$

Where Y is the quality financial reporting, the dependent variable,

$b_1$  is the expenditure responsibilities

$b_2$  is the taxation powers

$b_3$  is the intergovernmental fiscal transfers

$b_4$  is the borrowing powers

Where  $a_0$ ,  $a_1$ ,  $a_2$ ,  $a_3$ , and  $a_4$  are unknown constants whose value were estimated by multiple regression analysis from the SPSS output.

$\varepsilon$  is the random error term.

### Justification for Selecting Models 1, 2 & 3 as the Best Models

Justification for selecting models is outlined (see table 5)

Table 5

#### *Coefficients*

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval For B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	0.836	0.192		4.366	0	0.454	1.219		
	Taxation Powers	0.582	0.158	0.42	3.672	0	0.265	0.898	1	1
2	(Constant)	2	0.409		4.891	0	1.183	2.817		
	Taxation Powers	0.64	0.149	0.462	4.286	0	0.342	0.938	0.985	1.015
	Borrowing Powers	-0.64	0.202	-0.341	-3.17	0.002	-1.044	-0.236	0.985	1.015
3	(Constant)	2.409	0.436		5.528	0	1.538	3.281		
	Taxation Powers	0.591	0.146	0.426	4.039	0	0.298	0.883	0.963	1.038
	Borrowing Powers	-0.591	0.197	-0.315	-3	0.004	-0.985	-0.197	0.973	1.028
	Intergovernmental Fiscal Transfers	-0.409	0.182	-0.237	-2.25	0.028	-0.772	-0.046	0.969	1.031

a. Dependent Variable: quality financial reporting

*Note.* Field Data, 2014.

The SPSS package began selecting explanatory variables that contribute highly to the dependent variable. Hence, the package identified taxation powers as being the independent variable that makes the highest contribution to quality financial reporting. It

then identified borrowing powers as having the next highest partial correlation with overall satisfaction so it was added in the second model, model 2. Intergovernmental fiscal transfer was the last to be selected and it was added in model 3.

Although the  $t$  values, together with the constant, are all less than 10.

Nevertheless, the three explanatory variables taxation powers, borrowing powers and intergovernmental fiscal transfers are very important to the model.

An inspection of the Variance Inflation Factors (VIF) of these models was less than 10, an indication that there were no signs of the existence of collinearity.

We now substitute the estimated values of the constants  $a_0$ ,  $a_1$ ,  $a_2$ , and  $a_3$  from the output into our equation.

Hence  $Y = 0.8360 + 0.582b_2 - 0.640b_4 - 0.409b_3$

Where  $Y$  is the quality financial reporting, the dependent variable,

$b_2$  is the taxation powers

$b_3$  is the intergovernmental fiscal transfers

$b_4$  is the borrowing powers

## Model Summary

The model summary is outlined in table 6.

Table 6

### *Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.420	0.176	0.16323	0.46088	0.17630	13.484	1	63	4.98E-04
	a	3	41		9	9			
2	.539	0.290	0.26803	0.43105	0.11460	10.020	1	62	0.002400
	b	9	52		1	2			803
3	.588	0.345	0.31310	0.41757	0.05439	5.0676	1	61	0.027989
	c	3	12			9			845

a. Predictors: (Constant), taxation powers

b. Predictors: (Constant), taxation powers, borrowing powers

c. Predictors: (Constant), taxation powers, borrowing powers , intergovernmental fiscal transfers

d. Dependent Variable: quality financial reporting

*Note.* Field Data, 2014.

The model summary reveals that R, the multiple correlation coefficients for models 1, 2 & 3 are moderately high. R = 0.420, 0.539 and 0.588 shows that there a moderate correlation between the observed and predicted values of the dependent variable, quality financial reporting. The model has a reasonable number of explanatory variables included.

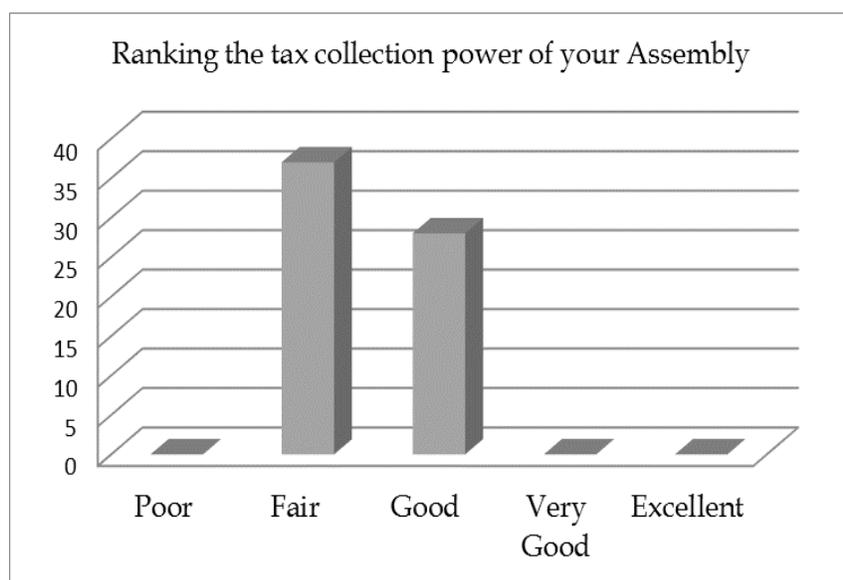
From the model summary, the model building is done hierarchically. Model 1 has been taken as the first predictor (a) which is the taxation powers, model 2 the second predictor

(b) which has added borrowing powers to taxation powers, model 3 the third predictor (c) which has added borrowing powers, taxation powers to intergovernmental fiscal transfers. Finally, quality financial reporting (d) has been taken to be a dependent variable of the independent variables or predictors (borrowing powers, taxation powers and intergovernmental fiscal transfers) to complete the hierarchical nature of the modeling process.

Based on the analysis, taxation powers emerge as the most significant contributor to quality financial reporting at MMDAs in Ghana. The respondents were further asked, to rank the tax collection powers of their assemblies to provide further descriptive meaning to the research. There were mix responses from the respondents. Thirty seven of the respondents representing 56.92% fairly ranked their assemblies to be having tax collection powers and 28 of the respondents representing 43.08% of the respondents revealed that the tax collection powers of their assembly was good as shown in figure 10. However, none of the respondents (0%) stated that, their assemblies were very good, excellent and poor in terms of tax collection power. In responding to the open ended questions, the respondents disclosed that all MMDAs in the country are granted taxation powers within their areas of operation. They added that taxation powers of district assemblies were clearly stipulated in the Local Government Act, Act 462, 1993. Besides, the 1992 Constitution of Ghana makes all district assemblies rating authorities.

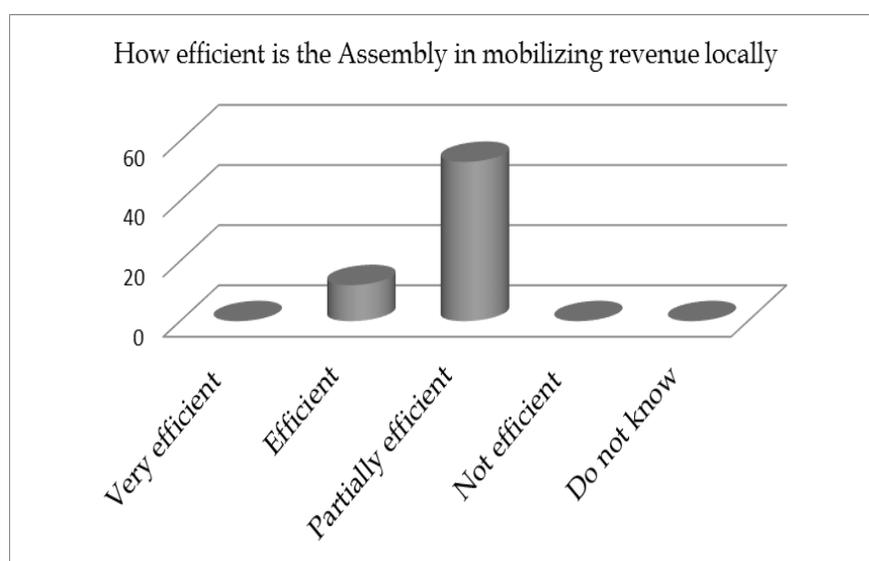
District assemblies were the only body legislated to levy and collect taxes within their area of jurisdiction without recourse to parliamentary approval (1992 Constitution of Ghana). The respondents stated that, inability of MMDAs to adequately collect local

taxes were largely due to low citizen engagement in revenue mobilization activities of the assemblies. The respondents further asserted that, local tax payers are unwilling to pay because they see some disconnection between them and MMDAs when it comes to planning and implementation of programs. The rate payers view developmental projects such as roads, schools, hospitals and recreational centers as being funded by central government and development partners and not the MMDAs. Beyond that, district assemblies concentrate on existing sources of revenue without coming out with more innovative and creative ways of generating revenue. The participants further argued that, the capacities of the officers responsible for revenue mobilization is yet another question worth discussing. The revenue officers do not understand the rationale behind revenue generation derived by the assembly and how they can generate the needed funds for the assembly to undertake projects and improved financial reporting.



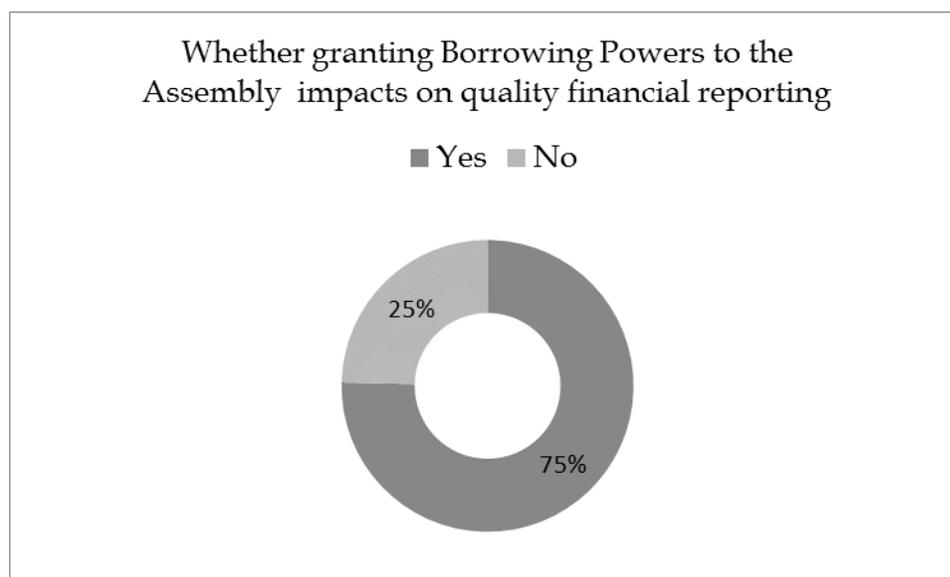
*Figure 11.* Ranking the tax collection power of your assembly.

Furthermore, respondents were asked a question regarding how efficient their assemblies were in mobilizing revenue locally. There were mixed results: Twelve respondents believed MMDAs are efficient in mobilizing revenue whilst majority 53 respondents stated that MMDAs are partially efficient in revenue generation as shown in figure 11.



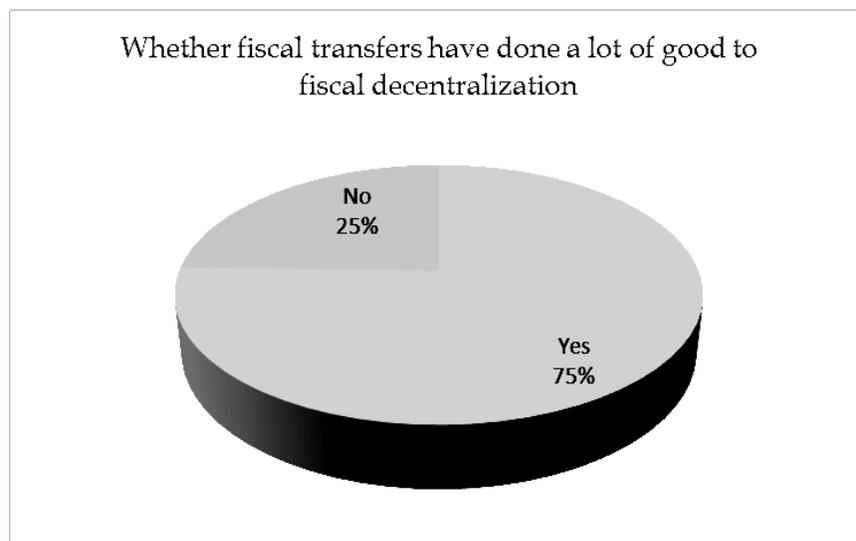
*Figure 12.* How efficient is the assembly in mobilizing revenue locally.

The respondents were asked whether granting borrowing powers to the assembly impacts on quality financial reporting. Seventy five percent of the respondents answered yes and 25% of the respondents answered no as shown in figure 13. In responding to the open ended questions, majority of the participants hinted that no financial institution will grant facility (e.g. loan) to an MMDA without requesting for annual financial reports.



