

# The Effects Of Institutional Capacity In Utilizing The Internal Control Systems On Performance Of Projects In Local Government Authorities In Tanzania

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## **Abstract**

Tanzania like other countries has been struggling to make various reforms including project reforms for sustainable socio and economic development. Despite these initiatives the performance of projects in Tanzania is still challenging.

Institutional capacities in projects have limited capacities such as staffing, project skills, legal power and project objectives in performing their task of utilizing internal controls and promoting accountability in local government. This in turn pose the problems that hinders the performance of projects being implemented. The main purpose of this study is to determine the effects of institutional capacities in utilizing the internal control systems on performance of projects in Local Government Authorities in Tanzania.

This study adopted a cross sectional research design. The population consisted 1,002 employees of the selected Councils where projects were implemented which include Ilala, Dodoma, Iringa, Singida and Chamwino Councils. Sample of 278 staff has been selected from the population based on statistical formula. Primary and secondary data were collected where by structured questionnaires, focused group discussion and interview methods were employed under the study.

The findings indicates that, there is positive relationship between the effectiveness of institutional capacities and the performance of the projects. The overall results, indicate that majority of respondents disagreed that there is adequate institutional capacity in utilizing the internal control systems on performance of projects.

This is the first article that establishes the effects of institutional capacities in utilizing the internal control systems on the performance of projects in developing country context, in particular, in Tanzania

**Key words:** Internal control system; Institutional capacities; project performance;

## Local Government Authorities, Tanzania

### 1. Introduction

The phenomena of institutional capacities has a prominent importance towards improvement of performance of the projects, as institutional capacities has a relationship with the performance of the projects. Previous researchers, Mmari (2005) and Peter (2009) in their studies found, inadequate capacity of institutions upon utilization of internal control in Local Government Authorities (LGAs) projects which led to poor performance of the projects.

The performance of the projects depends on the skills and technology invested towards the projects being implemented. In addition working facilities also play a big role as far as the project performance is concerned. Generally, once there is effective internal control systems towards the implemented project, it is obviously project performance will be improved. This may be supported by Eton, Eton *et al.* (2018) in their studies urged that, the relationship between internal control systems and financial accountability of projects in local government appeared to be weak and the actual contribution of internal control systems actors in the financial operations of the Councils is negligible.

The performance of projects in Local Governments in Tanzania is low due to inadequate of institutional capacities particularly on the knowledge and skills, finance and human resource towards the implemented projects, this is also supported by Venugopal and Yilmaz (2010). Hence this study addresses the association of the institutional capacities and the performance of projects implemented in Local Government Authorities in Tanzania context.

### 2. Related Literature Review

In India, Maor (2004) and Mulgan and Uhr (2001) found that, independent agencies have become major repositories of institutional capacity in government efforts to promote integrity systems and fight corruption. Furthermore, Mohammed (2014) found that institutional agencies should have powers and resources for monitoring the adequacy of local government control systems. However, Maor (2004), Mulgan and Uhr (2001) in their studies showed that institutional capacities have limited capacities such as staffing, skills, legal power and

organizational objectives in performing their task of utilizing internal controls and promoting accountability in local government. In addition, Saeed and Dashti (2004) found out that, the challenges in the implementation of internal controls especially considering that the audit unit and its function is not well extended to the upcountry centers which clearly has affected their efficiency

In Uganda, Steffensen, Tidemand and Mwaimpopo (2004) on their studies found that, education and experiences on local government systems particularly on accounting and financial aspects for institutional capacities in monitoring on the implementation of internal control systems is extremely important. In addition, (Steffensen, Tidemand and Mwaimpopo (2004) found that, the institutional capacities have limited resources towards promoting internal control systems in local government projects

