Tax Administration Integrity and its implications on effective revenue collection in Local Government Authorities: Insights from Moshi Tanzania

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Abstract:

　　This study sought to establish the relationship between Tax employee integrity and effective revenue collection in Local Government Authorities using Moshi Municipal as a case in point. The study used a sample size of 105 respondents and data were analysed using descriptive statistics and inferential statistics and Pearson correlation. Findings of the study divulge that employee integrity is significantly contributing to revenue collection with Spearman's rho (= 0.90) and p-value of 0.000 at 0.01 confidence level. It is concluded that employees' integrity is a core value and must be an integral part of the LGAs tax collection and administration. Thus if those entrusted with revenue collection in local government display high levels of honest, moral, commitment, qualifications, trustworthiness, self-discipline and competence, they will be able to effectively and efficiently manage the revenue collection process at local government level. To build a viable system on which tax payers are willing to pay taxes, the study

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recommends improving employee/tax collectors' discipline, trustworthiness, qualifications, competency, commitment to their duties, and understandings of key responsibilities. The need for periodic reinforcement of the standards of conduct expected for LGAs tax employees, together with the establishment of clear monitoring and evaluation mechanism of these standards are also the recommendations of this study.

Key words: Revenue Collection, Employee's integrity, Tax Administration, Local Government Authorities, Moshi and Tanzania.

INTRODUCTION

Delivery of public services has always been regarded by the policy makers as an important function of public sector in the context of the overall socio-economic development. Effective revenue collection is necessary for the future and sustainability of Local Government Authorities (LGAs) (Broadbent and Guthrie, 2008) Tax collection methods used by LGAs includes outsourcing private tax agents, incentive schemes where tax agents and villages retain specific amount of revenue collected at village level (Othman and Liviga, 2002). Increasing tax revenues is the most essential activity in every country. Most importantly revenue from taxation is what sustains the existence of the government as it is providing the funding for everything from social programmes to infrastructure development. As people become more sophisticated, they demand the government to provide their needs, in which case the government must as a necessity increase its revenue mobilization to meet such demands. It is for this reason that taxation as a source of government revenue has become so important that there is no country in the world which does not collect tax. However, Fjeldstad *et al* (2012) stated one major administrative problem today for many councils is their

inability to collect fully the revenues due to them. In most council there are huge gaps between collected and projected revenues (Magaro, 2012). This is caused by the integrity of tax employees among other causes. Thus integrity among tax collectors has become vital for effective and efficient tax collections.

The most common source of revenue in local government in Tanzania is intergovernmental transfer. However, LGAs are challenged by the ability to collect own revenue and high dependence on external sources especially from the Central Government for funding their budgets. For instance, Moshi municipal has 8, 165 tax payers and generally fluctuating during the year as pointed out in the Moshi TRA financial statements for the year ended 2014. Fjeldstad and Heggestad (2011) indicated that Tanzania tax collection is 14.2% of the GDP which is the least figure compared to Mozambique 15.4% and Zambia 15% per GDP. Over the past five years Moshi Municipal Council managed to collect only 10% - 15% of total own source revenue with the remained 80%-85% from the Central government (Magaro, 2012). This gives a proof that the revenue collection in Tanzanian LGAs has not been encouraging and this is attributed by a number of factors. Mbilinyi and Mutalemwa (2010) identified lack of integrity among tax collectors and employees, as being one of the key factors affecting revenue collection in Tanzania. This has therefore prompted the undertaking of this study on examining the influence of tax employee's integrity on revenue collection in Moshi Municipality.

2. LITERATURE REVIEW

2.1 Clarification of concepts

International Accounting Standards (IAS) 18 in Nobes (2012) defines revenue as the gross inflows of economic benefits during

the period arising in the course of ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. When business render services to its customer or delivers merchandise to them, it is either receives immediate payment in cash or acquire an account receivable which will be collected and thereby become cash within short time (Carcello, 2008). In view of this study Revenue is price of goods sold and services delivered to customers. Revenue collection is the way structured systems under the Government raise money from sources such as fees, levies, charges or any other tax are collected by any Ministry, Department or Division of the Government as revenue for the Government (URT, 2006). It is Income of government from taxation, excise duties, customs, or other source appropriated payment of public expenses (Magaro, 2012).