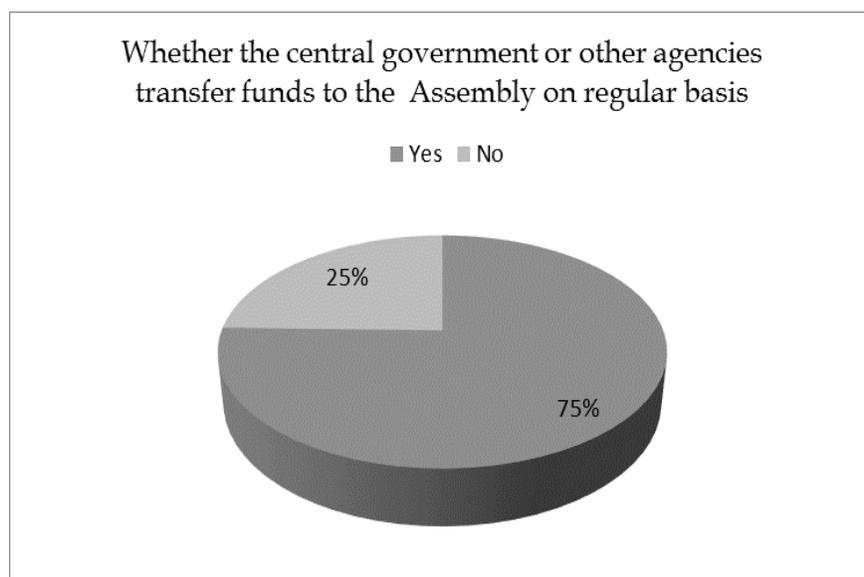
*Figure 13.* Whether granting borrowing powers to the assembly impacts on quality financial reporting.

The participants were asked how fiscal transfers have done a lot of good to fiscal decentralization. There were binary responses (Yes or No). Majority of the respondents (75%) answered yes to the question and 25% answered no as in figure 13. The participants in responding to the open ended questions said the infrastructural projects in the MMDAs are as a result of the intergovernmental fiscal transfers. They added that, majority of MMDAs today cannot undertake capital projects without fiscal transfers (e.g. DDF and DACF) from central government and development partners.



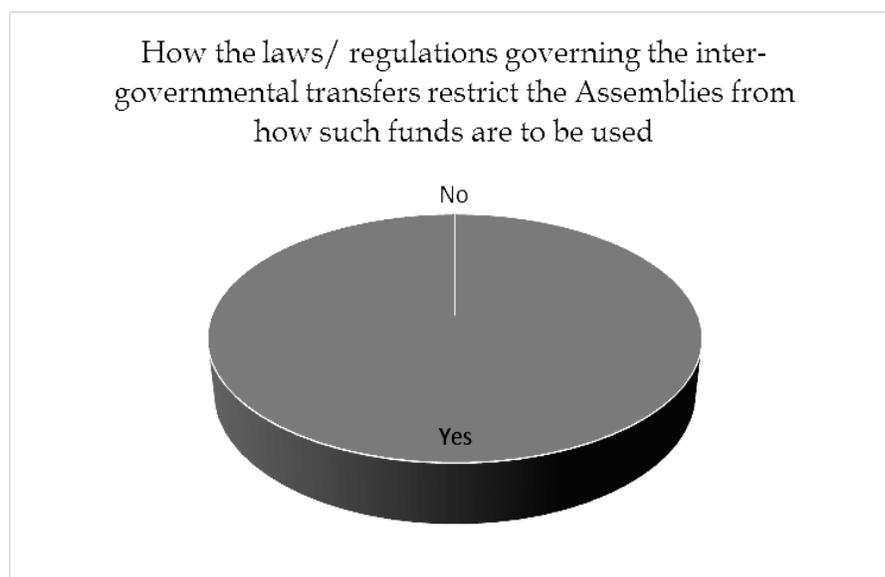
*Figure 14.* Whether Fiscal Transfers have done a lot of Good to Fiscal Decentralization.

To buttress the role of intergovernmental transfers in enhancing fiscal decentralization, the respondents were asked whether the central government and other agencies transfer funds to the MMDAs on regular basis. There were 75% respondents who confirmed that the central government or other agencies transfer funds to the MMDAs on regular basis whiles 25% said No, transfers are not regular as shown in figure 15.



*Figure 15.* Whether the central government or other agencies transfer funds to the assembly on regular basis.

In order to ensure consolidation of fiscal decentralization and efficacious usage of such by MMDAs, the respondents were asked whether the laws and regulations governing intergovernmental transfers regulates MMDAs on how such funds were to be used. Hundred percent (100%) respondents concurred that there exist laws and regulations, (Financial Administration Act [FAA] and (Financial Administration Regulation [FAR]) which regulate MMDAs on how such funds are to be disbursed (See figure 16).

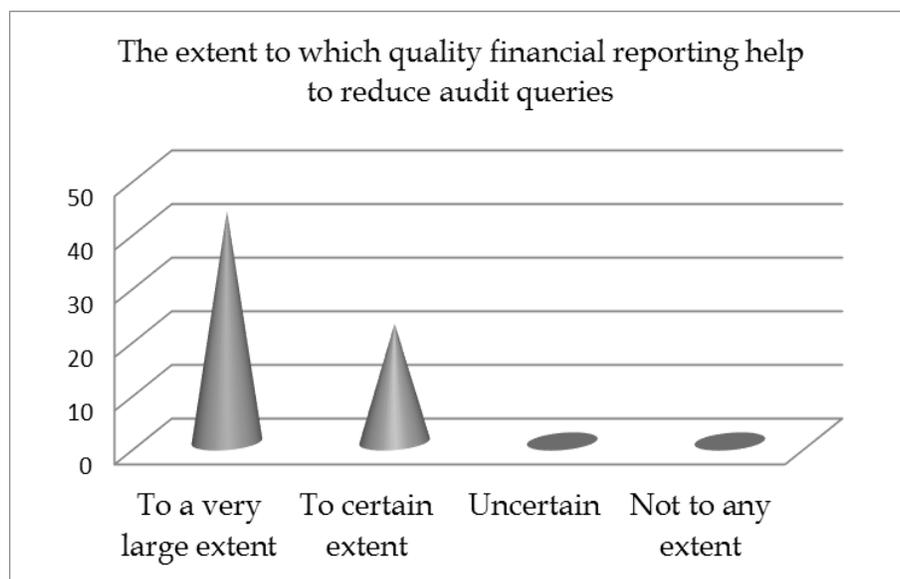


*Figure 16.* How the laws/regulations governing the intergovernmental transfers restrict the assemblies from how such funds are to be based.

**Research Question 2. To what extent has quality financial reporting reduced audit queries?**

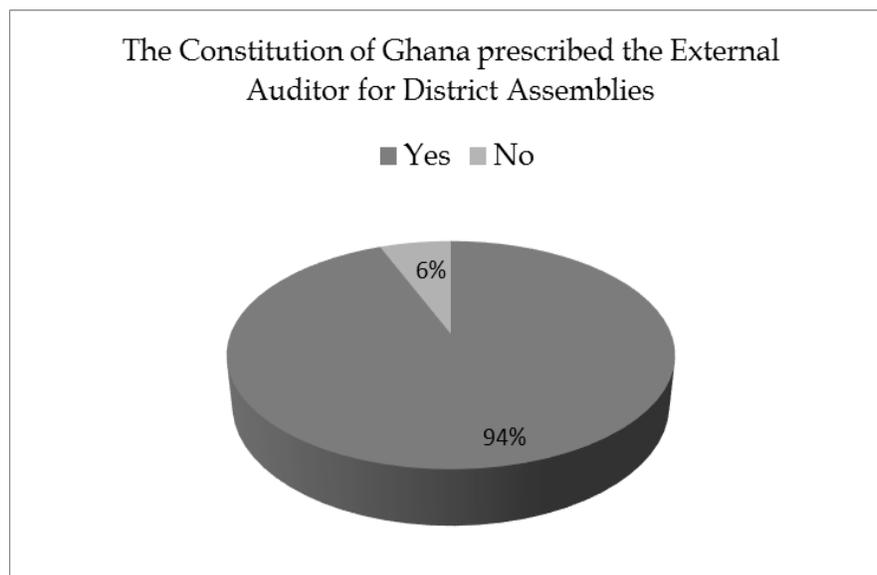
In order to get appropriate responses to the research question from participants, series of questions were asked. The first question the researcher asked was whether quality financial reporting helped reduce audit queries. The respondents were given the following options: To a very large extent, to a certain extent, uncertain, not to any extent and not at all helpful. From the responses, 66.2% (43) revealed that to a very large extent quality financial reporting assists in reducing audit queries and other respondents indicate that it helps reduce audit queries to certain extent. This category of respondents constituted 33.8% (22) with 0% of the respondents expressing uncertainty whilst 0 %

stated that quality financial reporting does not to any extent reduce audit queries as shown in figure 17.



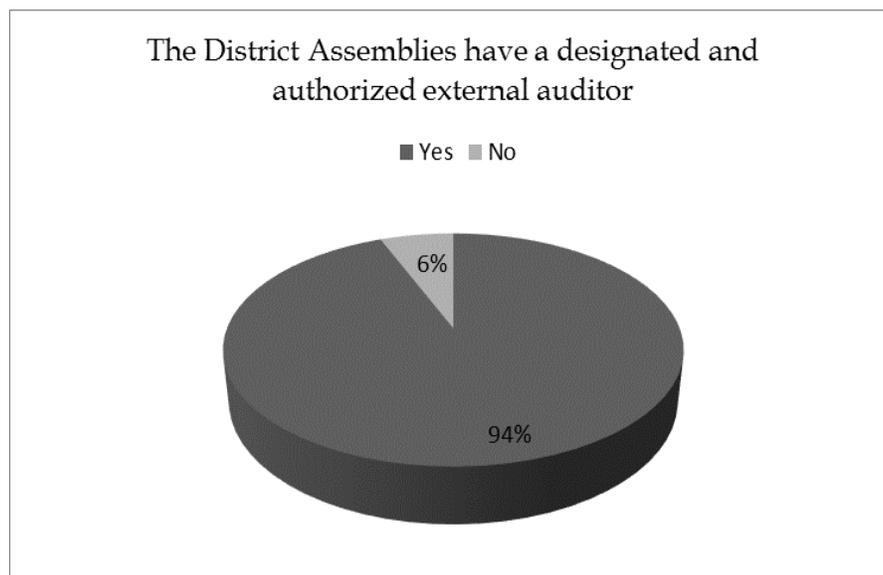
*Figure 17.* The extent to which quality financial reporting helps to reduce audit queries.

Beyond that, the researcher wanted to know how sustainable internal controls were in reducing audit queries. In this connection, the researcher wanted to ascertain the position of the Constitution regarding the appointment of external auditors to MMDAs. The researcher posed a question on whether the Constitution of Ghana prescribed an external auditor for district assemblies. The overwhelming majority of respondents (94%) agreed that it does and 6% indicated that it does not (See figure 18). An effective means of ensuring accountability, transparency and reduction in audit queries is to have a permanent auditor who undertakes regular audit of an entity operations (Audit Service Act, Act 584, 2000 of Ghana).



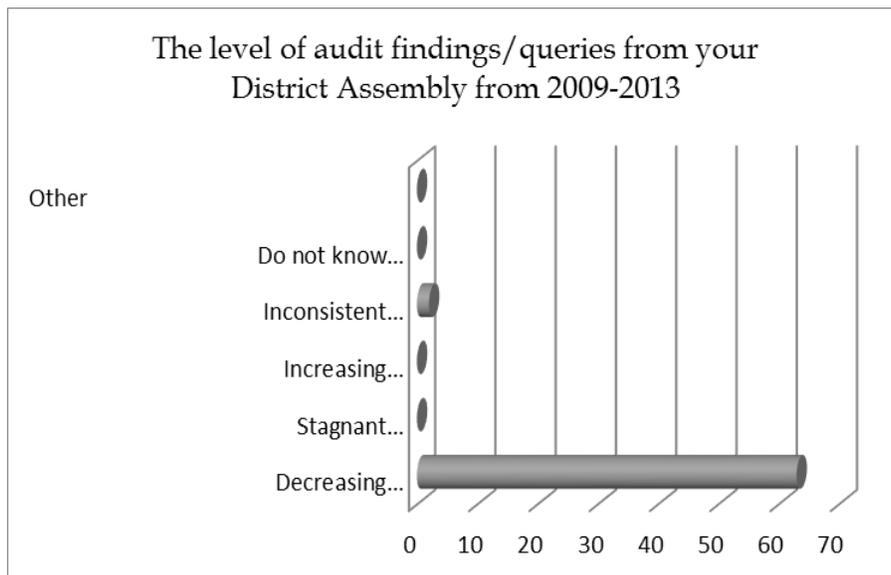
*Figure 18.* The Constitution of Ghana prescribed the external auditor for district assemblies.

Following the question, the researcher wanted to find out the level of permanency of auditors at MMDAs prompting a follow up question. Therefore, respondents were asked whether the MMDA has a qualified external auditor. There were 94% respondents who confirmed that the MMDA have a designated and authorized external auditor and 6% said No (See figure 19).



*Figure 19.* The district assemblies have a designated and authorized external auditor.

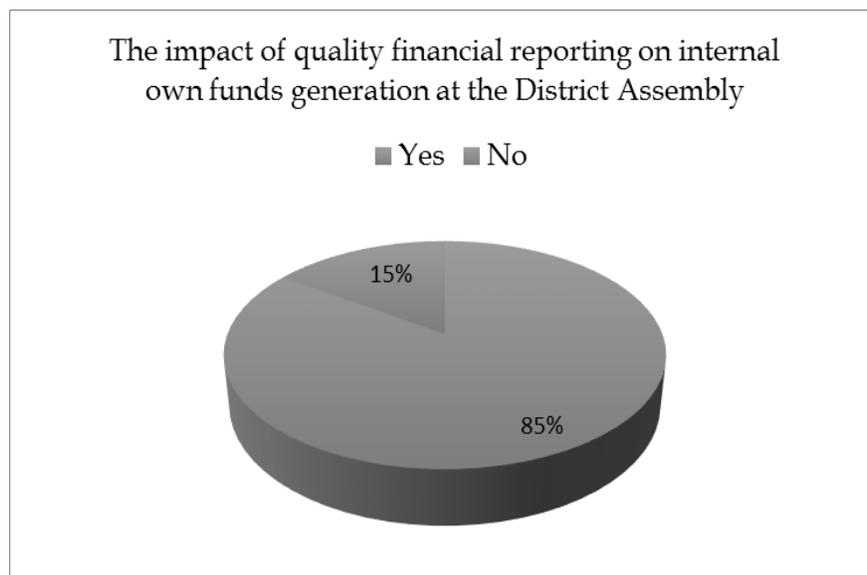
In concluding the analysis on the research question, the researcher posed a question regarding the level of audit findings or queries from the MMDA from 2009-2013. Majority of respondents numbering 63 of total respondents agreed that audit queries has been declining with 2 respondents indicating that the trend of audit queries has been inconsistent (See figure 20). Respondents affirmation that quality financial reports leads to a fall in audit queries is consistent with the view of Miller (2002), who posits that quality financial reporting is an exhibition of compliance to accounting norms which results in decline of audit queries.