In Tanzania, Kinyau (2016) and Chalu (2007), in their findings comprehended the role of institutionalized social and legal rule with professionalism in shaping actors to use accounting information instrumentally and symbolically in budget decision making processes and on designing and implementation of internal control systems in general. Mgonja and Tundui (2012), and Sari, Ghazali and Achmad (2017), found challenges on development partners (Donors), reformers such as the central government, national accounting professional board (NBAA) to coerce pressure by adoption of implementation of control systems which can lead to positive change in LGAs to influence instrumental rather than symbolic use of accounting information in budgetary decision making processes. Andrew and Goddard (2016) found that the establishment of internal control systems in LGAs is not adequate for the successful implementation of controls, and suggested comprehensive view of other institutional actors, in utilizing internal control systems in LGAs. The institutional actors in utilizing internal controls in Tanzania LGAs includes, the National Audit Office (NAO), The National Board of Accountants and Auditors (NBAA), the Internal Auditor General (IAG) where institutional capacities needed includes knowledge and professional skills, working facilities, human resources, and financial resources.

### **Statement of the Problem**

Tanzania like other countries has been struggling to make various reforms including project reforms for sustainable socio and economic development. In additional, in recent years, Tanzania Government have taken various initiatives to ensure projects are performing at greater extent. Some of initiatives taken by the government includes, Adoption of integrated financial systems of projects; Appointment of project coordinators for each implemented project; Establishment of procurement Act, 2011; Establishment of Procurement Regulations of 2013 and its amendments of 2016. However despite these initiatives the performance of projects in Tanzania is still challenging. Some of these challenges may be limited human resources, limited funds, limited working facilities and inadequate of knowledge and skills. These challenges if not appropriate addressed may impose detrimental effect on the performance of the projects. Therefore this article examine the effects of institutional capacities in utilizing the internal control systems on performance of projects in Local Government Authorities in Tanzania.

### **Research Objectives**

- i. To assess the knowledge and skills of staff implementing projects in Local Government Authorities in Tanzania
- ii. To examine the effectiveness of working facilities for the implemented projects in Local Government Authorities in Tanzania
- iii. To evaluate the financial resources towards implementation of projects in Local Government Authorities in Tanzania

### **3. Research Methodology**

This study adopted a cross sectional research design, where analysis constituted data of variables which were collected at one given point of time across a sampled population. The population consist all employees of the selected LGAs who are responsible for projects implementation. According to the council's report (2019) staffs who are responsible for project implementation are about 1,002. The sample has been derived from a sample frame of 1002 staffs from the selected LGAs. The proportional sampling has been used due to the fact that the target population is greater than 1,000 items/ respondents. Thus, upon the five LGAs selected, a sample

of 278 staff has been selected from the population of 1,002 based on simple random sample size determination formula below:

$$n = \frac{\frac{z_{\alpha/2}^2 P(1-P)}{e^2}}{1 + \frac{z_{\alpha/2}^2 P(1-P)}{Ne^2}} = \frac{\frac{1.96^2 \times 0.5(1-0.5)}{0.05^2}}{1 + \frac{1.96^2 \times 0.5(1-0.5)}{1002 \times 0.05^2}} = 277.69 \text{ approximately to } 278$$

Thus, the level of confidence which placed 95% which provide us Z Value of 1.96 per the normal table. Where Z is the critical value that is 1.96 and e is the margin of error 5% which is 0.05, p is the probability proportional which is 0.5, N is the population and n is the sample size. Proportional sampling is used when the population is large.

Primary and secondary data were employed in this study. Semi structured interview, focused group discussions and surveyed questionnaire methods were used for collection of primary data. Secondary data also were used in this study, written or printed materials was obtained particularly from the financial statements of projects from selected LGAs (Dodoma CC, Ilala MC, Iringa MC, Singida DC and Chamwino DC). The researcher mainly used financial statements of projects for the consecutive five years (2013-2018) in seeking the extent upon which, projects fund is utilized in the normal course of business. For quantitative data, likert scale, multiple linear regression model used under the study. Likert scale from questionnaires were used whereby data was analyzed using SPSS V. 26 and STATA software's. Moreover, in case of likert scale of 1-5 stages was used. The scale was divided into 1, Strong Dissatisfied, 2 Dissatisfied, 3 Neutral, 4 Satisfied and 5 Strong Satisfied.

## Estimation of Model

### Multiple Linear Regression Model

Multiple linear regression model was employed under the study. The aim of the model is to obtain a model which best predicts the chance of an outcome variable (let say y) as a function of explanatory variables (let say x's).

