Local Administration Journal 16(1) • January - March • 23 - 40
Received: November 28, 2022 • Revised: January 27, 2022 • Accepted: February 1, 2023
RESEARCH ARTICLE

Determinants of Audit Opinion in Local Government Authorities in Tanzania

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Abstract

This study identifies the determinants of audit opinion in Tanzanian Local Government Authorities (LGAs). Tanzania has been implementing Decentralization by Devolution reform since 1998. One of its objectives is to strengthen the financial management capacity and practices of LGAs to improve their ability to deliver services to the citizens. As a monitoring mechanism, an external auditor produces an audit report to show whether they comply with Generally Accepted Accounting Principles (GAAP) and are free from material misstatement. This paper uses secondary data extracted from the Controller and Auditor General (CAG) in Tanzania for one hundred eighty-five (185) LGAs, for six (6) financial years (FY) from 2013/14 to 2018/19. The study uses random effect logistic regression analysis to estimate the determinants of audit opinion. The results show that internal control weaknesses (ICWs) increase the likelihood of receiving a modified audit opinion. In contrast, the inadequate performance of the internal audit (IAIP) unit in terms of resource availability, size (SIZE), financial independence (INDEP), and Urban LGAs (TYPE), decreases the likelihood of receiving a modified audit opinion. This study has policy implications for addressing financial accountability issues in Tanzania and other developing countries with a similar context. Identifying the determinants of audit opinion, for addressing financial management and accountability issues that LGAs in developing countries are experiencing, is vital. This study provides new insight into understanding the determinants of LGAs' audit opinions, which is vital for addressing financial management and accountability issues.

Keywords
Opinion, audit, accountability, local government, internal control

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Introduction

In executing responsibilities, the Local Government Authorities (LGAs) in Tanzania act as agents of the central government. They play a significant role in providing public services such as education because of their proximity to the service recipients. LGAs are vested with a significant amount of fiscal resources, derived either from their sources or the central government through intergovernmental transfer. The central government uses external auditing as a monitoring mechanism to guarantee fiscal accountability within the principal-agency relationship. This provides an independent check of the financial statements to enhance the LGAs' reputation (Habib, 2013) and presents their opinion on whether the information they provide is fair and free from material misstatements.

The operations of LGAs fall into the dual agency role. On one side, they operate as an agent of the central government by delivering entrusted functions to them. On the other side, they are required to fulfil services to the recipients. To ensure that the LGAs perform their agent responsibilities diligently, the principal (central government) uses auditing as one of the monitoring mechanisms to moderate the performance of LGAs. This process helps to monitor the accountability of LGAs in executing their fiduciary responsibility. This can also assure citizens that their interests are served accordingly. The empirical findings show that auditing is powerful in moderating the performance of LGAs in two ways (Furqan, Wardhani, Martani and Setyaningrum, 2020). First, it helps to improve the quality of financial reports through recommendations offered on the audit findings. Second, auditing prescribes follow-up on the audit recommendations, which subsequently improves the quality of services offered.

Financial reports of public sector entities, including LGAs, provide useful information for decision-making and accountability assessment over financial resources and policy execution (Mack and Ryan, 2006). In Tanzania, for instance, where LGAs prepare financial reports by International Public Sector Accounting Standards (IPSAs), their financial reports provide information about budgeting, financial performance, and cash flow. The type of audit report issued to an entity reflects the audit findings on financial reports (Furqan, Wardhani, Martani and Setyaningrum, 2020). For modified audit reports, the audit findings explain the nature of violations against standards, and the magnitude of financial resource misuse in an entity (Tiurmaida, Murwaningsari, Simanjuntak and Mayangsari, 2021). Auditing the financial reports is conducted to ensure the effective application of Generally Accepted Accounting Principles (GAAP) and to assess the firms' operations and internal control system risks. The auditing process provides the auditor with reasonable knowledge of the entity and its internal controls to establish whether there is a material misstatement (Boynton and Johnson, 2005). In addition, the audit report summarizes the way LGAs use public funds in service delivery and their financial sustainability pattern.