*Figure 20.* The level of audit findings/queries from your district assembly from 2009 - 2013.

**Research Question 3. What impact does quality financial reporting have on internal owned funds generation at a subnational government level?**

The researcher bid to find answers to this question led to the following analysis as outlined in figure 21.

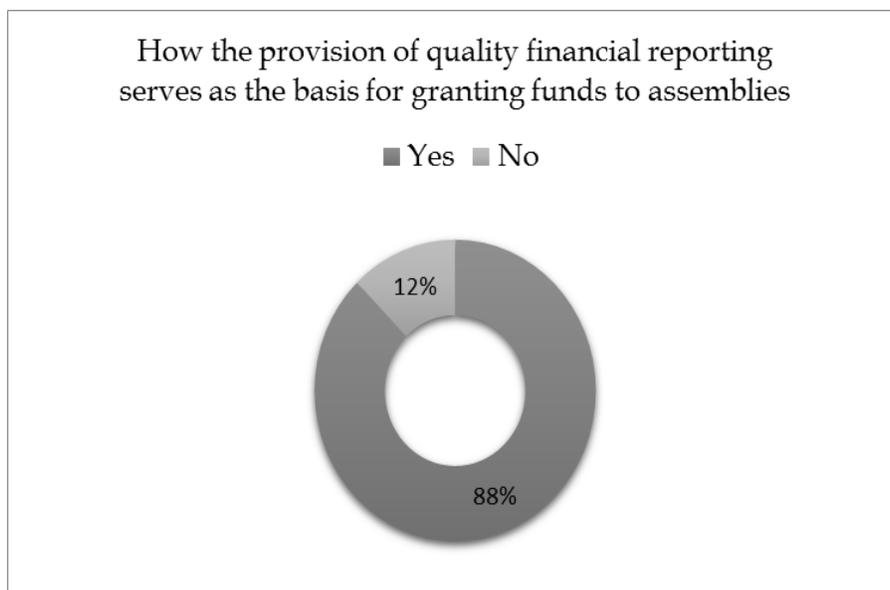


*Figure 21.* The impact of quality financial reporting on internal owned funds generation at the district assembly.

A question was asked whether quality financial reporting impacts on internally owned funds generation at the districts assemblies of the respondents. Binary responses were recorded; 85% answered “Yes” to the question and 15% answered “No” to the question as shown in figure 15. Those who responded “Yes” further explained how quality financial reporting impact on internal owned funds generation in their MMDA as follows: Quality financial reporting instills confidence and inspires taxpayers to meet their tax obligations resulting in upsurge in revenue. Further, respondents viewed quality financial reports as a reflection of judicious usage of financial resources. Consequently, when tax payers believe that MMDAs are using funds effectively, they respond positively by paying their taxes resulting in increased revenues.

**Research Question 4. How has the provision of quality financial reporting served as basis for granting funds to MMDAs?**

Regarding that question: How does the provision of quality financial reports serve as the basis for granting funds to MMDAs?



*Figure 22.* How the provision of quality financial reporting serves as the basis for granting funds to assemblies.

Majority of respondents were unanimous in their responses with 88% of participants holding the view that quality financial reporting is a precursor to granting of funds to MMDAs while 12% did not share that view as displayed in figure 22. The respondents were asked to justify their “Yes” response and the following multiple explanations were given: Central government and development partners will not release funds to MMDAs except after the receipt of monthly financial reports of the MMDAs. These responses are in tandem with the FAA and FAR. The financial administration act

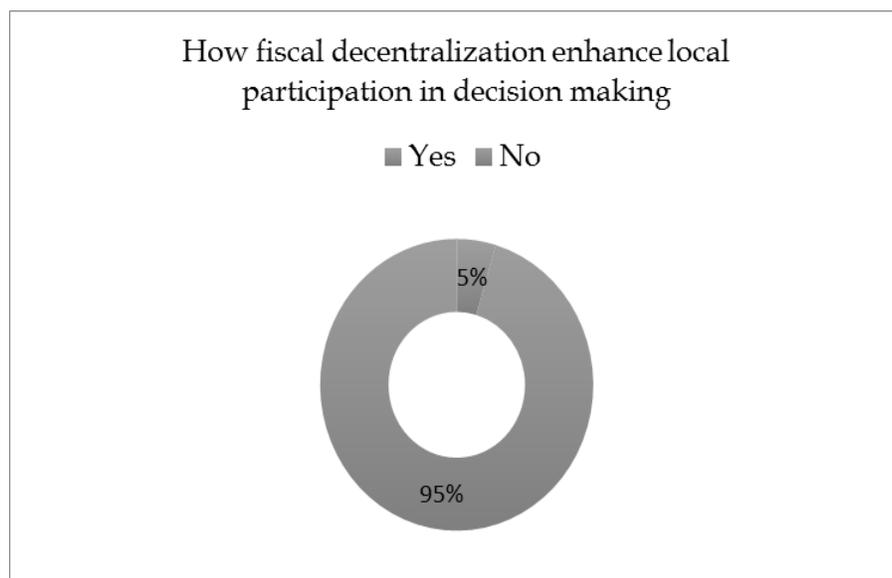
and financial administration regulations mandates all MMDAs in Ghana to submit monthly and annual financial reports to all relevant state agencies by 15<sup>th</sup> of the ensuing month while annual financial reports are to be submitted on or before 31<sup>st</sup> March of the following year. Again, the administrator of the DACF emphasizes the need for regular and up to date submission of financial returns by MMDAs to the secretariat before funds are released. Preparation and timely presentation of quality financial reports by MMDAs are part of the requirements for access to the District Development Facility (DDF) and Urban Development Grant (UDG). The DDF and UDG are development grants provided by development partners in collaboration with the government of Ghana on annual basis to MMDAs.

**Research Question 5. Will quality financial reporting lead to citizen participation in local governance?**

In answering the question respondents were asked whether quality financial reports enhance local participation in decision making. There was 95% “No” response rate to the question and 5% “Yes” responses as shown in figure 21. The 1992 Constitution of Ghana and local laws (Local Government Act, Act 462, 1993; Local Government Service Act, Act 656, 2003, and District Assembly Common Fund Act, Act 455, 1993) governing the operation of decentralization encourages the local people to keenly participate in the day to day activities of the MMDA. The local people are represented by the assembly members (law makers) in each electoral area, who are elected by the people every four (4) years. The budgetary process and stakeholder consultations are examples of how fiscal decentralization is supposed to encourage local

participation in decision making (Local Government Act, Act 462, 1993 of Ghana).

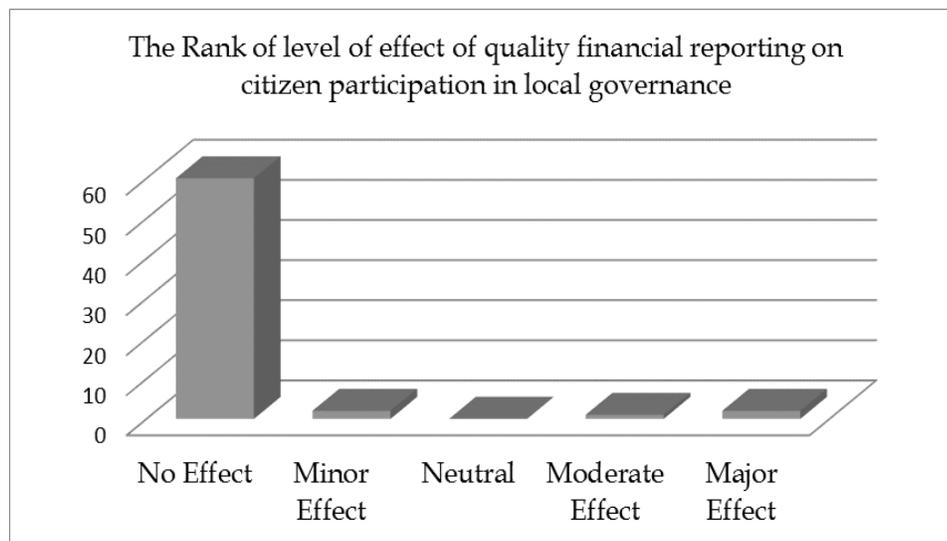
Based on the overwhelming response of 95% disagreeing with the idea that quality financial reports will not stimulate citizen engagement, this study concludes that quality financial reports has not succeeded in invigorating active citizen participation in local governance.



*Figure 23.* How reporting enhances local participation in decision making.

To better appreciate and make more meaning to citizenry participation, the respondents were further asked to rank the level of effect of quality financial reporting on citizen participation in local governance. Sixty of the respondents stated that it has no effect, 2 indicated that it has minor effects, 1 respondent said that it has moderate effect and 2 participants indicated it has major effects (See figure 23). The respondents added that, most citizens are bereft of financial skills that will allow them to interpret financial statements. In the absence of sound financial skills, citizens are unable to find meaning in

financial statements which diminishes their ability to make informed judgments and contributions on how effective funds have been raised and disbursed.

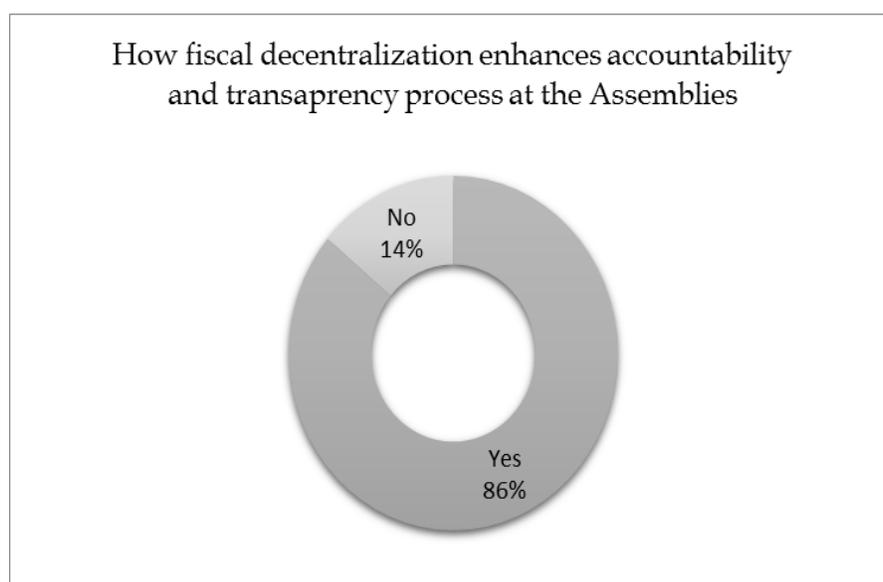


*Figure 24.* The rank of level of effect of quality financial reporting on citizen participation in local government.

**Research Question 6. Will quality financial reporting stir and promote accountability and transparency at MMDAs?**

In soliciting responses of participants, they were asked whether quality financial reports promote accountability and transparency at MMDAs. Data analysis showed that 86% of respondents believe that quality financial reports strengthens accountability and transparency while 14% holds opposing view. This is shown in figure 25. The 1992 Constitution of Ghana and the various local financial laws (i.e. Financial Administration Act, Financial Administration Regulation, Public Procurement Act, Audit Service Act, Internal Audit Act) mandates MMDAs to be accountable and transparent in all their activities, including the preparation and submission of financial reports. To delve further

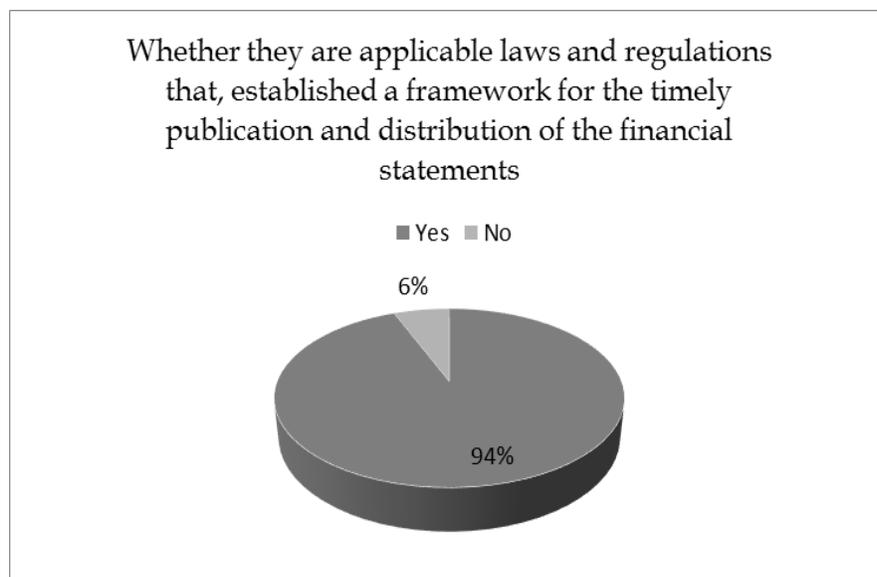
on this research question, the respondents emphasized that the Local Government Act of Ghana, Act 462, 1993, empower assembly members (law makers), who are elected by the people every four years to scrutinize and comment on the monthly and annual financial reports of MMDAs. To promote accountability, citizens are empowered to initiate legal steps to public funds where necessary. Quality financial reports are deemed to promote accountability and transparency because they allow stakeholders to scrutinize the financial activities of public institutions (Mack & Ryan, 2006). See Figure 25.



*Figure 25.* How fiscal decentralization enhances accountability and transparency process at the assemblies.