Before employing the multiple regression and partial correlation analysis, the institutional capacities index was obtained by adding each item in the institutional capacities to obtain the

total index which is continuous variable since the variable always is considered as continuous variable if it has at least five distinct categories as also supported by Spencer, Harpe and Pharm (2015). In the same way the project performance index was obtained by adding each item and obtaining a total index. Then after obtained these variables the partial correlation, multiple linear regression model was employed and the following diagnostics checks such as box plot employed to assess whether there is an outlier ,test of heteroskedasticity by using Breusch pagan test, test multicollinearity by using variance inflation factor (VIF) ,test of linear association between project performance index and institutional capacities and lastly test of autocorrelation were employed in order to assure that the estimate obtained from the multiple linear regression model are unbiased, efficient and consistence.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where by Y= project performance score or index  $X_1$ =Nature of local government authorities this is categorical variable 1 if urban,  $X_2$ =Age of local government authorities this is dummy variable 1 if age is above 10 years and  $X_3$ = Institutional capacity score or index

#### 4. Data Analysis, Results and Discussion

##### Partial correlation between institutional capacity and project performance

Table 1 show the Partial correlation as was used to explore the relationship between institutional capacity (as measured by the institutional capacity score) and project performance (measured by the project performance score), while controlling for age of the Council and nature of Council where projects are implemented. Preliminary analyses were performed to ensure no violation of the assumption of normality, linearity and homoscedasticity. There was a weak, positive, partial correlation between institutional capacity and project performance, controlling for age of Council and nature of the Council where projects are implemented, ( $r=0.241$ ,  $n =264$ ,  $p=0.001$ ). As presented in the table 1, the coefficient of determination R square is0.134 and R is 0.366 at 5% level of significance. The coefficient of determination indicated that 13.4 of variation on projected performance explained by independents variables included in the model.

**Table 1: Partial correlation between institutional capacity and project performance**

Control Variables	Institutional capacity	Project Performance
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Age & Nature of LGAs	Institutional capacity	Correlation Significance (2-tailed)	1	0.241
		df	0	264
	Project Performance	Correlation Significance (2-tailed)	0.241	1
		df	0	264
R	.366			
R Square	0.134			
Adjusted R Square	0.124			
Std. Error of the Estimate	5.47155			

**\*\* Significant at 0.01(2-tailed).**

**Regression analysis on institutional capacity versus the performance of projects in LGAs.**

The analysis of variance in table 2 show that the model used was statistically significantly at (P < 0.001, F=13.645 and degree of freedom (DF) = 274) account for the joint variation of independent variables with the dependent variables. This implies that the age of the Council, nature of the Council where projects are implemented and institutional capacity has significant combined effect on the project performance.

**Table 2: Analysis of Variance**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1225.529	3	408.51	13.645	.000b
Residual	7903.591	264	29.938		
<b>Total</b>	<b>9129.119</b>	<b>267</b>			

Multiple linear regressions were further used to assess effect of age, institutional capacity and Nature of LGAs on project performance. The result in table 3 show the fitted model:

$$\text{Performance} = \beta_0 + \beta_0 \text{ Age} + \beta_1 \text{ Institutional Capacities} + \beta_2 \text{ Nature of LGAs}$$

.The following independent variables were statistically significant influence project performance.

Institutional capacity statistically significance (p-value<0.01) and had positive influence on performance of project. This implies that a unit change in institutional capacity will increase project performance by the rate of 0.161326.

Nature of Council where projects are implemented was statistically significance (p-value<0.01) and had positive influence on performance of project. This implies that projects implemented into urban councils exceed projects implemented into councils in rural areas by the rate of 2.308836 in project performance.

Age statistically significance (p-value<0.5) and had positive influence on performance of project with regression coefficient 1.567117. This implies that projects implemented into Councils with more ten years exceed projects implemented at Councils with less than ten years in project performance by the rate of 1.567117.

Even when age, nature of Local government authorities and institutional capacity are non-existence, project performance is still positive at 15.98793 indicating that there are other drivers of project performance including participation of users, working culture and internal audit.