After the auditing process, an auditor may issue either a modified opinion or an unmodified audit opinion, depending on the audit findings. An unmodified opinion is when the auditor issues an audit report, which implies that the financial statements presented are fair and under the GAAP. In contrast, a modified opinion refers to any opinion other than an unmodified opinion (Rittenberg, Johnstone and Gramling, 2012). The auditor can issue a modified opinion in either a qualified opinion, matter of emphasis, or adverse opinion. An unmodified audit report suggests the existence of enhanced accountability and lower irregularities even to reduce the probability of corruption (Rakhman and Wijayana, 2019). In addition, unmodified audit reports enhance credibility over the use of public resources in LGAs. However, modified audit reports suggest the existence of malpractice in the usage of public resources or divergence from the GAAP. Any audit opinion reflects public sector entities' fiscal accountability (Rosa and Morote, 2015). When an LGA receives an unmodified opinion, the auditor attests to the public that the resources allocated have been properly utilized. The auditor helps to establish trust in the public regarding the usage of public resources in LGAs.

Despite the importance of external auditing, the issue remains on how external auditing reports contributed to strengthening LGAs' financial management. This study is motivated by poor management and utilization of government funds that have been consistent in LGAs. Though the CAG has reported issues relating to poor financial management (CAG, 2020), these reports do not seem to have led to rectification. Instead, a clean (unmodified) audit outcome has lingered as simply 'symbolic' to the public, giving the public confidence that the resources have been properly utilized and accountability has been enhanced. However, unsupported payments, improper authorization of transactions, persistent mismanagement, and unplanned utilization of government funds raise the question of accountability of utilization of resources relative to services offered to the public. These issues observed by the CAG may be among the contributing factors to modified audit outcomes. Therefore, this study attempted to determine factors contributing to modified opinion. The hope is that shortcomings will be addressed, thereby leading to stronger financial management systems and enhanced accountability in LGAs.

Previous research on determinants of the audit opinion, particularly in the private sector, has focused on both firm and auditor characteristics. Within the auditor characteristics, studies analyzed auditor size, auditor specialization, and audit fees; whereas, on firm characteristics, the studies analyzed firm size, ICW (Habib, 2013), internal auditor (Dzikrullah, Harymawan and Ratri, 2020) and financial performance ratios (Pimenta de Jesus, Machado de Almeida and Fernandes Gomes Da Silva, 2022). Similarly, in the government setting, studies have used firm and auditor characteristics to examine the determinants of audit opinion. However, there is a limited understanding of the factors contributing to modified audit opinion (Paananen, Rönkkö, Zerni and Hay, 2021) and, therefore, it has not been possible to come up with corrective measures to enhance financial performance accountability in the LGAs. Accordingly, this study identified factors relating to poor financial management and mismanagement of public funds, using a modified audit opinion, to find an effective intervention aimed at proper utilization of public funds and improved service delivery.

This study limits its scope to firm characteristics, such as LGAs size (SIZE), financial independence (INDEP), Internal Control Weaknesses (ICWs), Internal Auditor Inadequate Performance (IAIP) and type of LGA (TYPE). that said, the firm audit characteristics are irrelevant in this context because external auditing in LGAs is the sole function of the CAG. Therefore, the next section provides the context of the study, then reviews prior literature on the size of LGAs (SIZE), financial independence (INDEP), Internal Control Weaknesses (ICWs), Internal Auditor Inadequate performance (IA), type of LGAs (TYPE), and audit opinion (OPINION). Then follows a section is on the methodology applied in this study, presentation of the results and discussion. The paper concludes with a summary of findings and recommendations on LGAs' improvements on financial management systems and audit outcomes.

Context of the study

LGAs in Tanzania have a long-standing history and have made invaluable contributions to service provision. Before independence, the LGAs served the interest of colonial rule. However, immediately after independence in 1961, their role was shifted toward serving the community (Picard, 1980). Since then, several reforms have directly or indirectly affected the role of LGAs in serving the community. Such reforms include the Arusha Declaration, the decentralization reform of 1972 (Belshaw, 1982), and the Decentralization by Devolution (D by D) of 1998. The D by D explicitly recognizes LGAs as the focal point for service provision, along with recognizing the need for strengthening their financial resources and financial management capabilities. As a result, LGAs manage a significant amount of financial resources derived from inter-governmental grants and those generated from their own sources for the purpose of executing their entrusted functions.