Finally, to ascertain the level of awareness on the part of participants with respect to relevant laws on financial statements, participants were asked whether they were aware of laws regulating the publication and presentation of financial statements to stakeholders. The critical factor in invigorating fiscal decentralization is the

establishment of a legal framework which gives local governments the backing to govern (Salman & Iqbal, 2011). Ninety four percent of respondents were unanimous in their responses with expressing awareness about relevant laws on publication of financial statements while 6% indicated No, as shown in Figure 26.



*Figure 26.* Whether there are applicable laws and regulations that establishes a framework for the timely publication and distribution for the financial statements.

### **Testing of the Hypotheses**

In this study, a test of hypothesis was conducted using the chi square test to reject or fail to reject the null hypothesis ( $H_0$ ): Fiscal decentralization has no positive impact on quality financial reporting at local assemblies and accept the alternative hypothesis ( $H_1$ ): Fiscal decentralization has a positive impact on quality financial reporting at local assemblies. The margin of error or level of significance for the analysis was 5% meaning that there was 95% accuracy in testing the hypothesis as shown in table 6.

Table 6

*Chi-Square Tests*

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2- sided)	Exact Sig. (1-sided)
Pearson Chi-Square	65.000 <sup>a</sup>	1	.000		
Continuity Correction <sup>b</sup>	51.680	1	.000		
Likelihood Ratio	35.255	1	.000		
Fisher's Exact Test				.000	.000
Linear-by-Linear Association	64.000	1	.000		
N of Valid Cases <sup>b</sup>	65				

*Note.* Field Data, 2014.

a. 3 cells (75.0%) have expected count less than 5. The minimum expected count is .38.

b. Computed only for a 2x2 table

The use of chi square to test the null hypothesis against the alternative hypothesis required either passing Pearson chi square or continuity correction or likelihood ratio test or Fisher exact test or linear by linear association test or all or some of the tests. This means passing at least one of the tests at a significant level of 0.05 to accept the null hypothesis. The alternative hypothesis is accepted if the null hypothesis is not accepted at a 0.05 level. All the five test (Pearson chi square, continuity correction, likelihood ratio

test, Fisher exact test and linear by linear association test) were highly significant. An indication that all the test results rejected the null hypothesis: ( $H_0$ ): Fiscal decentralization has no positive impact on quality financial reporting at local assemblies and accepts the alternative hypothesis ( $H_1$ ): Fiscal decentralization has a positive impact on quality financial reporting at local assemblies.

The researcher therefore concludes that, based on the test result; the study rejects the null hypothesis ( $H_0$ ) and accepts the alternative hypothesis ( $H_1$ ). That is fiscal decentralization has a positive impact on quality financial reporting at local assemblies.

### **Summary**

The purpose of this study was to investigate the impact of fiscal decentralization on quality financial reporting at the local government level in Ghana. Chapter 4 reported the results of the study by means of the research questions and the hypotheses. The quantitative results were collected from questionnaires answered by local government officials, traditional leaders, assembly members and development partners. The sample evaluated and accepted was 65 completed instruments. The tests were performed using regression analysis through the stepwise method for all the explanatory variables. This method was preferred because it facilitated the addition of the explanatory variables into the model one after the other. Beyond that, Microsoft Excel was also used to perform descriptive test on some of the main research questions and the general questions the researcher thought were necessary to lay a solid foundation for the main research questions to strive.

Five tests were carried out on the hypothesis. All the five tests (Pearson chi square, continuity correction, likelihood ratio test, Fisher exact test and linear by linear association test) proved highly significant. All these statistical tests results rejected the null hypothesis: ( $H_0$ ): Fiscal decentralization has no positive impact on quality financial reporting at local assemblies and accepted the alternative hypothesis ( $H_1$ ): Fiscal decentralization has a positive impact on quality financial reporting at local assemblies. It therefore concluded that, based on the test results; the alternative hypothesis ( $H_1$ ) was accepted and the null hypothesis rejected. That is, fiscal decentralization has a positive impact on quality financial reporting at the local government level in Ghana.

## Chapter 5: Discussion, Conclusions, and Recommendations

### **Introduction**

This chapter contains summaries of the purpose and rationale of this study. Summaries of review of relevant literature, methodology and findings are also found in this section. The chapter concludes with implications for social change, recommendations and suggestions on lines for future research.

### **Purpose of the Study**

The purpose of this study was to quantitatively examine the impact of fiscal decentralization on quality financial reporting at the local government level in Ghana. Attempts to achieve this purpose led the researcher to examine all the explanatory variables (expenditure responsibilities, taxation powers, intergovernmental fiscal transfers and borrowing powers) as well as the predicted variable, in this case quality financial reporting. The analyses identified taxation powers as being the independent variable that makes the highest contribution to quality financial reporting. This was followed by borrowing powers which obtained the next partial correlation on quality financial reporting. Intergovernmental fiscal transfers was the least selected amongst the variables that impact on quality financial reporting. Although the t test values, together with the constant were all less than 10, the three explanatory variables of taxation powers, borrowing powers and intergovernmental fiscal transfers remain significant to the model.

Furthermore, the study examined relationships between reductions in audit queries, increased internally generated funds, provision of additional funds on one hand and quality financial reports on the other hand. Microsoft Excel was used to perform

descriptive test to determine their relationships. In connection with whether quality financial reporting impacts on internally owned funds generation at MMDAs, the study recorded binary responses: Eighty five percent of respondents answered “Yes” to the question and 15% answered “No” (figure 23). There was also 88% “Yes” response and 12% “No” response regarding the provision of quality financial reports as the basis for granting funds to MMDAs (See figure 24). The respondents were asked to justify their “Yes” response and the explanation given was that central government and development partners will not release funds to MMDAs except upon receipt of monthly financial reports of the MMDAs.

In connection with how quality financial reports lead to diminishing audit queries, the respondents were given options: To a very large extent, to a certain extent, uncertain, not to any extent and not at all helpful. From the analysis, 43 respondents representing 66.2% of total respondents revealed that to a very large extent quality financial reporting leads to a reduction in audit queries. Thirty three point eight percent of respondents affirmed that quality financial reports help reduce audit queries only to a certain extent. Zero percent responses were recorded regarding uncertain and not to any extent.

The significance of this study emanates from the following:

- a) It contributes to the design of a framework for quality financial reporting at district assemblies in Ghana.
- b) Provide further insights into the concept of fiscal decentralization amongst local people.

- c) Serve the needs of key stakeholders (traditional rulers, assembly members, development partners, principal spending officers, and accountants) of MMDAs and a reference material for intellectual discourse on fiscal decentralization.

This study was anchored on the following hypotheses. They are:

$H_0$ . Fiscal decentralization has no positive impact on quality financial reporting at local assemblies.

$H_1$ . Fiscal decentralization has a positive impact on quality financial reporting at local assemblies.

In this research, a test of hypothesis was conducted using the chi square test to either reject or fail to reject the null hypothesis ( $H_0$ ): Fiscal decentralization has no positive impact on quality financial reporting at local assemblies and accept the alternative hypothesis ( $H_1$ ): Fiscal decentralization has a positive impact on quality financial reporting at local assemblies. The study concluded that, based on the test results; the alternative hypothesis ( $H_1$ ) was accepted and the null hypothesis ( $H_0$ ) rejected. That is, fiscal decentralization has a positive impact on quality financial reporting at the local government level in Ghana.

### **Summary of Related Literature**

Scrutiny of extant and contemporary literature on fiscal decentralization failed to provide conclusive evidence on how fiscal decentralization propels economic growth and prosperity. A decentralization expert espouses the view that fiscal decentralization does not always lead to better allocation of resources within the public sector (Oates, 1993).

Most empirical research work tends to lay premium on allocation of resources to local authorities from central government as a yardstick for evaluation of fiscal decentralization. Also a number of recent studies have explored the impact of fiscal decentralization in various countries. A study delved into the relationship between financial reporting standards and its impact on quality financial reporting and posits that when financial reporting standards are adhered to, it contributes to the preparation and presentation of quality financial reports. Their position ignores other factors that contribute to quality financial reportage apart from financial reporting standards (Jara et al., 2011).

Most studies undertaken examine the under currents that foster the positive relationship between fiscal decentralization and economic prosperity. The gap that exists after detailed scrutiny of relevant literature is the impact of fiscal decentralization on quality financial reporting and how that directly relates to internally generated funds and downsizing in audit queries as the grounds for providing additional resources to local governments of which this study has clearly established that, fiscal decentralization impacts on quality financial reporting, which intends affects audit queries, internally generated funds and a basis for accessing grants.

### **Summary of Methodology**

The methodology that underpinned this study covered the philosophical stance, research approaches, and description of the research design, sampling size and methods, data gathering instruments, data analysis, and ethical considerations of the study. The philosophical standpoint underscores the values and assumptions that underpinned this

work. Sample frame and sampling methods involved the pool of targeted respondents and the criteria for selection of respondents for gathering of original data.

This study adopts the philosophical standpoint of positivism. The positivist philosophy is employed when the study is geared towards findings and conclusions with the propensity of being replicated in other situations of similar characteristics (Gill & Johnson, 1997). Positivism rides on highly structured methodology and that is why this study utilized structured questionnaires to gather quantitative data. In adopting this approach, the researcher exercised an appreciable level of objectivity to allow for independence of data collection and analysis. Out of the 216 MMDAs in the country, 160 MMDAs were considered for the study. Questionnaires were distributed to all the 160 MMDAs. All questionnaires were retrieved from participants but only 65 were accepted as having met the standard criteria. The targeted respondents of this study were selected from major stakeholders in decentralization comprising traditional authorities, assembly members, development partners, principal spending officers, finance officers, internal auditors, and budget officers. Data collected was analyzed with the use of SPSS and Microsoft Excel. The interpretation of data tried to find answers to research questions.

### **Positive Social Change**

The significance of this study as stated in chapter 1 is completed. The goal of positive social change is to create an instrument that will provide a positive difference for society. The role of insisting on quality financial reports before advancing funds to MMDAs by development partners and central government is a significant social change. The measure ensures that funds are used for their intended purpose for which they were

originally budgeted for. Again, the striking social change implication disclosure in this work is the non connection between quality financial reporting and citizen engagement. The next social change implication of this study is the role citizen participation plays in enhancing the budgetary process. Where local residents play insignificant roles in assembly planning and budgetary process, development partners are reluctant to advance funds because they are not certain of the societal benefits.

The study has also demonstrated that the most sustainable and reliable way of enhancing quality financial reporting of MMDAs is by giving them local taxation powers. Developing favorable attitudes toward tax payment must go along with the provision of taxation powers so that MMDAs can rake in colossal amounts of revenue to undertake developmental projects within their jurisdiction.

### **Recommendations and Suggestions for Further Research**

The outcome of this study is to provide recommendations that can shape policy formulation and implementation to ensure that the benefits of local governance are realized. Besides, civil society groups and citizens will be invigorated by the recommendations of this study thereby stimulating their interest in participating actively in the planning and operations of their assemblies.

Local assemblies should insist on the usage of local systems by development partners and donors to ensure uniformity and consistency, as well as reduce the cost, time and energy spent on preparing different sets of financial reports to meet the needs of different stakeholders. Financial reports should be made available at least cost to the general public for their scrutiny and comments.

Future research in the area of stakeholder role in strengthening revenue mobilization at MMDAs is therefore suggested. District assemblies can only strive towards financial independence if they generate their own revenue locally. Support from central government and or development partners is often temporary and unreliable which strengthens the case for adequate generation of internal funds. Future research especially in Ghana may highlight the quantum of revenue lost especially in years when national election is being conducted. MMDAs in Ghana often fail to enforce their taxation power in election years for fear of incurring the wrath of voters. Another area for consideration for future research is the availability of financial reports to the citizenry and its impact on their wellbeing at the local level. The sustainability of human resource needs of MMDAs is another area for future research. Finally, the adequacy of existing laws in advancing fiscal decentralization in Ghana is also suggested.

### **Conclusion**

This study confirmed that there is a positive relationship between fiscal decentralization and quality financial reporting at the MMDAs in Ghana. The study revealed that with the exception of expenditure responsibilities, the other components such as taxation powers, intergovernmental fiscal decentralization and borrowing powers have an impact on quality financial reporting in Ghana. Again, it came out that, quality financial reports impact positively on audit queries, internally generated funds and access to funding. As a result, those to be appointed to lead and manage the audit units should be experienced, professional and academically qualified with a sense of team spirit. Beyond

that they should be people of integrity, honesty and above all objectivity in their approach to work.

The study confirmed that stakeholders are interested in MMDAs who prepare and submit quality financial reports and they are willing to inject more resources into such MMDAs. The minimum requirement for any MMDA to get assistance is the submission of financial reports. This is more apparent with the international community especially the International Monetary Fund (IMF), Danish International Development Agency (DANIDA), and the World Bank. It also confirmed that international packages or prescriptions for healing economic wounds of MMDAs are not permanent and there is the need to adapt to local conditions of enhancing revenue generation. Finally, the study is an attempt to add to the knowledge of fiscal decentralization on quality financial reportage at MMDAs. The discussion of the impact of fiscal decentralization on quality financial reporting and the analysis of the study provides a glimpse into what the future could hold for MMDAs in Ghana.

