



SITTING ON A TIME BOMB IS THE MINISTRY OF LOCAL GOVERNMENT AND URBAN DEVELOPMENT BY NOT ADDRESSING EFFECTIVE FINANCIAL MANAGEMENT IN RURAL DISTRICT COUNCIL TO AID SERVICE DELIVERY: A CASE STUDY OF MATEBELELAND SOUTH PROVINCE IN ZIMBABWE

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Abstract

The focus of this paper was to analyse the effectiveness of financial management in Rural District Councils in Matabeleland South Province in Zimbabwe. The study was provoked by continuous complaints from various stakeholders concerning poor service delivery coupled with lack of transparency in local authorities. The main objective of the study was to establish factors leading to mismanagement and misappropriation of public funds in local authorities. The study was carried in seven Rural District Councils in Matabeleland South Province. A sample of fifty (50) respondents was the target of the study. Both the quantitative research and qualitative research was used. Questionnaires, interviews and document inspection were the research instruments utilised to gather the required information. Interviews were used to collect information from councilors and stakeholders. Interviews were also used to compliment the findings from the questionnaire instrument's shortfall. The finding of the study revealed that there was poor service delivery by most Rural District Councils, an inefficient and outdated method of revenue collection. The study also revealed that there was a bottleneck system in revenue approvals and high staff turnover due to poor remuneration and poor working conditions. In light of the findings, it was recommended that local authorities should devise an appropriate and properly integrated accounting system. It was further recommended that local authorities should put in place financial supervision and control by management by means of budgetary control and regular reports and returns.

Keywords: *audit; efficiency; internal check control; financial management; finance committee; local authority*

1. Introduction

The local government system in Zimbabwe has experienced many changes and challenges during the colonial period and after independence in 1980. The Urban and Rural District Council Acts have been amended many times to initiate efficiency and effectiveness in local governance.

Accountability and transparency in any business environment is very critical, conflict is certain when these aspects are not convincingly, efficiently and effectively addressed. Of great interest to the researcher was the lack of the degree of proficiency and efficiency of financial management in Local Authorities, particularly Rural District Councils. Business administration has its leverage on effective and efficient financial management. As a science, financial management is guided by procedural processes or principles that need to be mastered and adhered to.

There has been an outcry by the public that financial prejudice by local authorities in the form of embezzlement, misappropriation or mismanagement of public funds was rife and need to be addressed. According to the draft circular number 6 of (2001) from the former Ministry of Local government, Public Works and Urban Development (MLGPW&UD), a field survey was carried out by the inspection section and revealed that the majority of Zimbabwe's Rural District Councils did not have up to date audited accounts. The reasons for not having up to date audited accounts included the fact that some of the amalgamated councils had been unable to reconcile the books of the previous Rural District Councils. Despite the statutory mandate to do so, many local authorities did not have sufficient staff or qualified personnel with adequate skills and experience to prepare the financial accounts ready for auditing. Some local authorities had not been able to meet the fees required to clear their auditing and accounting backlogs. These factors had resulted in the current situation whereby forty – eight (48) out of fifty – seven (57) Rural District councils did not have up to date audited books of accounts.

These are some of the indicators of prevalent problems centered on financial management affairs of which the local authorities are the custodian.

The paradox which this study sought to establish was the effectiveness of financial management in Rural District Councils in view of alleged cases of poor service delivery in local authorities. The statement of the problem was mainly pivoted on the assumption that there was mismanagement of public funds by local authorities. Various media reports have revealed that there was poor corporate administration and corporate governance in most local

authorities. The Ministry of LGP & UD reports had revealed that there are also loopholes in the accounting systems of the RDCs. The whole system seems to be in shambles. It was against this background that the study sought to establish factors contributing to the ineffectiveness of financial management in local authorities.

The study postulated that there was financial mismanagement in local authorities and to this end questions such as do Rural District Councils have effective financial management policies and what gaps exist between the best financial management practice and the consolidated revenue fund's current practice dominated the study. It was these main questions which determined the objective of the study in establishing the effectiveness of financial management in local

So critical to any organisation whether profit making or non-profit making is the significance of corporate governance. Local authorities are not an exception; they must adhere and embrace good corporate governance practice. It was very critical for the researcher to establish the gap between obtaining financial management practices and sector best practices to improve on control systems. It is also imperative to create sound working relationship between stakeholders and Rural District Councils for fostering development through knowledge enhancement

The study will assist parent ministry to evaluate financial management practices with a view of taking corrective action. It was also anticipated that the findings would provide Rural District councils managers with information for identifying training needs in financial management for effective and efficient management system. This study was embarked on to benefit various stakeholders namely; Ministry of local Government, Public Works and development, Non-Governmental Organisation and Local Authorities. This study among other things sought to fill in the information gap and highlight the importance of financial management in Local Authorities. Thus the study will contribute knowledge to the existing body of knowledge in Local Authorities.