Considering the magnitude of the fiscal resources and roles vested in LGAs, their operations are subjected to controls and governance mechanisms. LGAs must utilize resources efficiently to boost organizational performance in service delivery, financial management, and human resource management. While voters, through their representatives to the LGA, form part of the governance mechanism (Rodden, 2002), the CAG in Tanzania facilitates the evaluation of LGA accountability in using fiscal resources through auditing. The primary aim of auditing, whether in the private or public sector, is to bring transparency and accountability (Masood and Afzal, 2016). In connection to this, Section 143 of the Constitution of the United Republic of Tanzania (of 1977 and its amendments), together with the Public Audit Act (No 11) of 2008, requires the CAG to conduct an annual audit, and issue an audit report for all LGAs in the country. The report of the CAG is then tabled to the parliament for discussion on the audit findings.

Based on previous reports of the CAG, poor financial management practices have been persistent in LGA financial management practices (Fjelstad, Henjewele, Mwambe, Ngalewa and Nygaard, 2004). CAG has noted many outstanding audit queries/recommendations from the previous year(s). For instance, the CAG (2020) for the year 2018/19 identifie 2,387 audit recommendations that remained outstanding for over two years. These CAG reports also observed repetitive malpractices from one period to another despite recommendations of the CAG. The report also identifies the persistence of mismanagement and unplanned utilization of government funds, resulting in delays or failure to meet planned activities.

Prior Literature and hypothesis development

1. ICW, IA, and audit opinion

The importance of the internal audit (IA) function is to reduce the occurrence of fraud and to provide independent consultation to the executive management in decision-making. In addition, the internal auditor supports management by instilling sufficient internal controls (Alias, Nawawi and Salin, 2019; Alqudah, Amran and Hassan, 2019). As a result, an IA strengthens financial management and reduces the probability of modified opinion (Dzikrullah, Harymawan and Ratri, 2020).

A strong IA unit establishes strong internal controls that an external auditor can rely on during the auditing process (O'Leary and Stewart, 2007). In contrast, a weak IA unit means weak internal controls, which may cause unreliable financial reports. This forces the external auditor to employ extensive substantive tests (Porter, Simon and Hatherly, 2011) to increase the possibility of detecting material misstatements in the financial statement (Bedard, 2006).

The external auditor will issue unmodified audit opinions once they have established that the financial statements are not material misstatements (Ravenstein, Georgakopoulos, Kalantonis and Kaldis, 2015).

As for other organizations, LGAs must maintain a good financial management system supported by strong internal controls to avoid a modified opinion. Internal control effectiveness can influence audit opinion (Mir and Sutiyono, 2013). Although internal control deficiency may not influence the type of audit opinion formed (Pamungkas, Ibtida and Avrian, 2018), it is a prerequisite to sound financial management. A good internal control system in LGAs will help improve the quality of financial information, thereby assisting in obtaining unmodified audit reports (Alqudah, Amran and Hassan, 2019; Suwanda, 2015).

Other studies found that ICWs increase a firms' possibility of receiving modified audit opinions (Ncgobo and Malefane, 2017). Furthermore, firms that take longer to eliminate ICWs are more likely to continue with similar problems (Ireland, 2003). As a result, they are more likely to receive modified audit opinions repetitively in subsequent years (Krishnan, Krishnan and Stephens, 1996; Monroe and Teh, 1993). Therefore, based on the importance of an IA unit and internal control in the work of external auditors and the resulting audit opinion, the study hypothesizes that:

H1: Internal control weaknesses are more likely to increase the likelihood of receiving a modified audit opinion.

H2: Inadequate functioning of the IA unit is more likely to increase the likelihood of receiving a modified audit opinion.

2. LGA size and audit opinion

The size of an LGA is very important in determining its ability to offer services, and this affects its financial operations capacity. LGA size has two operational implications in financial management practices. Larger LGAs, whether in terms of geographical or population sizes, are more likely to have wider access to financial resources. This usually means that larger LGAs will have more fiscal capacity than smaller LGAs (Turley, Robbins and McNena, 2015).