**Table 3: Regression output of institutional capacity and Project performance**

Variable	Unstandardized Coefficients		T	Sig.
	B	robust standard error		
Cons	15.98793	1.317529	12.13	0
Age	1.567117	0.771672	2.03	0.043
Nature of LGAs	2.308836	0.82035	2.81	0.005
Institutional Capacities	0.161326	0.041356	3.9	0

**Note** - -Nature of LGAs was dummy variable 1 if urban and 0 if is rural and also the age was dummy variable 1 if is above ten years and 0 if below ten years.

**Regression Analysis on institutional capacities versus Project Performance**

Factor analysis was done for institutional capacities and all 12 items were retained for further analysis as they had factor analysis of 0.5 and above.

The overall of the findings on the institutional capacity of LGAs upon utilization of ICS on performance of projects in LGAs indicated that 8.2% of the respondents strongly disagreed and 52.2% disagreed that institutional capacity is adequate upon utilization of ICSs on performance



of projects in LGAs. Where by 20.9% agreed and 1.5% strong agreed meanwhile 17.2% neither agreed nor disagreed

Regression analysis was done, the analysis of variance showed that the model used was statistically significantly at ( $P < 0.001$ ,  $F=13.645$  and degree of freedom (DF) = 274) account for the joint variation of independent variables with the dependent variables. This implies that the age of Councils where projects are implemented and nature of the Councils where projects are implemented and institutional capacity has significant combined effect on the project performance.

Institutional capacity statistically significance ( $p\text{-value} < 0.01$ ) and had positive influence on performance of project. The study revealed that a unit change in institutional capacity will increase project performance by the rate of 0.161326.

Nature of Local government authorities was statistically significance ( $p\text{-value} < 0.01$ ) and had positive influence on performance of project. The study revealed that projects implemented in urban Councils performed well compared with projects implemented at rural Councils at by the rate of 2.308836 in project performance.

Age statistically significance ( $p\text{-value} < 0.5$ ) had positive influence on performance of project with regression coefficient 1.567117. This implies that projects implemented at Councils with more ten years exceed its performance is high compared to projects implemented at Councils with less than 10 years in project performance by the rate of 1.567117.

### **Contribution of the study to the Body of Knowledge**

This study contributes to the body of knowledge both in methodology, theory and practice. In order to derive more valuable and broader conclusions, the methodology adopted in this study involved administering structured questionnaires across a wide range of projects in LGAs, in order to increase the generalizability of the results. Lack or inadequate of internal control systems, results to poor project performance among LGAs, this study is of scholarly interest as it has further un-covered factors that lead to enhanced internal control systems. This is likewise true for the testing of possible relation between institutional capacities and project performance.

In the context of aspiring to bring out supplemental factors that enhance internal control systems, recent studies ignored the controlling effect of the nature of LGAs and age of LGAs on project performance. This research gap has been addressed through administering structured questionnaires at the individual level over and above quantitative analysis

The study has established that the main drivers of project performance is the strong internal control systems in which institutional capacities is also important

## **5. Conclusion**

Local Government Authorities in Tanzania should liaise with President's Office Public Service Management (PO-PSM) such that the vacant posts in projects are filled, as most of projects have limited number of staff with required knowledge and skills. Hence capacity building should be adhered to project staff. This will sharpen their existed knowledge and skills and hence will enable attainment of project objective. Furthermore, project implementers should priorities all claims which are subject to penalties and communicate to Treasury from time to time to alert them on the priority of these commitments

## **6. Areas for Further Research**

Despite the contribution made by this research, it showed few aspects to be considered by future researchers. First, the proposition put forward in this research emphasize the importance of institutional capacities in improving the project performance. An effective institution capacities will results to high performance of projects. The study focused on projects in Local Government Authorities in Tanzania.

Subsequent studies should consider replicating this study in Central government in Tanzania in order to establish the importance of institution capacities in projects found in Central government.

Secondly, future research may attempt to replicate the study in different economic sectors to confirm the role of institution capacities and corporate governance on project performance of public authorities

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