## References

- Abingdon, M. N. (2008). *Fiscal decentralization and local public Finance in Japan*. UK: Routledge.
- Achua, J. K. (2009). Reinventing governmental accounting for accountability assurance in Nigeria. *Nigeria Res. J. Accountancy*, 1(1): 1-16.
- Adebayo, A. (2005). Financial reporting: An aid to efficient economic management in the public sector. *The Nigerian Accountant*, 38(1): 33-38.
- Aguolu, O. (2006). Ethics and integrity in the accounting profession. *The Nigerian Accountant*, 39(4): 31-34.
- Ahiauzu, A. J. (2007). Advanced social research methods, seminar paper. CIMRAT, Port Harcourt.
- Ajibolade, S. O. (2008). A survey of the perception of ethical behaviour of future Nigerian accounting professionals. *The Nigerian Accountant*, 41(3): 54-59.
- Akai, N., & Sakata, M. (2002). Fiscal decentralization contributes to economic growth: Evidence from state-level cross-section data for the United States. *Urban Economics*, 52, 93-108.
- Alexeev, M., & Habodaszova, L. (2012). Fiscal decentralization, corruption, and the shadow economy. *Public Finance and Management*, 12(1), 75.
- Amagoh, F., & Amin, A. A. (2012). An examination of the impacts of fiscal decentralization on economic growth. *International Journal of Business Administration*, 3, 6.
- Anessi-Pessina, E., & Steccolini, I. (2007). *Effects of budgetary and accruals accounting*

- coexistence: evidence from Italian local governments*. Blackwell Publishing Ltd.
- Anfara, V. A., Brown, K. M., & Mangione, T. L. (2002). *Qualitative analysis on stage. Making research process more public*. Educational Researcher.
- Audit Service Act of Ghana, Act 584 (2000).
- Bahl, R. (1995). Comparative federalism: trends and issues in the United States, China, and Russia. In Jayanta Roy (Ed.) *Macroeconomic Management and Fiscal Decentralization*, World Bank.
- Bahl, R. (1999a). Fiscal decentralization as development policy. *Public Budgeting & Finance, summer*, 59-75.
- Bahl, R. (1999b). Implementation rule for fiscal decentralization. *World Bank Institute*.
- Bahl, R.W. (2000b). Intergovernmental fiscal transfers in developing countries: *Principles and Practice, Urban and Local Government Background Series, 2*, Washington, DC: World Bank.
- Bahl, R., & Bird, R. (2008). Subnational taxes in developing countries: the way forward. *Public Budgeting & Finance*, 28(4), pp. 1-25.
- Bahl, R., & Johannes, L. (1992). *Urban public finance in developing countries*. Oxford, UK: Oxford University Press.
- Bahl, R., & Jorge, M. V. (2005). Sequencing fiscal decentralization. *World Bank Conference*.
- Bahl, R., & Shyam, N. (1986). Public expenditure decentralization in developing countries. *Government and Policy*, 4, 405-418.
- Bardhan, P. (2002). Decentralization of governance and development. *The Journal of*

*Economic Perspectives*, 16(4).

- Bardhan, P., & Mookherjee, D. (2005). Decentralizing anti-poverty program in delivery in developing countries. *Public Economics*, 89(4).
- Barro, R. (1990). Government spending in a simple model of endogenous growth. *Journal of Political Economy*, 98.
- Barth, M., Beaver, W., & Landsman, W. (2001). The relevance of the value relevance literature for financial accounting standard setting: Another view. *Journal of Accounting and Economics*, 31, 77-104.
- Barth, M., Landsman, W., Lang, M., & Williams, C. (2006). Accounting quality: International accounting standards and US GAAP. *Working paper series*.
- Barth, M., Landsman, W., & Lang, M. (2008). International accounting standards and accounting quality. *Journal of Accounting Research*, 46(3), 467-498.
- Bates, R. (2001). *Prosperity and violence*. Norton, New York.
- Beattie, V., Fearnley, S., & Brandt, R. (2004). A grounded theory model of auditor-client negotiations. *International Journal of Auditing*.
- Ben, L. (2008). *Voting, lobbying, and the decentralization theorem*.
- Bird, R. M. (2000). Intergovernmental fiscal relations: Universal principals, local applications. *International Studies Program Working Paper*, 2.
- Bird, R. (2011). Subnational taxation in developing countries: A review of the literature. *Journal of International Commerce, Economics and Policy* 2 (1): 1-23.
- Bird, R. (2012). Subnational taxation in large emerging countries: Bric plus one. *IMFG Papers on Municipal Finance and Governance*, 6.

- Bird, R. M., & Almos, T. (2003). *Constraining subnational behavior in Canada: different approaches, similar results? In fiscal decentralization and the challenge of hard budget constraints*, MA: MIT Press: 85-132.
- Bird, R. M., & Vaillancourt, F. (1998). *Fiscal decentralization in developing countries: An overview*. Cambridge: University Press.
- Bjedov, T., & Madies, T. (2010). Corruption and decentralization: What economists have to say? *Urban Public Economic Review*, 13.
- Botosan, C. (2004). Discussion of a framework for the analysis of risk communication. *The International Journal of Accounting*, 39, 289-295.
- Brancati, D. (2006). Decentralization: Fuelling the fire or dampening the flames of ethnic conflict and secessionism? *International Organization* 60, 651–685.
- Brusca, I., & Montesinos, V. (2010). Developments in financial information by local entities in Europe. *Journal of Public Budgeting, Accounting of Financial Management*, 22 (3), 299-324. PR Academics Press:
- Buchanan, J. (1965). An economic theory of clubs. *Economica*, 32:1-14.
- Busemeyer, M. R. (2008). *The impact of fiscal decentralization on education and other types of spending*.
- Callahan, K. (2002). The utilization and effectiveness of citizen advisory committees in the budget process of local governments. *Journal of Public Budgeting, Accounting & Financial Management*, 14 (2): 296-317.
- Campos, J. E., & Joel, S. H. (2005). Governance gone local: Does decentralization improve accountability? Washington DC: *World Bank*: 237-52.

- Chan, J. (2003). Government accounting: an assessment of theory, purposes and standards. *Public Money and Management*, 23(1), pp. 13–20.
- Chih-hung, L. (2007). *What type of fiscal decentralization system has better performance?*
- Choi, H. T., & Pae, J. (2011). Business ethics and financial reporting quality: Evidence from Korea. *Journal of Business Ethics*. 103,403–427.
- Constitution of the Republic of Ghana (1992).
- Creswell, J. (2009). *Research design: qualitative, quantitative and mixed methods approaches*. California: Sage.
- Davoodi, H., & Zou, H. (1998). Fiscal decentralization and economic growth: a cross country study. *Journal of Urban Economics*, 43.
- Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1996). Causes and consequences of earnings manipulation: An analysis of firms subject to enforcement actions by the SEC. *Contemporary Accounting Research*, 13(1), 1-36.
- Deming, W. E. (1982). *Quality productivity, and competitive position, MIT center for advanced engineering*, Cambridge, MA.
- Denscombe, M. (2004). *The good research guide; for small scale research projects* (2nd ed.). Berkshire, England: Open University.
- Dick-Sagoie, C. (2012). Survey of literature of fiscal decentralization as a sustainable local development tool in Ghana. *Journal of Sustainable Development in Africa*, 14(3), 228-251.
- Dillinger, W., & Webb, S. B. (1999). Decentralization and fiscal management in

- Colombia. *Policy Research Working Paper 2122*. Washington, DC: World Bank.
- District assembly common fund act of Ghana (1993). Act 455.
- Duk-yun, H., Jun-ho, C., & Young-mi, L. (2005). *The effect of fiscal decentralization on policy-orientation of local governments*.
- Eckardt, S. (2008). Political accountability, fiscal conditions and local government performance cross. *Sectional Evidence from Indonesia*. 28(1), 1-17.
- Faridi, Z. M. (2011). Contribution of fiscal decentralization to economic growth: Evidence from Pakistan. *Pakistan Journal of Social Sciences* 31(1), 1-13.
- Faridi, M. Z., Chaudhry, I. S., Hanif, I., & Ansari, F. N. (2012). Fiscal decentralization and employment in Pakistan. Canada: Canadian center of science and education, *International Business Research*, 5, 11.
- FASB. (1980). *Statement of financial accounting concepts: Qualitative characteristics of accounting information*. Norwalk.
- Financial Accounting Standards Board [FASB], (1999). *International standard setting: A vision for the future*. Norwalk.
- Financial Accounting Standards Board [FASB], (2008). *Financial accounting series, statement of financial accounting standards No. 1570-100: Exposure draft on an improved conceptual framework for financial reporting*. Norwalk.
- Ferdy, V. B., Geert, B., & Suzanne, B. (2009). Quality of financial reporting: measuring qualitative characteristics. Nijmegen center for economics. *Working Paper*.
- Ferejohn, J. (1986). Incumbent performance and electoral control. *Public choice*. 50, 5-26.

- Financial Administration Act of Ghana, Act 654 (2003).
- Financial Administration Regulation of Ghana, L. I. 1802 (2004).
- Fossey, E., Harvey, C., McDermott, F., & Davison, L. (2002). Understanding and evaluating qualitative research. *Australian and New Zealand Journal of Psychiatry*.
- Francis, A., & Aloysius A. A. (2012). *An examination of the impacts of fiscal decentralization on economic growth*.
- Francis, J., LaFond, R., Olsson, P., & Schipper, K. (2004). Cost of equity and earnings attributes. *The Accounting Review*, 79(4), 967-1010.
- Frankfort-Nachmias, C., & Nachmias, D. (2008). *Research methods in the social sciences* (7<sup>th</sup>Ed.). New York: Worth.
- Freinkman, L. (2010). Fiscal decentralization and the quality of public services in Russian regions. *Public Finance and Management*, 10(1).
- Fynn, K. (2011). District assemblies common fund (our common wealth). Joint Decentralization Review Mission, Ministry of Local Government/EU Delegation to Ghana. [www.commonfund.gov.gh/publication/EU Delegation to Ghana](http://www.commonfund.gov.gh/publication/EU%20Delegation%20to%20Ghana).
- Garvin, D. (1988). *Managing quality*. Free Press, New York.
- Ghana National Decentralization Action Plan, (2010). Accelerating decentralization and local governance for national development. Government of Ghana: Ministry of local government and rural development.
- Golem, S. (2010). Fiscal decentralization and the size of government: A Review of the empirical literature. *Finance Theory and Practice*, 34(1).

- Gonza, I. L. (2008). Political power, fiscal crises, and decentralization in Latin America: federal countries in comparative perspective (and some contrasts with unitary cases). *The Journal of Federalism*, 38, 2.
- Grewal, B. S. (2010). Symposium on Fiscal Decentralization. Public Finance and Management. *International Journal of Business Administration*, 3, 6.
- Guess, M. G. (2007). Adjusting fiscal decentralization programs to improve service results in Bulgaria and Romania. Local government and public service reform initiative. *Public Administration Review*.
- Gurr, T. (1970). *Why men rebel*. Princeton. Princeton University Press, NJ.
- Gu, G. C. (2012). Developing composite indicators for fiscal decentralization: Which is the best measure for whom? *Korea Institute for Local Finance*.
- Hall, R., & Jones, C. (1999). Why do some countries produce so much more output per worker than others? *Quarterly Journal of Economics*, 114(1), 83-116.
- Hammond, W. G., & Tosun, S. M. (2011). The impact of local decentralization on economic growth: Evidence from U.S. counties. *Journal of Regional Science*, 51, 1, 47-6.
- Healy, P., & Wahlen, J. (1999). A Review of the earnings management literature and its implications for standard settings. *Accounting Horizons*, 13(4), 365-383.
- Heredia-Ortiz, E., & Rider, M. (2011). India's intergovernmental transfer system and the fiscal condition of the states. Annual conference on taxation.
- Hirst, D., Hopkins, P., & Wahlen, J. (2004). Fair values, income measurement, and bank analysts' risk and valuation judgments. *The Accounting Review*, 79(2), 453-472.

- Hoek, M., & Der, V. P. (2005). From cash to accrual budgeting and accounting in the public sector: The Dutch Experience” *Public Budgeting & Finance*
- Homme, P. R. (2003). Fiscal decentralization in Africa: A Framework for considering reform. *Public Administration. Development. 23*, 17–27.
- International Accounting Standard Board [IASB], (1989). *Framework for the preparation and presentation of financial statements*. London.
- International Accounting Standard Board [IASB], (2008). Exposure draft on an improved conceptual framework for financial reporting: The Objective of financial reporting and qualitative characteristics of decision-useful financial reporting information. London.
- Institute of Chartered Accountants Act of Ghana, Act 170 (1963).
- Internal Audit Agency Act of Ghana, Act 658 (2003).
- Jara, E. G., Ebrero, A. C., & Zapata, R. E. (2011). Effect of international financial reporting standards on financial information quality. *Journal of Financial Reporting and Accounting*, 9, 2.
- Jin, J., Qian, Y., & Weingast, B. (2005). Regional decentralization and fiscal incentives: federalism, Chinese style. *Journal of Public Economics*, 89.
- Jonas, G., & Blanchet, J. (2000). Assessing quality of financial reporting. *Accounting Horizons*, 14(3), 353-363.
- Kalof, L., Dan, A., & Dietz, T. (2008). *Essentials of social research*. Bencshere, England, Open University.
- Kara, E., & Kiliç, Y. (2011). Accounting recording system on accrual basis at local

authorities in Turkey: An application in Gaziantep local municipality.

*International Journal of Business and Social Science*, 2(15).

Kardar, S. (2006). Local government finance in Pakistan post 2001. *The Lahore Journal of Economics* (Special Edition).

Kee, J. E. (2003). International congress of CLAD on state reform and public administration. Panama.

Knack, S., & Keefer, P. (1997). Does Social Capital have an Economic Payoff? A Cross-Country Investigation. *Quarterly Journal of Economics*, 112, 1251-1288.

Kothari, S. (2001). Capital Markets Research in Accounting. *Journal of Accounting & Economics* 31, 105–231.

Kraemer, H. C., & Thieman, S. (1987). *How many subjects? Statistical power analysis in research*. Newbury Park, CA: Sage.

Leory, G. (2011). *Designing user studies in informatics, health informatics*, Springer-Verlag; London Limited, London.

Li, G., & Rajagopalan, S. (1998). Process improvement, quality, and learning effects. *Management Science* 44(11), 1-2.

Lin, J. Y., & Liu, Z. (2000). Fiscal decentralization and economic growth in china. *Economic Development and Cultural Change*, 49(1), 1 – 21.

Lindaman, K., & Thurmaier, K. (2002). *Beyond efficiency and economy: An examination of basic needs and fiscal decentralization*.