However, larger LGAs also are more likely to experience higher service demand, resulting in larger expenditure needs. To provide sufficient services, larger LGAs need more capital and recurrent expenditure than smaller LGAs. This increases the complexity of an entity's financial management practices and the chance of material error (Ireland, 2003). In connection with this, the empirical evidence from Rakhman and Wijayana (2019) shows that LGAs with heavy capital expenditures are more likely to receive modified audit reports. Thus, the larger the size, the higher the chance of receiving a modified audit opinion. Based on the influence of the LGA's size on financial management practices and expenditure needs, the study hypothesizes that:

H3: The larger the size of an LGA, the greater the likelihood of receiving a modified audit opinion in Tanzania.

3. Financial independence, LGA type, and audit opinion

The financial independence of an LGA represents the extent of economic power in financing expenditures. Financially-independent LGAs have higher discretionary power, which makes them more flexible in financing decisions (Gomes, Alfinito and Albuquerque, 2013). Prior literature suggests that the financial independence of an entity influences the type of audit opinion received (Paananen, Rönkkö, Zerni and Hay, 2021). Financial independence enhances the chance for an LGA to have stronger financial management systems because it can attract qualified resource personnel and instill strong controls. However, without a strong financial management system, financial independence may mean higher financial resources that expose LGAs to misappropriations.

Empirical evidence also suggests an inherent linkage between financial independence and the type of LGA, whether urban or rural. For example, urban LGAs have more fiscal autonomy than rural LGAs (Turley, Robbins and McNena, 2015). As a result, urban LGAs have more discretionary power in revenue generation and expenditure decisions than rural LGAs. Implicitly, urban LGAs are more likely to have stronger internal control because their fiscal power enables them to institute strong controls. Therefore, LGAs with higher (lower) financial independence are less (more) likely to receive a modified audit opinion. Thus, this study further hypothesizes that:

H4: Financially-independent LGAs are less likely to receive a modified audit opinion

H5: Urban LGAs are less likely to receive a modified audit opinion

Methodology

1. Regression Model

The study used panel data, and the dependent variable is dichotomous. The authors used random effect logistic regression to estimate the model after conducting the Hausman test. The Hausman test p-value results were not significant and used a random effect rather than a fixed effect model. The analysis started with univariate statistics to establish the discriminatory power of individual variables, followed by a multivariate model to establish the relationship between the dependent variable and independent variables. The study uses a logit model as the nature of the dependent variable is binary (Paananen, Rönkkö, Zerni and Hay, 2021). The dependent variable in this study is whether an LGA received a modified or unmodified audit opinion. The proposed logit model is as follows:

Audit Opinion model:

OPINION = f (ICW, IAIP, SIZE, INDEP, TYPE).

2. Variables and Analytical Approach

The variables extracted for analysis include the status of audit opinion received by the LGAs, internal control weaknesses, inadequate performance of the IA unit, LGA size, financial independence, and the type of LGA.

Table 1. Variables measured

Variable	Measure	Expected results
Type of audit opinion (OPINION)	This is the type of audit opinion received by LGAs. This is a binary variable where by 1 denotes a modified opinion and 0 denotes an unmodified opinion.	The status of the audit opinion is the binary dependent variable.
Internal Control Weaknesses (ICWs)	This is calculated as a ratio, adding the number of ICWs divided by the number of criteria assessed during that similar year (Sebayang, 2018). The ratio is measured by four variables (absence of fraud prevention plan, risk management weakness, inadequate IT controls, not fully utilizing the computerized accounting system.) Each of these four items is further assessed by several criteria, for instance, risk management weakness is assessed by irregular risk assessment, absence of risk management policy, and risk register.	The expectation is that ICWs increase the likelihood of receiving a modified opinion.
Inadequate Performance of the IA Unit (IAIP)	This reflects IA performance. It is calculated by adding the inadequate performance of the IA unit (items lack of budget, staff, training, and resources (Pimenta de Jesus, Machado de Almeida and Fernandes Gomes Da Silva, 2022) divided by the number of criteria assessed for that year to get a ratio.	The expectation is that an inadequate performance of the IA unit will increase the likelihood of receiving a modified audit opinion

Table 1. Variables measured (Cont.)