This study was set to analyse the effectiveness of financial management in seven Rural District Councils of Matabeleland South Province in Zimbabwe. The target of the study were Chief Executive Officers, Treasurers, Councilors, Finance personnel and other stakeholders in each of the Rural District Councils under study. The study survey was focused on the views, opinions, beliefs and attitudes of the targeted group concerning financial management.

The following issues are beyond the scope of this research since these issues are not of concern to the study of financial management of Rural District Councils to a large extent. These are land allocation procedures and land use planning and the existence of policies and procedures on acquisition of land by local authorities from the state and private owners.

If things were feasible; the researcher would have preferred to carry out this nature of this study to cover all fifty – eight (58) Rural District Councils in the country. However because of limited time and scarce resources at the disposal of the researcher, was limited to carry out the study on only seven Rural District Councils in Matabeleland South Province.

The decision was also arrived at after the researcher assumed that, the general operations of Rural District Councils in the country were almost similar as all RDCs' operations and activities are depicted in the RDCS Act and the RDCs accounting Handbook. The other limitation that the researcher faced was that of being full-time employee and could not get sufficient to time to effectively carry out the study. The researcher had to share time between the researcher's work commitment and the research study. However, to overcome the time factor the researcher took twenty –one days (21) vacation leave for the purpose of carrying out the study.

2. Literature Review

Literature review is a research for information and ideas from studies that have been done previously, existing books, journals, magazines and many others sources available to the researcher. This is done to avoid repetition, to build on existing knowledge, to fully develop concepts one is dealing with to identify knowledge gaps, to compare findings for possible collaboration somebody in the same field in order to share information (Pilot and Hunger 1995:76).

Financial management is not a new discipline of science. Various studies have been carried out by various authorities and research scholars in financial management issues; however this study will take financial management issues further.

Local authorities in Zimbabwe are creations of statute with clearly specified or delegated powers by both Executives and Legislative. In the case of rural local authorities namely RDCs, they are established in terms of the Rural District Councils Act (Chapter 29:13) as provided for in section 12 which reads: Every council established in terms of the said Act shall be a body corporate with perpetual succession and, in its own name shall be capable of suing and being sued and generally, of doing, supervising and performing all things which in terms of the said Act or any other law, it may do, and perform.

Having briefly outlined what the law generally requires of the councils it becomes pertinent and necessary at this juncture to focus specifically on what this entails for those who end up taking the post of Chief Executive Officer in Rural District Councils. A close examination of the Act reveals that it is envisaged that the Chief Executive Officer would be some kind of a modern manager with complex tasks to perform. The major task of the Chief Executive Officer is expected to advise council on the appointment of statutory committees and on other

procedural matters relating to the conduct of meetings. Perhaps the most important role of Chief Executive Officer is arising from the functional responsibilities of Rural District Councils is that of managing finances.

According to the Rural District Council handbook the sequence of budget preparation in the preparation of revenue estimate should be in four stages namely:

- Stage 1 – the Chief Executive Officer stage
- Stage 2 – The committee stage
- Stage 3 – the finance stage
- Stage 4 – the council stage (Accounting Handbook: 24)

Most authors have attributed the collapse of small-scale enterprises to poor management of finances. Sound financial management is based on knowledge in accounting which provides data on managerial performance in terms of honesty and efficiency. Sound financial management viewed as a powerful instrument for preventing any mismanagement and misappropriation of public funds by employees within an organisation. Sound financial management should be complemented by well qualified finance staff, effective internal control system and the realism of budgets (Lapsley 1996).

3. Methodology

The type of research that was used in this study is qualitative research and quantitative research. Several authorities and research scholars agree that the major aim of qualitative researchers is to gather an in-depth understanding of human behaviour and the reasons that govern such behaviour. It is further believed that the discipline investigates the “why” and “how” of decision making. The researcher examined the phenomenon through inspection and observation of records kept by local authorities.

The core argument for a mixed design is that the combination of both forms of data provides a better understanding of the research problem than either qualitative or quantitative data by itself (Creswell, 2012: 22). The main goal of the study was to analyse the effectiveness of financial management in Rural District Councils. To understand the research problem better the mixed design method was used. A descriptive study was carefully designed to ensure complete description of the situation, making sure that there was minimum bias in the collection of data and reduce errors in the interpretation of the data.