Local Government Act of Ghana, Act 462 (1993).

Local Government Service Act of Ghana, Act 656 (2003).

- Loeb, E. S. (1971). A survey of ethical behavior in the accounting profession. *Journal of Accounting Research*.
- Mack, J., & Ryan, C. (2006). Reflections on the theoretical underpinnings of the general-purpose financial reports of Australian government departments, *Accounting, Auditing and Accountability Journal*, 19(4), pp. 592–612.
- Maines, L., & Wahlen, J. (2006). The nature of accounting information reliability: Inferences from archival and experimental research. *Accounting Horizons*, 20(4), 399-425.
- Malhotra, N. K. (2010). *Marketing research: An applied orientation* (6<sup>th</sup>Ed.). New Jersey: Prentice Hall.
- Malik, S., Hasan, M., & Hussain, S. (2006). Fiscal decentralization and economic growth in Pakistan. *The Pakistan Development Review*, 4(45), pp. 845 - 854.
- Manor, J. (1999). *The political economy of democratic decentralization*. Washington, DC: The World Bank.
- Martinez-Vazquez, J., & McNab, R. (2003). Fiscal decentralization and economic growth. *World Development*, 31(9).
- Mauro, P. (1995). Corruption and growth. *The Quarterly Journal of Economics*, 110(3), 691-712.
- McNab, D. E. (2008). *Research methods in public administration and non profit management. Quantitative and qualitative approaches* (2<sup>nd</sup> Ed). Armonk, NY: M.E. Sharp
- Miaja, M. (2005). Fiscal discipline in a decentralized administration:

The Spanish experience. *OECD Journal on Budgeting*, 5, 2

Miller, P. B. W. (2001). Will you adopt quality financial reporting? *Strategic Finance*, 82, 7.

Miller, P. B. W. (2002). Quality financial reporting. Finding customer focus through the power of competition. *Journal of Accountancy*; 193, 4.

Miller, B. W. P., & Turner, L. (2002). *Accounting for Change*.

Muçollari, O., & Katro, E. (2010). Fiscal decentralization: National and local interest transfers. *International Journal of Management Cases*.

Musgrave, R. (1959). *The theory of public finance*, McGraw Hill, New York.

Nguyen. L. P., & Anwar, S. (2011). Fiscal decentralization and economic growth in Vietnam. *Journal of the Asia Pacific Economy*, 16, 1.

Nichols, D., & Wahlen, J. (2004). *How do earnings numbers relate to stock returns?*

Ninlaphay, S., & Ussahawanitchakit, P. (2011). Accounting professionalism, financial reporting quality and information usefulness: *Evidence from exporting firms in Thailand*. 11(4), 155-166.

Nwagboso, J. (2008). *Professional ethics, skill and standards*. *Inspirations media*, Jos.

Oates, W. (1972). *An economist's perspective of fiscal decentralization*. In W. E. Gates (ed.). *The political economy of fiscal federalism*. Lexington Books, Toronto.

Oates, W. (1993). Fiscal decentralization and economic development. *Working Paper*, 93, 94, University of Maryland.

Oates, W. E. (1999). An essay on fiscal federalism. *Journal of Economic Literature*, 37(3), 1120-1149.

- Oates, W. (2005). Toward a second generation theory of fiscal federalism. *International Tax and Public Finance*, 2.
- Obazee, J. O. (2005). Standardization of financial reporting at the federal, state and local government levels. *The Nigerian Accountant*, 38(1): 17-32.
- Ogbonna, G., & Appah, E. (2011). Ethical compliance by the accountant on the quality of financial reporting and performance of quoted companies in Nigeria. *Asian Journal of Business Management*, 3(3): 152-160.
- Olson, M. (1965). *The logic of collective action*. Cambridge, MA: Harvard University Press.
- Osioma, B. C., (2000). Ethics and professionalism: The challenge for the certified national accountant. ANAN mandatory continuous professional development (MCPD) lectures, May 23, Enugu, Nigeria.
- Padda, H. I., Hyder, S., & Akram, N. (2011). An appraisal of fiscal decentralization in Pakistan. *Journal of Economics and Economic Education Research*, 12, 2.
- Patrick, A. P. (2010). The adoption of GASB 34 in small, rural, local governments. *J. of Public Budgeting, Accounting & Financial Management*, 22 (2), 227-249.
- Peterson, S. (1999). *Administrative decentralization: Strategies for developing countries*. Kumarian Press, West Hartford, CT.
- Phillips, K. L., & Woller, G. (1997). *Does fiscal decentralization lead to economic growth?* Department of economics, Brigham Young University.
- Pina, V., Torres, L., & Yetano, A. (2009). Accrual accounting in EU local governments: One method, several approaches. *European Accounting Review*, 18(4), 765–807.

- Pilcher, R., & Dean, G. (2009). Consequences and costs of financial reporting compliance for local government. *European Accounting Review*, 18(4), 725–744.
- PricewaterhouseCoopers. (2008). More than just numbers, government and public sectors. *IFRS and Local Authorities*, 1-11.
- Public Procurement Act of Ghana, Act 663 (2003).
- Richard, M. B., & Francois, V. (1998). *Fiscal decentralization in government: Developing countries*. Cambridge, UK: Cambridge University Press.
- Robinson, T. R., & Munter, P. (2004). Financial reporting quality: Red flags and accounting warning signs. *Commercial Lending Review*, 19(1).
- Ruhung, M. (2005). Constrained property tax revenues in Peru: Do fiscal transfers create a substitution effect? *Journal of Property Tax Assessment & Administration*, 3(2).
- Salinas, J. J., & Salinas, J. M., & Del, M. (2007). Corruption, efficiency and productivity in OECD countries. *Journal of Policy Modeling*, 29(6), 903-915.
- Salman, A., & Iqbal, N. (2011). Social capital and fiscal decentralization. *Pakistan Journal of Social Sciences*, 31(2).
- Samimi, J. A., Lar, P. K. S., Haddad, K. G., & Alizadeh, M. (2010). Fiscal decentralization and economic growth in Iran. *Australian Journal of Basic and Applied Sciences*, 4(11): 5490-5495.
- Saunders, N. K. M., Lewis, P., & Theornwill, A. (2000). *Research methods for business students*. (2<sup>nd</sup>Ed.). England: Pearson Education Ltd.
- Schipper, K. (2003). Commentary: Principles based accounting standards. *Accounting Horizons*, 17(1), 61-72.

- Schipper, K., & Vincent, L. (2003). Earnings quality. *Accounting Horizons*, 17, 97-110.
- Seung-Jong, L. (2001). Local autonomy and the welfare policy orientalized of local government. *The study of Korean Public Administration*, 34(4).
- Shah, A., & Shah, F. (2007). Strategies to combat democratic deficits. *Development*, 50(1).
- Sharma, S., Durand, R. M., & Gur-Arrie, O. (1981). Identification and analysis of moderator variables. *Journal of Marketing Research*. 28, 291-300.
- Sims, R. R. (1992). The challenge of ethical behaviour in business organisations. *Business Ethics*, 11(7).
- Siniscalco, M. T., & Auriat, N. (2005). *Questionnaire design*. Paris. International Institute for Educational Planning/ UNESCO.
- Smoke & Lewis (1996); Litvack et al. (1998); & Smoke (2000a). Smoke, P. (2001). Fiscal decentralization in developing countries: A Review of current concepts and practice. *Democracy, Governance and Human Rights Program Paper*, 2. Geneva: United Nations Research Institute for Social Development.
- Smoke, P. (2001). *Fiscal decentralization in developing countries: A Review of current concepts and practice*.
- Smoke, P. (2003). Decentralization in Africa: Goals, dimensions, myths and challenges. *Public Administration and Development*, 23, 7-16.
- Stansel, D. (2005). Local decentralization and local economic growth: A cross-sectional examination of US metropolitan areas. *Journal of Urban Economics*, 55-72.
- Stanton, R., (1996). *Funding the fabric: Access to capital for local services*. London:

Chartered Institute of Public Finance.

- Steinberg, D., & Saideman, S. (2008). Laissez fear? Assessing the impact of state intervention in the economy on ethnic conflict. *Forthcoming, International Studies*.
- Tae, H. C., & Jinhan, P. (2011). Business ethics and financial reporting quality: Evidence from Korea.
- Tanzi, V. (2002). *Pitfalls on the road to fiscal decentralization*. New York: Routledge.
- Thiessen, U. (2003). Fiscal decentralization and economic growth in high-income OECD countries. *Fiscal Studies*, 24(3).
- Tiebout, C. (1956). A pure theory of local expenditure. *Journal of Political Economy*, 64(5).
- Treisman, D. (2000). Decentralization and the quality of government. (Unpublished paper). [www.polisci.ucla.edu/faculty/treisman/](http://www.polisci.ucla.edu/faculty/treisman/).
- Treisman, D. (2006). Fiscal decentralization, governance, and economic performance: A reconsideration. *Economics & Politics*, 18(2).
- Trochim, W. M. K. (2006). *Statistical power*. Retrieved from <http://www.socialresearchmethods.net/kb/power.php>
- Turner, E. L. (1999). From the Podium. *Initiatives for Improving the Quality of Financial Reporting. Insights*, 13(4).
- Van-Beest, F., Braam, G., & Boelens, S. (2009). Quality of financial reporting: Measuring qualitative characteristics. *NICE Working Paper*, 09-108, Nijmegen Center for Economics (NICE), Institute for Management Research Radboud

University Nijmegen, available at <http://www.ru.nl/nice/workingpapers>

Vo, D. H. (2009). The economics of fiscal decentralization. *Journal of Economic Surveys*, 24(4), 657, UK: Oxford, Blackwell Publishing.

Vo, D. H. (2010). The economics of fiscal decentralization. *Journal of Economic Surveys*, 24(4), 657–679.

Vo, D. H. (2008b). The economics of measuring fiscal decentralization. *The University of Western Australia Discussion Paper*, 8(13). Perth: The University of Western Australia.

Volgt, W. P. (2005). Dictionary of statistics and methodology. Thousand Oaks, CA: Sage.

Webley, S., & More, E. (2003). Does business ethics pay? *Journal of Business Ethics*. Institute of Business Ethics, London.

Weingast, B. (1995). The economic role of political institutions: Market-preserving federalism and economic development. *Journal of Law, Economics and Organization*, 11(1).

World Bank & the International Monetary Fund, (2004). Report on the observance of standards and codes (ROSC): Ghana accounting and auditing.

World Bank, (2003). The economics of fiscal decentralization: Framework and principles. <http://www.worldbank.org>.

Xie, D., Zou, H., & Davoodi, H. (1999). Fiscal decentralization and economic growth in the United States. *Journal of Urban Economics*, 45, 228 – 239.

Yeung, R. (2009). *The effects of fiscal decentralization on the size of government*. A

*meta-analysis.*

## Appendix A: Recruitment Letter

Sir/Madam,

**Letter to Recruit Potential Participants in Your Organization (MMDA)**

The purpose of this letter is to seek your consent as the head of the institution and to recruit potential participants in your Metropolitan, Municipal, and District Assembly (MMDA), the actual Consent Form will be email to potential participant inbox, once your institution expresses interest and nominate officers to participate in the study. Your MMDA is invited to participate in a survey on the Impact of Fiscal Decentralization on Quality Financial Reporting at the District Assemblies in Ghana. Your institution has been selected to recruit potential participant in this study because of your role in Local government service delivery in the country. Potential participants are requested to ask any questions they may have before agreeing to participate in the survey. This research is being conducted by Abdul-Malik Seidu Zakaria (AMS Zakaria), a doctoral student at Walden University.

The Consent Form that will be emailed to potential participants will touch on: Background information, procedure, confidentiality, voluntary nature of the study as well as risks and benefits of participating in the Study.

Thank you.

Signed

Abdul-Malik Seidu Zakaria (AMS Zakaria)

mikzakaria@yahoo.com / ams.zakaria@waldenu.edu. +233207768623.

## Appendix B: Email to Participants

Sir/Madam,

### **Email: To Recruit Potential Participants in Your Organization**

The purpose of this email is to seek your consent as the head of the institution and to recruit potential participants in your organization to grant interview. The actual Consent Form will be email to potential participant inbox, once your institution expresses interest and nominate officer to participate in the study. Your organization is invited to grant interview on the Impact of Fiscal Decentralization on Quality Financial Reporting at the District Assemblies in Ghana. Your institution has been selected to recruit potential participant in this study because of your role in Local government service delivery in the country. Potential participants are requested to ask any questions they may have before agreeing to participate. This research is being conducted by Abdul-Malik Seidu Zakaria (AMS Zakaria), a doctoral student at Walden University.

The Consent Form that will be email to potential participants will touch on: Background information, procedure, and confidentiality, voluntary nature of the study as well as risks and benefits of participating in the Study.

Thank you.

Signed

Abdul-Malik Seidu Zakaria (AMS Zakaria)

mikzakaria@yahoo.com / ams.zakaria@waldenu.edu.

### Appendix C: Consent Form

You are invited to participate in a research study on the Impact of Fiscal Decentralization on Quality Financial Reporting at the District Assemblies in Ghana. You have been selected as a potential participant in this study because of your position and experience in Local government service delivery in the country. You are requested to read this form and ask any questions you may have before agreeing to participate in the study. This research is being conducted by Abdul-Malik Seidu Zakaria (AMS Zakaria), a doctoral student at Walden University. Each participant is expected to spend approximately 2-3 hours in responding to the survey or interview.

**Background Information:** The purpose of this study is to determine the relationship and assess the impact that fiscal decentralization has on quality financial reporting at the Local Government Level in Ghana. Among the areas participants are expected to be asked questions are: General Data on the targeted District Assemblies, impact of fiscal decentralization on quality financial reporting at the local government level, the extent to which quality financial reporting help to reduce audit queries, impact of quality financial reporting on internal owned funds generation, how the provision of quality financial reporting serves as a basis for granting funds to MMDAs, and Quality financial reporting and citizen participation in local governance,

**Procedure:** If you agree to participate in this study, please sign this informed Consent Form and return it to my email ([mikzakaria@yahoo.com](mailto:mikzakaria@yahoo.com) / [ams.zakaria@waldenu.edu](mailto:ams.zakaria@waldenu.edu)) or

personal delivery to Abdul-Malik Seidu Zakaria. You will receive a study packet within 2 working days of receipt of your informed Consent.