Variable	Measure	Expected results
Size of LGAs (SIZE)	This variable is measured using the amount of recurrent expenditure scaled by one billion. Previous literature has used capital expenditure to measure LGA size (Kiswanto, Ain and Mahera, 2020). However, given capital expenditure allocations in Tanzania, LGAs depend on various conditions to be met to receive capital expenditure grants from the central government. Thus, capital expenditure becomes a volatile and unreliable measure of LGA size. Therefore, recurrent expenditure should be a more appropriate measure of LGAs size in this context.	The expectation is that larger LGAs will have more likelihood of receiving a modified audit opinion.
Financial Independence (INDEP)	This is the financial independence of LGAs, measured by the amount of revenue generated or collected, divided by total expenditure (Murdayanti, Hasanah and Shodriati, 2016; Sebayang, 2018).	The expectation is that financial independence decreases the likelihood of receiving a modified audit opinion.
Type of LGAs (TYPE)	TYPE is a categorical variable for an LGA, whereby 1 denotes Urban LGA (City, Municipality, and Town council) and 0 denotes rural (District council (DC).	The expectation is that urban LGAs have lower probability of receiving a modified audit opinion because of capacity and financial muscles (Turley, Robbins and McNena, 2015).

Data and Sample Selection

This study extracted data from CAG annual general audit reports for LGAs (185 for a period of six years, from FY 2013/14 to FY 2018/19). These reports are available from the CAG's office through the website of the National Audit Office of Tanzania (NAOT) (as retrieved on https://www.nao.go.tz/index.php/en/reports). However, the content of the reports has been changing over time, and that limits the scope of data for analysis. Table 1 shows the number of LGAs increased from 165 in FY 2013/14 to 185 in FY 2016/17, bringing the total number of observations to 1,053.

Part B of Table 1 also shows the types of LGAs (urban: City , Municipal and Town Councils), and rural (District Councils). Again, the figures show that 76% of the sample are rural LGAs while the remaining 24% are urban LGAs, consistent with the sample selection.

Table 2. Sample Selection

A: Financial Year (FY)		Number of LGAs
2013/14		163
2014/15		164
2015/16		171
2016/17		185
2017/18		185
2018/19		185
Total number of observations		1,053
B: LGA Type/status breakdown	**(% of LGA)**	**Number of LGA**
City Council	3%	31
Municipal Council	11%	117
District Council	76%	800
Town Council	10%	105
Total number of firm-years	100%	1053

Source: Extraction from CAG reports

Findings and Discussion

The analysis began with descriptive statistics (Table 3) before estimating the logit model. The results of the type of audit opinion (OPINION) received show that, on average, 19.2% of the sample received a modified opinion. In contrast, the finding of inadequate performance of the IA unit shows that 33.2% are underperforming because of inadequate resource allocation and staff training. Meanwhile, the results observed on ICWs suggest that, on average, 29.5% of the LGAs have weaknesses in their internal control systems. The descriptive data show that the financial independence level of the LGAs is very weak; they heavily depend on the central government to conduct their operations. On average, LGAs can generate revenue to cover only 26% of their total expenditure (INDEP), while LGAs' recurrent expenditure (SIZE) stands at an average of TZS 3.3 billion per annum. In addition, Table 3 also shows that, on average, 24% of the observations are urban LGAs, similar to Table 2.

Table 3. Descriptive Statistics

Descriptive Statistics					
Variable	N	Min	Max	Mean	Std. Dev
OPINION	1,053	0	1.0000	0.1918	0.3939
ICW	1,053	0	1.0000	0.2951	0.1669
IAIP	1,053	0	1.0000	0.3318	0.3098
SIZE	1,021	0.0014	46.0119	3.2792	3.3186
INDEP	1,006	0.0063	22.7598	0.2597	0.9067
TYPE	1,053	0	1.0000	0.2403	0.4274

The authors conducted a Pearson Correlation analysis between ICWs, size, financial independence, audit opinion, inadequate performance of the IA unit, and type of LGAs to summarise the association between variables. The results in Table 4 show that all variables have a correlation level of less than 40%, which is not high. However, only ICWs are significantly and positively correlated to modified audit opinion. Another interesting result is that the size, type, and financial independence of LGAs are negatively correlated with IAIP. This result suggests that LGAs with inadequate IA performance are likely to be small, financially-dependent, and rural, which explains the lack of resources allocated to the IA unit.