The main characteristic of qualitative research design is its suitability for small samples and its cost effectiveness, although its outcomes are not measurable and quantifiable. The merit of qualitative research paradigm is that it offers a complete description and analysis of a research subject, without limiting the scope of the research and the nature of participant’s responses (Collis & Hussey, 2003).

The researcher distributed research questionnaires to respondents in order to gather statistical representation of the findings in the study, focused group interviews with selected respondents was also conducted.

For the sample frame the researcher obtained data from seven districts in Matabeland South Province as it was not possible for the researcher to carry out a census of the whole population, due to the size of the population and the geographical spread of the provinces across the whole country. To ensure that the minimum sample size was a representative of the target population the researcher used a sample size of fifty (50) respondents. A letter of consent was sent to seven Rural District Councils along with a sample copy of the questionnaire that were to be used, as well as the protocol of the researcher. A letter was also addressed to the District Administrators to obtain endorsement and consent to conduct a research in selected local authorities.

Several thousand survey studies have been conducted in which “looking” has been by means of questionnaire and in interview studies the “looking” has been by the ear rather than the eye. According to P. D Leedy (1974), the physician “looks” at the patients’ heart through a stethoscope, the educator, the psychologist, the guidance or vocational counselor “looks” at intelligence, attitudes, beliefs or personality structure through test, inventories, attitudes scales and other instruments. In this study on the analysis of the effectiveness of financial management in Rural District Councils the questionnaires, interviews and record inspection were used.

The researcher collected the views of the participants by conducting a focused group interviews. An interview guide was used as check list for the type of the questions, topics and issues to be covered during the interview session. According to Gray (2004: 214) the following are the merits for using interviews as a data collection instrument in research: in interviews highly personalized data can be attained, there are opportunities for probing further, there is a good return rate and it gives a chance to respondents who are not fluent in the native language of a country or where they have difficulties with written language.

To ensure the validity and reliability of research pilot tests were conducted on a sample of the kind of individuals that were required to respond in the final data collection. The purpose of the pilot test is:

- To assess whether a questionnaire or similar instruments have been designed in a manner that will elicit the required information from the participants. This process allows weaknesses in the instrument to be detected so that they can be addressed before the final form is prepared.
- To assess that items are pitched at the appropriate level of complexity, provide a stable assessment of the participant’s ability, and lead to the construction of total test scores that are meaningful in terms of the respondent’s ability being assessed.

- In this study the researcher conducted a trial run in the Gwanda Rural District Council prior to the distribution of the drafted questionnaires and adjusted a few interview questions as suggested by Oppen Leim (1992: 48 – 50)

After the finalisation of the research instruments, questionnaires were hand delivered to the seven districts delimited in the study to collect the required data. A covering letter indicating and clearly explaining the aim of the study and appealing for co-operation from participants was attached to the questionnaire. The data in the study was collected through self-administered questionnaires, interviews and document inspection.

4. Discussion of Findings

It was not an easy task to carry out this research, particularly given the confidentiality clauses in the Rural District Councils Act and government regulations and somewhat negative publicity and that issues relating to financial mismanagement are very sensitive. Some of the problems encountered by the researcher related to the inexperienced finance staff who took time to answer questions and delays in returning questionnaires. Although the current crop of Chief Executive Officers largely welcomed and appreciated the research, the road down the organisational structure of Rural District councils was not so rosy. It took a lot of patience and perseverance to finally be able to carry out this research study.

4.1 The impact of lack of proper financial controls

The data collected indicated that no proper controls were in place in most of the Rural District councils as envisaged by financial mismanagement revealed in government handouts on wrongly interpreted Acts.

- Internal controls are devised and enforced to ensure, as far as possible practicable in the given circumstances the orderly and efficient conduct of the RDCs. They include measures to safeguard assets of the organisation, prevent and detect fraud and errors, ensure the accuracy and completeness of the accounting records and to ensure the timely preparation of reliable financial statements.
- Physical controls such as keeping cash in a safe, banking cash receipts immediately, preventing unauthorised access computer systems through the use of passwords and internet firewalls of not well managed financial mismanagement becomes rampant, Management control such as preparing budgets, monitoring actual performance by comparing it with the budget and reviewing other financial statements such as statement of financial position, income statement and cash flow statements are a pre-requisite in management of finance.
- Arithmetic and accounting controls are procedures in accounting office to check the accuracy of the records and numbers. They include the use of control tools and reconciliation, which needed to be done by qualified and experienced personnel. The internal control system therefore includes control activities, communication process and processes for monitoring the continued effectiveness of the system.