**Confidentiality:** The records of this study will be kept private. In any sort of report that might be published, I will not include any information that will make it possible to identify a participant. Research records will be kept in a locked file; only the researcher will have access to the records.

**Voluntary Nature of the Study:** Your participation in the study is voluntary and you are free to withdraw at any time during the process of completing the surveys. Your decision to participate in this study will not affect your relationship with your job in any way. If you decide to withdraw your participation you may do so without it affecting your relationship with your job or your District.

**Risks and Benefits of participating in the Study:** There are no physical risks associated with participating in the study. Emotional upset while completing the questionnaires might be a possibility. Participants are not obliged to complete any parts of the questionnaires with which they are not comfortable. No compensation will be paid to participants for participating in this study. The benefits are tremendous. The study will be of immense benefits to society at large because this study focuses on the fiscal aspect of decentralization which is at the heart of societal development. The individual participants stand to gain from this research in a variety of ways: Traditional Authorities

will rely on findings to begin to call for accelerated fiscal decentralization. Besides, traditional rulers will find in the outcome of this study the importance of quality financial reporting and the need for them to show interest in the financial reports of MMDAs for purposes of social accountability. Development Partners will appreciate their contribution to Local Government in Ghana. Other individual participants from MMDAs, Institute of Local Government Studies, Ministry of Local Government and Rural Development, Local Government Service, the Controller and Accountants General's Department (CAGD), Office of the Common Fund Administrator and the District Development Fund Secretariat will find in this study a source of empirical information. Managerial decision making on the part of key local government actors could be underpinned by findings and recommendations of this study.

**Contacts and Questions:** The researcher conducting this study is Abdul-Malik Seidu Zakaria. He can be reached by email at [mikzakaria@yahoo.com](mailto:mikzakaria@yahoo.com) / [ams.zakaria@waldenu.edu](mailto:ams.zakaria@waldenu.edu). The researcher can also be contacted on: +233207768623. Beyond the researcher, if participant is in doubt, he/she can contact the university's Research on the following number: 001-612-312-1210 or the email address; [irb@waldenu.edu](mailto:irb@waldenu.edu) . Walden University's approval number for this study is **09-25-14-0273337** and it expires on **September 24, 2015**.

Please keep/print a copy of this consent form for your records. If you would be interested in receiving a copy of the results of this study please indicate by checking here.

**Statement of Consent:** I have read the information. I have asked all the necessary questions and received answers. I consent to participate in the study.

Name of Participant: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## Appendix D: Survey Questionnaire

### **Assessment of the Impact of Fiscal Decentralization Process on Quality Financial Reporting at the Districts in Ghana**

The methodology of this questionnaire is grounded on the foundation of the fiscal decentralization process. Each section of the questionnaire deals with the conceptual principles associated with fiscal decentralization and assesses the current state of affairs in the Metropolitan, Municipal and District Assemblies (MMDAs) in Ghana.

#### **General Data on the targeted Metropolitan/Municipality/District Assemblies**

Metropolitan/Municipality/District:	
Address:	
Telephone:	
Fax:	
Webpage:	
Contact Person:	
Position:	
Date of Survey:	

#### **SECTION 1:**

#### **The impact of fiscal decentralization on quality financial reporting at the local government level**

1. Indicate the number of employees in your District Assembly according to their level of education:

Secondary education	Post-secondary education	Tertiary / Higher education	Above higher education / Master's / PhD

2. Staff Status in the MMDA:

- Regular/ Permanent
- Contract
- National Service
- Attachment
- Political Appointment
- Other.....

3. What is the staff strength of your District Assembly?

- a. 1 to 10 people
- b. 10 to 20 people
- c. 20 to 30 people
- d. 30+

4.1. Does your District Assembly have an organogram?

- a) Yes
- b) No

4.2 If yes, what is the essence of an organogram/organizational structure?

- a) A snapshot of line of authority and chain of command
- b) Provides clearly the lines of responsibilities and channels of communication
- c) It provides a sense of direction of the entity
- d) Other.....

5. Does all staff of the District Assembly aware of the existence of the organogram?

- a) Yes
- b) No

6. Does your District Assembly have its own physical structures (buildings) in all the localities (i. e. Sub-metros/zonal offices) in which it operate?

- a) Yes
- b) No

7. Does the general public aware of the role of the District Assembly as a vehicle for promoting development?

- a) Yes
- b) No

Explain further.....

8. Does granting of Taxation Power to your District Assembly impact on quality financial reporting?

- a) Yes
- b) No

9. If your answer is YES, how does it impact on quality financial reporting in your District Assembly? (More than one possible answers)

- a) Enhanced financial capacity without restrictions to employ qualified and experienced Accountants to lead in the preparation of quality financial reports
- b) Enhanced funding to undertake regular monitoring and evaluation programmes by management
- c) Enhanced financial muscle to automate the accounting system to minimize malfeasance and leakages in the system
- d) Available resources to undertake local and international training on accounting, budgeting and financial management
- e) Improved funding to motivate existing accounting professionals to stay on their positions
- f) .Other

10. How will you rank the tax collection power of your Assembly?

- a) Poor
- b) Fair
- c) Good
- d) Very good
- e) Excellent

11. What is your assessment of the implementation of the fiscal decentralization in your District Assembly?

- a) Very successful

- b) Successful
- c) Satisfactory
- d) Unsatisfactory
- e) Very unsatisfactory

Comment: \_\_\_\_\_

12. Considering expenditure responsibilities, taxation powers, inter-governmental fiscal transfers and borrowing powers of your Assembly, can you say your District Assembly is fiscally?

- a) Fully decentralized
- b) Partially decentralized
- c) Not decentralized
- d) Do not know

Explain further.....

13. How relevant is fiscal decentralization to the socio-economic growth within your District Assembly:

- a) Very relevant
- b) Relevant
- c) Partially Relevant
- d) Not Relevant
- e) Do not know

14. Does fiscal decentralization empower the local people economically?

- a) Yes
- b) No

Explain further.....

15. Does fiscal decentralization enhance local participation in decision making?

- a) Yes
- b) No

16. Does fiscal decentralization enhance economic growth and development at the local level?

- a) Yes
- b) No

Explain further.....

17. Does fiscal decentralization enhances accountability and transparency process at your District Assembly?

- a) Yes
- b) No

Explain further.....

18. Does fiscal decentralization have an impact on quality financial reporting in your Assembly?

- a) Yes
- b) No

If yes, how does it impact on your Assembly? Please explain.....

19. What is the effect of fiscal decentralization on your Assembly?

- a) No effect
- b) Minor effect
- c) Neutral
- d) Moderate effect
- e) Major effect

20. Fiscal transfers have done a lot of good to fiscal decentralization:.

- a) No
- b) Yes

If Yes, Please list any good things experienced.....

21. Does the Local Government Act, Act 462, 1993, empower District Assemblies to borrow funds to supplement the annual budget?

- c) Yes
- d) No

22. If yes, is there a limit to the amount District Assemblies can borrow?

- a) Yes
- b) No
- c) If Yes, state the amount;.....

23. Does the Local Government Act, restrict the District Assemblies with regards to the usage of such borrowed funds?

a) Yes

b) No

24. Does such borrowed funds used for only capital expenditure alone?

a) Yes

b) No

25. Does granting of Borrowing Powers to your District Assembly impact on quality financial reporting?

c) Yes

d) No

26. If your answer is NO, why does it not impact on quality financial reporting in your District Assembly? (More than one possible answers)

a) The amount allowed for Assemblies to borrow is limited (GHS 2,000)

b) The borrowed amount can only be used for capital expenditure items

c) The borrowed amount cannot automate the accounting system

d) Other .....

27. Does the central government or other agencies transfer funds to your District Assembly on regular basis?

a) Yes

b) No

28. Do the laws/ regulations governing the inter-governmental transfers restrict the Assemblies from how such funds are to be used?

- a) Yes
- b) No
- c) Other.....

29. Are such inter-governmental transfers backed by laws/regulations?

- a) Yes
- b) No

30. Does all local authorities qualify for such inter-governmental transfers?

- a) Yes
- b) No

31. Under what circumstances can a District Assembly qualify for such an inter-governmental transfers?

- a) Strictly adhering to laydown rules and regulations governing such transfer
- b) Timely preparation and submission of monthly, quarterly and annual accounts to relevant stakeholders in line with local laws and international accounting standards
- c) Enhanced revenue generation effort
- d) Decrease in audit queries and malfeasances
- e) Other.....

32. Once local authorities (District Assembly) qualify for such inter-governmental transfer, is the transfer automatic for the District Assembly to be receiving such funds annually?

a) Yes

b) No

33. How can a District Assembly be disqualified from such an inter-governmental transfer?

a) Non-adherence to laydown rules and regulations governing such transfer

b) Non-preparation and submission of monthly, quarterly, and annual accounts in line with local laws and international accounting standards

c) Increase in audit queries and malfeasances

d) Decrease in revenue generation

e) Other

34 (a). Does granting of inter-governmental fiscal transfer to your District Assembly impact on quality financial reporting?

a) Yes

b) No

34(b). If your answer is YES, how does it impact on quality financial reporting in your District Assembly? (More than one possible answers)

a) Enhanced financial capacity without restrictions to employ qualified and experienced Accountants to lead in the preparation of quality financial reports

b) Enhanced funding to undertake regular monitoring and evaluation programs by management

c) Enhanced financial muscle to automate the accounting system to minimize malfeasance and leakages from the system

- d) Allocated funds (DDF) to undertake local and international training on accounting, budgeting and financial management
- e) Improved funding to motivate existing accounting professionals to stay on their positions
- f) Other .....

35. If your answer is NO, why does it not impact on quality financial reporting in your District Assembly? (More than one possible answer)

- a) The amount transferred to the District are restricted to particular expenditure items
- b) The amount transfer to the District Assembly is not meant for recruiting accounting professionals
- c) Failure to adhere to the transfer directive could lead to disqualification
- d) Other .....

36. Does granting expenditure responsibilities to your District Assembly impact on quality financial reporting?

- a) Yes
- b) No

Explain further.....

**SECTION 2:**

**The extent to which quality financial reporting help to reduce audit queries**

1. Indicate the number of officers in the District Assembly Internal Audit Department according to their educational background:

- Chartered Accountants.....
- Tertiary Level.....
- Post-Secondary.....
- Secondary Level.....
- Others.....

2. To what extent to do you think quality financial reporting helps your Assembly to reduce audit queries

- a) To a very large extent
- b) To certain extent
- c) Uncertain
- d) Not to any extent
- e) Not at all helpful

3. Does your Assembly undertake action(s) to assess the risks it is associated with?

- a) Yes
- b) No

Please explain further:

---

---

---

4. Does your Assembly put in place measures to establish effective internal control procedures over the entire operations of the Assembly?

a) Yes

b) No

Please explain further:

---

---

---

5. Does your Assembly put in place measures to prescribe and implement measures of Ex-ante (preceding), payment control and Ex-post (succeeding) financial control in the Assembly operations?

a) Yes

b) No

Please explain

further: \_\_\_\_\_

6. Does your District Assembly has a designated and qualified internal auditor on full time basis?

a) Yes

b) No

7. Does the Internal Auditor perform the functions as prescribed in the Internal Audit Act, Act 658, 2003 without hindrance from management?

a) Yes

b) No

Explain further, the functions of the internal auditor.....

8. Does the District Assembly take responsibility for the payment of salaries of the internal audit staff (auditor)?

a) Yes

b) No

Please explain further:

---

---

---

9. Does your District Assembly has a designated and authorized external auditor?

a) Yes

b) No

Please explain further: \_\_\_\_\_

10. Does the Constitution of Ghana prescribed the External Auditor for District Assemblies?

a) Yes

b) No

11. Who is the designated and authorized external auditor for your District Assembly?

a) The Auditor General

b) Private Audit firm

c) Other.....

12. Does the External Auditor (Auditor-General) has a prescribed timetable for auditing your District Assembly annually?

a) Yes

b) No

13. List the audit reports prepared by the Auditor-General for the period 2009 - 2013 and are the same presented to the public, from your District Assembly?

---

---

---

14. What were the level of audit findings/queries from your District Assembly from 2009-2013?

a) Decreasing

b) Stagnant

c) Increasing

d) Inconsistent

e) Do not know

f) Other explain.....

15. What was the state (level) of total revenue within the same period (2009-2013)?

a) Decreasing

b) Stagnant

- c) Increasing
- d) Inconsistent
- e) Do not know
- f) Other explain.....

16. Provide further comment with regard to the functioning of the system of internal control and internal audit:

---

---

---

---

17. What constitute quality financial reporting in the eyes of the local folks?

- a) Timely preparation and submission of accounts in line with relevant local laws and international accounting standards to stakeholders
- b) Reduction in audit queries and malfeasance
- c) Improved revenue generation
- d) Availability of accounts to all stakeholders
- e) Improved external sources of funding
- f) Improved wellbeing of the local people
- g) Other

18. What constitute audit queries in the eyes of the local folks?

- a) Non-adherence to local laws and international standards in the preparation and submission of accounts
- b) When there are malfeasance in the accounts
- c) The accounts do not give true and fair view of the state of affairs
- d) Misapplication and mismanagement of public funds
- e) Other explain.....