Local Authority refers to a district authority, urban authority or an organization that is officially responsible for all the public services and facilities in a particular area. It serves as a central government agency, charged with the responsibility of managing the assessment, collection and accounting of all central government revenue (URT, 1982). Local government authorities in view of this study, are institutions established by law to perform or execute specified powers or functions within a specified area of jurisdiction like a village, ward, district, town, municipality or a city council.

2.2 Theoretical framework

Several theories have explained trends, standard principles and issues in taxation but for the purpose of the current study two theories: Principal agent theory and Internal Controls theory were reviewed and linked to the objective and the variables of the study.

Principal agent theory: Explains social relations involving a delegation of authority (by a principal to an agent) and starts from the observation that the relationship results in problems of control. The most important problem emanates from difficulties in motivating an individual or organization to act on behalf of another. Moreover the problem of motivation is a result of difficulties associated with the inability of the principal to observe and control the actions of the agent (Milgrom and Roberts 1992). In this study, the principal-agent theory helped to understand the relationships among the key actors in revenue collections. The revenue collection shows relationships between the central government, local authority, tax administration system and taxpayers at different levels. The principal-agent framework is not only of interest for understanding the relationship between various administrative levels within the authority but is also useful for the understanding the relationship between citizen and political leaders.

Internal controls: These are those mechanisms that are in place to either prevent errors from entering the process or detecting errors once they have. Kenneman (2004) explains internal control, in simple terms as those processes that management relies on to make sure things do not get goofed up. These researchers have formed part of the related studies for the research and include the Sarbanes-Oxley (SOX) Act of 2002 which require companies to report on the effectiveness of their internal controls over financial reporting as part of an overall effort to reduce fraud and restore integrity to the financial reporting process (Michino, 2011). In this study effective Internal controls are viewed to be vital in enhancing employee integrity and strengthening revenue collection and administration in local government authorities.

2.3 Empirical literature review

Employee integrity involves developing and maintaining a professional and respectful behaviour at workplace (Van Iddekinge *et al*., 2012). It involves ethical leadership, active management and supervision, the right people, effective processes and confident professional reporting. In essence, employee with the right integrity fosters the development of high professional standards and demonstrates the values of the organisation (Berry *et al*., 2007). Employees with high integrity create an ethical and professional workplace which is the best safeguard against improper conduct, misconduct and corruption. Measuring integrity of an employee is not an easy task. KPMG (2013) asserted that in order to manage integrity, it is essential to obtain clear insight into the trends in the behaviour of employees. In this regard, it was proposed that with respective insight it is possible to formulate answers and make integrity and compliance management tangible.

According to Barnard, Schurink, and De Beer (2014), the various behaviours of employees portray integrity. These have been called competencies of integrity. In their study on the conceptual framework of integrity, Barnard et al. (2014) identified ten key competencies which the employees exhibit. These include self-motivation and drive, moral courage and assertiveness, honesty, consistency, commitment, hardworking, self-discipline, responsibility, trustworthiness and lastly fairness. Cullen and Sackett (2004) contends that the competencies of integrity can be regarded as the behavioural consequences of living authentically in relation to one's moral compass and one's inner drive. These behaviours are furthermore facilitated by being morally intelligent, having self-insight and a positive and rational self-regard as well as being directed by one's conscience in relation to the moral compass. Richards and Feenstra (2014), suggests that achieving the ultimate state of integrity seems to be a continuous striving

even for those who are regarded as having a character with high integrity. In this striving for integrity, parameters such as honesty, trustworthiness, maturity, tolerance, and loyalty can be observed as key determinants of integrity.