Table 4. Pearson Correlation of Audit Opinion

Variable	OPINION	ICW	IAIP	SIZE	INDEP	TYPE
OPINION	1					
ICW	0.1319*	1				
IAIP	0.0682*	0.2466*	1			
SIZE	0.0668*	0.0126	0.1022*	1		
INDEP	0.0627*	0.0064	0.0234	0.0339	1	
TYPE	0.0764*	0.1028*	0.1216*	0.3117*	0.1435*	1

*Correlation is significant at the 0.05 level

The result of the logit model analysis (Table) shows that it is statistically significant. This implies that the independent variables (ICW, IAIP, SIZE, INDEP, and TYPE) are good predictors of audit opinion outcome.

Table 5. Prediction of the probability of a Modified Audit Opinion

Random-effects logistic regression	Number of observations =976
Group variable: number	Number of Groups =12
Random effect u_i ~ Gaussian	Wald chi2(5) = 47.03
	Prob > chi2 = 0.0000
Integration method: mvaghermite	
Log Likelihood = -440.6306	

Panel A: Analysis of maximum likelihood estimates

OPINION	Odds Ratio	Std.Err.	z	P>z	[95% Conf.Interval]	
ICW	15.9019	8.8385	4.98	0.000	5.3498	47.2674
IAIP	0.3467	0.1074	3.42	0.001	0.1889	0.6362
SIZE	0.9181	0.0387	2.03	0.042	0.8453	0.9971
INDEP	0.4897	0.1507	2.32	0.020	0.2679	0.8952
TYPE (URBAN)	0.3108	0.0731	4.97	0.000	0.1960	0.4928
CONS	0.2003	0.0456	7.06	0.000	0.1282	0.3129
/lnsig2u	-12.5495	22.2259			-56.11146	31.01238
sigma_u	0.0019	0.0209			6.54E-13	5423153
rho	1.08E-06	2.4E-05			1.30E-25	1

1. ICWs, IA, and audit opinion

The result of the logit model (See Table 5) shows that ICWs are a good predictor of audit opinion. The variable is statistically significant at a p-value of less than 5%, increasing the likelihood of LGAs receiving a modified audit opinion. In the presence of weak internal controls, the likelihood of receiving a modified audit opinion increases by 15.9 times. These results confirm the hypothesis that LGAs with ICWs are more likely to receive a modified audit opinion. Sound internal control protects LGAs from intentional and unintentional errors, and assists in verification. By contrast, having weak internal controls means that errors are more likely to occur, which exposes the LGA to financial misstatements that can lead to a modified audit opinion. The findings of this study are consistent with Ncgobo and Malefane (2017), who found that ICWs result in a modified audit opinion.

Inadequate performance of the IA unit shows that it decreases the likelihood of modified audit opinion. The results show that in the IA's inadequate performance, the possibility of receiving an unmodified audit opinion increases by 0.3 times. At first, this outcome seems unanticipated, but there are two possible explanations. In this study, lack of resources largely contributed to inadequate performance of the IA unit, lack of budget, understaffing, and lack of training, but not competence. First, possibly the IA focused on high-risk areas because of the limited resources available. That reduces the possibility of material misstatements and modified opinions. Second, the external auditor noted that the IA unit had not completed its planned activities for that year because of inadequate resources. The external auditor should conduct extensive substantive tests (Bedard, 2006) to manage the inherent risk. However, it is difficult for the external auditor to execute the activity because of the limited timeframe of the audit engagement and resources. The overwhelming workload may cause failure to detect material misstatement, hence issuing an unmodified opinion. Therefore, the non-performance of the IA because of limited resources may decrease the likelihood of receiving a modified audit opinion.

2. Size of LGA and audit opinion

The results in Table 5 show that LGA size can determine the possibility of receiving a modified opinion by an odds ratio of 0.9 at a significance level of less than 5%. An increase in size (larger) LGA decreases the likelihood of receiving of modified audit opinion. These results show that larger LGAs are less likely to receive a modified audit opinion, contrary to the hypothesis that LGA size increases the likelihood of a modified audit opinion. This finding is contrary to previous studies, which found that larger LGAs are more likely to receive a modified audit opinion due to their complexities that increase financial material error (Paananen 2016; Ireland 2003). These results may be due to larger LGAs having the capacity and resources to train their staff (Huang, Rose-Green and Lee, 2012) and put in place a good financial management system. As a result, those enhancements minimize financial errors, and make it less likely that a modified audit opinion will be issued.