4.2 The effect of lack of openness, transparency and accountability on management of finance

- Openness means the willingness to provide information to individuals and groups without giving away commercially sensitive information. Best practice will not be achieved unless openness is achieved. Coyle (2003:22) says that transparency refers to the easy with which an outsider is able to make a meaningful analysis of an organisation and its actions. It refers to information about the financial position of an organisation and non-financial issues, such as the direction of an organisation is taking, its strategic objectives and so on. Transparency also refers to clarity about the way that decisions are reached or processes carried out. It must be useful to contrast an organisation that reaches its major decisions through a clear process and one that reaches decisions 'behind closed doors' and in a 'smoke filled room'.
- Accountability is the ability to render account to someone, responsibility refers to having authority over something, and so liable to be held accountable for the exercise of that authority. Accountability goes hand in hand with responsibility. The Chief Executive Officers with authority and responsibility should be held accountable for their achievements and performance.

4.3 The impact of good governance in managing finances

Governance refers to the way in which something is governed and to the function of governing. Good governance ensures that practices and procedures for trying ensure that an organisation is run in such a way that it achieves its objectives subject to various guidelines and constraints and with regard to other groups with an interest in what the organisation does. Guidelines and constraints include behaving in an ethical way and in compliance with laws and regulations. More blame has been heaped on the self-seeking activities of powerful Chief Executive Officers, their apparent lack of personnel and business ethics and the inability colleagues to restrain them from acting improperly.

5. Conclusion

In spite of the constraints faced during the research, there were a number of worthy findings, from which the following conclusions were drawn:

- The finance within Rural District Councils is mismanaged and misappropriated, which have resulted there being no holistic and coordinated approach to financial management.
- The findings revealed that there is serious accounting or financial reporting irregularities and inadequate internal controls and risk management. In some cases, ‘creative accounting’ and inadequate financial regulation were seen as the major cause of RDCs failures.
- The financial management practices were not objective and consistent, but ineffective, taking into account the following:
 - Bureaucracy in releasing funds for Public Sector Investment Programme projects by the Reserve Bank of Zimbabwe which is earmarked for RDCs.
 - The Rural District Councils, Act is rather relaxed on the collection of debts as there is no proper collection system.
 - Lack of motivation among Chief Executive Officers and Treasurers who are underpaid as compared to their counter parts with similar qualifications in the private sector. This has fuelled high labour turnover within RDCs resulting in lack of proper continuity in projects initiated earlier. As a result the accounting system has been haphazardly shown.
- It was further revealed that the causes of financial mismanagement within RDCs were cited as follows:
 - The accounts were not audited due to high cost involved in auditing. With new staff taking over unfinished previous work, this has led to backlogs in the financial statements; government annual reports have cited cases where accounts were incomplete. New management were still trying to appreciate the workings of the institution before charting the way forward which also meant developing new strategies to be employed.
 - The exodus of experienced personnel and resistance to the change process was impacting negatively on the process to develop a proper financial management environment based on the best practice.
 - Failure to interpret RDCs Act and violation of council procedures has had a negative impact on the effectiveness of financial management.

6. Recommendations

In view of problems and findings identified in the study the following recommendations were made:

- In order to generate finance to meet the expenditure, RDCs should reduce terms of credit to cash on delivery or cash before delivery. Farmers should pay their dipping levy at the beginning of the year and reduce the credit terms to three months not six months as stipulated in the RDCs’ Act.
- Non-paying debtors should be put on stop or deterred from assessing council facilities.
- Ratepayers should also be encouraged to pay their rates in time so that council’s cash flow can be maintained at reasonable levels.
- Effective management of cash embodies the effective management of inventory, debtors, and creditors with the following in place:
 - Preparation of forecast budgets.
 - Revenue collected should be reconciled when received.
 - Physical controls such, as safe keeping and banking on stipulated days is essential.
 - Revenue should be used for their intended use, miss posting should be discouraged.
- It was also recommended that RDCs should establish and maintain a sound system of internal control with the following three elements in place:
 - Rural District Councils should facilitate an effective and efficient operation by enabling it to respond to any significant risks to the achievement of RDCs’ objectives. The RDCs’ objectives should include the safe guarding of assets from inappropriate use, loss or fraud, and ensuring that any irregularities are identified and managed.
 - RDCs should ensure the quality of both internal and external reporting.
 - RDCs should help ensure compliance with laws and regulations and also with organisation’s internal policies concerning the conduct of business.

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