19. What has been the level of audit queries in your District Assembly over the past five (5) (2009-2013) years?

- a) Decreasing
- b) Stagnant
- c) Increasing
- d) Inconsistent
- e) Do not know

20. Complete the table with planned and needed means for executing competencies:

No.	Competence	Budgeted funds utilized for this competence annually	Estimate of the funds needed for discharging this competence
1	Financial Reporting		
2	Revenue		

	Generation/taxation		
3	Audit Queries		
4	Financial Management		
5	Borrowing		
6	Fiscal transfers		
7	Expenditure Responsibilities		

21. Does your Assembly adopt a budgetary calendar?

- a) Yes
- b) No

22. If the answer is "NO" please provide further information: What were the reasons for not adopting a budgetary calendar? (More than one possible answers)

- a) We do not find it necessary to adopt a budgetary calendar
- b) We are not familiarized with the procedure for adopting a budgetary calendar
- c) Budgetary calendar is not necessary
- d) Other (please explain)

---



---

23. Does your Assembly adhere to the budgetary calendar adopted)?

- a) Yes

b) No

24. If the answer is “NO”, please provide further information: What are the reasons for not adhering to the budgetary calendar? (More than one possible answers)

- a) The budgetary calendar was inadequately designed
- b) We lack the habit of following the budgetary calendar
- c) Other (please explain)

---

---

25. Does your Assembly receive the information needed for the budgeting process in a timely fashion from the central governmental and other agencies?

- a) Yes
- b) No

Please explain: \_\_\_\_\_

---

26. Does your Assembly apply the principle of participative budgeting (participation of the broader public) in the preparation of the annual budget?

- a) Yes
- b) No

27. If the answer is “YES”, please explain:

How often do you organize public meetings (stakeholders; citizen meetings, NGO, Civil society organization and business community), in order to analyze the needs and the priorities of the citizens during the preparation of the draft budget?

- a) Once a year
- b) Twice a year
- c) Three times a year
- d) Four times a year
- e) More than five times a year
- f) Other.....

28. Is the draft budget publicly presented to the General Assembly for their input and approval?

- a) Yes
- b) No

29. Are the laydown procedures as stipulated in the Local Government Act, Act 462, 1993 for adopting the Assembly budget properly followed, in order to inform the general public, the business community and other interest groups?

- a) Yes
- b) No

30. Does the Assembly present the approved budget to the General public?

- a) Yes
- b) No

31. If the answer is “YES”, please expand: How are these presentations conducted?

(More than one possible answers)

- a) Allotted period for meeting with the general public and the business community
- b) Through a citizens’ information centre
- c) Presentation before a public gathering of citizens
- d) Local media (TV, newspapers and other)
- e) Other (please explain) Webpage \_\_\_\_\_

32. If the answer to 18 is “NO”, please expand:

What were the reasons why the budget was not presented to the citizenry?

- a) The draft budget was not prepared on time
- b) The meeting of the council for adopting the budget was not scheduled on time
- c) The Council members could not agree to adopt the budget
- d) Other (please explain) \_\_\_\_\_

33. Does the Assembly spend more than the budgeted estimates?

- a) Yes
- b) No

If the answer is No, under what circumstance can the Assembly spent more than the budget;.....

### **SECTION 3**

#### **Impact of quality financial reporting on internal owned funds generation**

1. Is there a relationship between fiscal decentralization and quality financial reporting in your District Assembly?

- a) Yes
- b) No
- c) Explain further.....

2. Does quality financial reporting impact on internal owned funds generation in your District Assembly?

- a) Yes
- b) No

If yes, please explain how it impacts on your assembly.....

3. Your assembly has internal controls measures to ensure quality financial reporting.

Strongly Agree  Agree  Neutral  Disagree  Strongly Disagree

4. Do the local people take lead in the preparation and execution of their annual budget without central government involvement or control?

- a) Yes
- b) No

5. Who determines the expenditure pattern of your District Assembly?

- a) The General Assembly
- b) Central Government
- c) Local Government Secretariat
- d) The President

e) Other .....

6. Does granting of Expenditure Responsibility to your District Assembly impact on quality financial reporting?

e) Yes

f) No

If your answer is YES, how does it impact on quality financial reporting in your District Assembly? (More than one possible answers)

g) Empower the District Assembly to employ qualified and experienced Accountants to lead in the preparation of quality financial reports without any restriction

h) Empower management to release funds to undertake regular monitoring and evaluation programs promptly, which impact on the level of audit queries in the District Assembly

i) Empower the District Assembly to acquire the best accounting system/automate the accounting system to minimize malfeasance and leakages in the system

j) Ability to budget and approved funding to undertake local and international training on accounting, budgeting and financial management, in order to improve accounts preparation

k) Ability to motivate existing accounting professionals to stay on their positions and encourage new professionals to join the District Assembly

l) Other .....

7. Do members of staff of your District Assembly able to manage the resources/funding available/allocated to the Assembly?

- a) Yes
- b) No

**SECTION 4**

**How the provision of quality financial reporting serves as a basis for granting funds to MMDAs**

- c) What are the main sources of funding/revenue for the District Assembly operations/activities?
- d) Internally Generated Funds (IGF)
- e) Transfers from Central Government and other Agencies
- f) Grants from Development partners (e.g. DDF)
- g) Borrowing/Loans
- h) Others.....
- i) In order of priority, state which of the above main sources of funding/revenue provides the District Assembly the highest income:

1<sup>st</sup> .....

2<sup>nd</sup> .....

3<sup>rd</sup> .....

4<sup>th</sup> .....

5<sup>th</sup> .....

j) In order of priority state which of the above sources of funding/revenue is the most sustainable source of income to the District Assembly?

1<sup>st</sup> .....

2<sup>nd</sup> .....

3<sup>rd</sup> .....

4<sup>th</sup> .....

5<sup>th</sup> .....

k) Does the District Assembly has the needed resources/funding to empower the Local folks in your District Assembly to undertake economic activities?

a) Yes

b) No

l) Do you think quality financial reporting serves as a basis for granting funds to your Assembly?

a) Yes

b) No

If yes, how? Please explain.....

m) Do you think quality financial reporting help empower local authorities (District Assemblies) such as yours to levy and collect local taxes without the control and direction of the central government?

a) Yes

b) No

n) How efficient is your District Assembly in mobilizing revenue locally?

a) Very efficient

b) Efficient

c) Partially efficient

d) Not efficient

e) Do not know

o) Do you think quality financial reporting helps your Assembly to generate this revenue locally?

p) Yes

q) No

r) Explain further.....

s) Does your District Assembly have an electronic system for checking quality financial reporting and for generating bills and managing revenue collection?

a) Yes

b) No

c) Other.....

.....

t) Fill in table 1 with information regarding main sources of revenue:

No.	Type of Revenue	Year					
		2011		2012		2013	
		Budget	Actual	Budget	Actual	Budget	Actual
	Total revenues						
1	Internally Generated Funds (IGF)						
2	Transfers from Central Gov.						
3	Transfers from External Partners						
4	Transfers from other Agencies						
5	Loans						
6	Property sale revenue						

10. Do you think quality financial reporting has helped your Assembly in its revenue generation?

a) Yes

b) No

11. If yes, in which way has it helped the Assembly.....

12. List the number of the District Assembly employees who work on administering local taxes and fees:

---

---

---

13. Is the number of employees noted above adequate to successfully administer local taxes?

---

---

---

14. Do you think it is the number of the Assembly employees which determines the amount of tax generated or it is as a result quality financial reporting?

- a) The number of employees help in administering tax
- b) Quality financial reporting
- c) None of the above

15. Does your District Assembly engage the services of private revenue collectors/agencies, in the collection of Internally Generated Funds (IGF) in your Assembly?

- a) Yes
- b) No

16. Is it the effort of these private revenue collectors that help the Assembly in getting its Internally Generated Funds (IGF) or it is as a result quality financial reporting of the Assembly?

- a) The effort of private tax collectors
- b) Quality financial reporting
- c) None of the above

## **SECTION 5**

### **Quality financial reporting and citizen participation in local governance**

1. To what extent is the competence of your District Assembly in the following areas fulfilled:

<b>No.</b>	<b>Area</b>	<b>Fully</b>	<b>Partially</b>	<b>Is not fulfilled</b>
1	Financial Reporting			
2	Revenue Generation/taxation			
3	Audit Queries			
5	Financial Management			
6	Local Governance			
7	Borrowing			
8	Inter-Governmental Fiscal transfers			
9	Expenditure Responsibilities			

Comment on the above if fully fulfilled:

---

---

---

2. If you have answered - partially: What are the reasons?

- a) The District Assembly administration has weak administrative and finance capacity
- b) The District Assembly lacks fiscal capacity
- c) Inadequate financial resources
- d) Other

---

---

---

3. If you have answered – is not fulfilled: Which are the reasons for not fulfilling the competencies:

- a) Weak administrative capacity
- b) Low fiscal ability
- c) Inadequate financial means
- j) Unqualified and inexperienced staff

Other comments:

---

---

---

---

---

4. Do you find that non fulfillment or partial fulfillment can be the reason why some MMDAs do not prepare quality financial reports to stakeholders?

a) Yes

b) No

Comment:

---

---

---

5. In your own understanding, do you think there is a connection between quality financial reporting and citizen participation in local governance?

a) Yes

b) No

6. If your answer is yes, how are they connected? Please explain.....

7. Does quality financial reporting has an effect on citizen participation in local governance?

a) Yes

b) No

Explain further.....

8. Rank the level of effect quality financial reporting has on citizen participation in local governance

- a) No effect
- b) Minor effect
- c) Neutral
- d) Moderate effect
- e) Major effect

9. Does the Assembly put in place specific policies for accessing information from the user departments with regard to the preparation of financial reports?

- a) Yes
- b) No

Please explain further:

---

---

10. Are there applicable laws and regulations that, established a framework for the timely publication and distribution of the financial statements?

- a) Yes
- b) No

Please explain further (State the laws if your answer is Yes):

---

---

11. Do the user departments regularly submit monthly financial reports to the Assembly for onwards preparation of the consolidated financial statement of the Assembly?

a) Yes

b) No

Please explain further:

---

---

12. Are there established regulations/practice for the submission of monthly and quarterly reports in a regular and timely fashion by the District Assembly to the relevant state agencies?

a) Yes

b) No

Please explain further:

---

---

13. How does your District Assembly inform the public of the content of the monthly/quarterly financial reports?

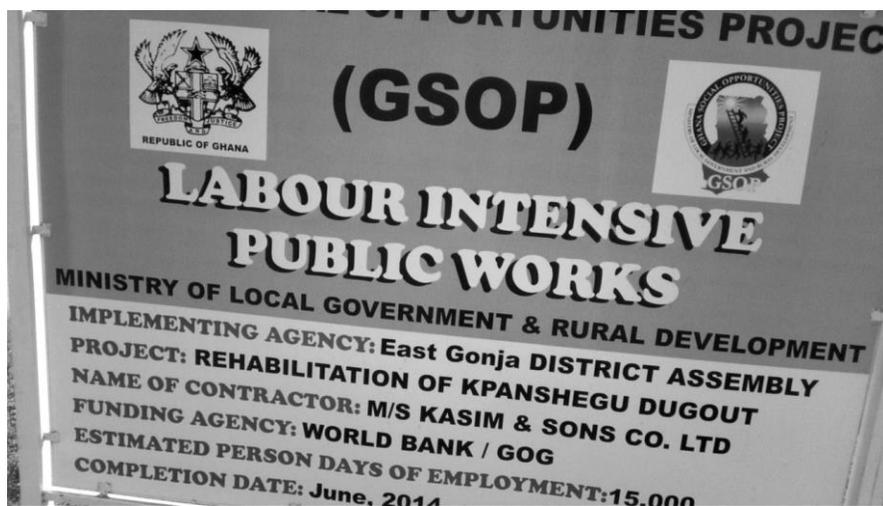
---

---

THANK YOU.

Appendix E: Signboards Demonstrating Economic Empowerment at the Local

Government Level in Ghana



## Appendix F: Permission Letter from Local Government Service Secretariat

**Local Government Service Secretariat**

In case of reply, the Number and date of this Letter should be quoted.

Our Ref: LGSS/FC/85/01

Your Ref: \_\_\_\_\_



University Post Office  
Private Mail Bag. L52  
LEGON-ACCRA

Tel.: 0302 - 662799, 662841, 672439  
Fax: 0302 - 662799, 662841, 672438  
E-mail: [secretariat@lgs.gov.gh](mailto:secretariat@lgs.gov.gh)

Date: 1<sup>st</sup> October, 2014

**"Decentralization, Democracy, Development"**

**RE: PERMISSION TO CONDUCT STUDY ON THE IMPACT OF FISCAL DECENTRALIZATION ON QUALITY FINANCIAL REPORTING AT THE DISTRICT ASSEMBLIES IN GHANA**

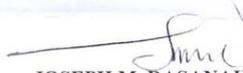
Reference to your letter dated 29<sup>th</sup> September 2014, in respect of the above subject, the Service welcomes the study and has accordingly granted you the approval to conduct the research. Accordingly, the Service has directed all the 216 Metropolitan, Municipal and District Assemblies (MMDAs), to fully participate in the survey, in view of the its relevance to the socio-economic development of the country.

In our capacity as Head of Local Government Service in the country, we will communicate formally to all MMDAs under our jurisdiction to participate in the exercise and further identify some officers for your consideration for interview.

It is our fervent understanding that data collected from MMDAs and other Local Government institutions will remain entirely confidential, and will not be used for any other assignment or made available to anyone without the permission of Walden University IRB (USA).

It is the hope of the Service that the study will not only be used for academic purposes, but ultimately contributes immensely to the fiscal decentralization process in the country. Beyond that, the study will make recommendations on how to improve Quality Financial Reporting at MMDAs in Ghana.

Thank you.

  
**JOSEPH M. DASANAH**  
 (CHIEF DIRECTOR)

**MR. ABDUL-MALIK SEIDU ZAKARIA**  
 C/O.CONTROLLER & ACCT.- GENERAL'S  
 DEPARTMENT  
 P. O. BOX M79  
 MINISTRIES - ACCRA

**ATTN: MR. ABDUL-MALIK SEIDU ZAKARIA**

- 2 -

cc: The Hon. Minister  
Ministry of Local Government and Rural  
Development  
Accra

All Metropolitan/Municipal/District  
Assemblies