3. Independence, LGA type, and audit opinion

For the case of financial independence and LGA type, the logit model results (Table 5) show that financial independence decreases the likelihood of a modified audit opinion (odds ratio =0.5) at a significance level of less than 5%. This is consistent with the hypothesis that LGAs with financial muscle can invest in financial management controls and, therefore, be less likely to receive a modified audit opinion. In addition, these results are consistent with Mamogale (2014), who found that municipalities that employ staff with high competency improve their financial management systems and are more likely to receive a clean audit opinion.

Similarly, the results on urban and rural LGA, show that the predictive power of the LGA type is significant at less than 5%. However, urban LGAs have an increased odd of receiving a modified audit opinion by 0.3. It is possible to link these results with the resource exposure and strength of the governance mechanisms. LGAs located in urban areas have various sources of income-generating activities and, therefore, can attract qualified personnel to put in place strong internal controls and governance mechanisms which decrease the odds of a modified opinion. The results are consistent with Turley, Robbins and

McNena (2015), who found that urban LGAs have more fiscal autonomy than rural LGAs and, therefore, can afford to invest in more qualified personnel.

Conclusions

This study examined the determinants of modified opinion in Tanzanian LGAs from FY 2013/14 to FY 2018/19. While the findings may not be universally applicable due to a rather large number of missing values in a multiple regression analysis, the findings show that modification of audit opinion depends on the structure and administrative capability of the LGAs. LGAs that have ICWs have increased likelihood of receiving a modified opinion. In addition, LGAs that are located in urban areas, are large in size, and financially independent, have reduced odds of receiving a modified audit opinion. This study also found that, contrary to the hypothesis, inadequate performance of the IA decreases the probability that an LGA will receive a modified audit opinion. These results explain that either IA units concentrate more on risk areas in the absence of adequate resources, or it is the unintended consequence of external audit effectiveness. Inadequate resources for the IA unit requires the external auditor to increase substantive tests, and that can overwhelm the workload and pressure for completion within the auditing time frame.

The findings of this study have the following practical and theoretical implications. First, the government ministry responsible should put in place/strengthen the existing monitoring mechanism to ensure CAG recommendations are implemented. LGAs are agents of the Central Government and are required to deliver services to the public. They are provided with resources to be used efficiently and without misappropriation to accomplish these responsibilities. However, external auditing is not enough to ensure this. Thus, there needs to be a follow-up on the recommendations of the CAG if there is to be improvement in financial management performance and accountability in LGAs. Therefore, the ministry responsible should put in place/strengthen the existing monitoring mechanism to ensure CAG recommendations are implemented.

Second, the relevant ministry should strengthen the IA units. The ministry should ensure that LGAs are adequately equipped and provided with adequate budget, staffing and training. This will provide them with the capacity and resources to follow up on action in response to the CAG recommendations and improve the financial management performance. In addition, the ministry can set up shared IA services for the smaller and rural LGAs to help compensate for their structure and administrative limitations.

Third, the ministry should build financial management capacity, particularly in increasing self-generating income activities. This will promote LGAs' financial independence and autonomy, and provide LGAs with financial and human resource capacity that will enhance their monitoring mechanism. As the results show, financial independence is positively correlated to the adequate performance of the IA unit. Therefore, financial autonomy is important in strengthening the monitoring mechanism. Both external and internal auditing will help improve financial management performance and enhance accountability in the LGAs.

This study has provided insight into the determinants of the audit report opinion using secondary data extracted from CAG in Tanzania for 185 LGAs, for six years from FY 2013/14 to FY 2018/19. However, the study has the following limitations. The study has explored the determinants of audit opinion using LGAs characteristics only, and has not explored external auditor characteristics (e.g., auditor competencies, knowledge, experience). Future studies can explore the determinants of audit opinion outcome in both firm and auditor in order to examine whether auditor characteristics can influence audit opinion outcomes.

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