From the key concepts and drivers of integrity pointed out by different scholars discussed, this study adopted eight items for measuring the integrity of employees and revenue collectors and how they influence the process of revenue collection. These elements include; competence, commitment, maturity, responsibility, honest, trustworthiness, self-discipline and moral courage and drive. These items are included in the conceptual framework and featured in the questionnaires to ascertain the extent to which they influence the revenue collection process.
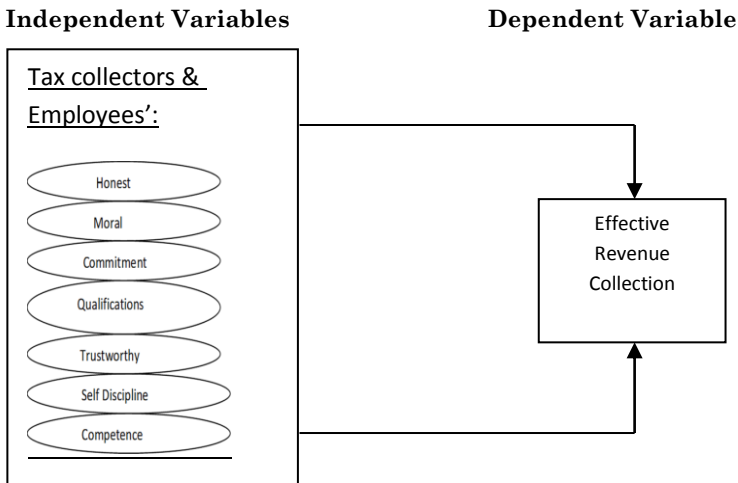
2.4 Conceptual framework

In this study, the dependent variable is the revenue collection in Local Authorities. The independent variables are a function of tax collectors and employee integrity, which are: level of honest, moral, commitment, qualifications, trustworthiness, self-discipline and competence. That is;

Effective revenue collection in LGAs = f (Honest, moral, commitment, qualifications, trustworthiness, self-discipline and competence) ....(1)

The associations between variables are clearly illustrated in the schematic diagram in figure 1 forming the conceptual framework for this study.

Figure 1: Conceptual framework

Independent Variables   **Dependent Variable**

With this conceptual framework, we look at the structure of the tax system in the LGAs focusing on Integrity of tax collectors which is influenced by variables such as: level of honest, moral, commitment, qualifications, trustworthiness, self-discipline and competence. The study also looked at the moderating effects of tax systems, revenue collection policies, compliance with laws, policies and procedures and how they play a big role in enhancing revenue collection in Local authorities. The definition and measurements of the variables used in this conceptual framework are herein defined in table 1.

Variable	Definition	Measurement in this study
Employee integrity	These are characters required by employees at work place. It includes; competence, commitment, maturity, responsibility, honest, trustworthiness, self-discipline and moral courage and drive for	Ordinal scale (Likert scale)

Table 1: Variable measurement

MATERIALS AND METHODS

This study was done in Moshi Municipal Council, Kilimanjaro Tanzania on the fertile Southern slope of mountain Kilimanjaro found at approximately 30181 South of Equator and 270201 East of Greenwich (URT, 2013). Moshi is one amongst 162 Councils and 17 Municipalities in Tanzania (Magaro, 2012). It is also one of the seven (7) Councils in Kilimanjaro Region, with the population of 184, 292 residents (NBS, 2012). The study used a cross-sectional research design, where data were collected at a single point in time using survey methods and tools. The design allows assemble several study groups from the same population and record the variable measures for each group and on analysis can generalize the findings across the population. With this design different groups of respondents (revenue collectors, agents, Business men and women, residents of Moshi municipal and Head of departments in the Council) were involved to study a variable at various levels and its effects on another variable that can also be subdivided into various levels. A total of 105 respondents were involved in this study. This includes 32 Individual tax payers, 40 Enterprises/businesses, 15 Municipal Revenue collectors and 18 revenue collection agents. The number was considered to be optimum and appropriate as it fulfils the requirements of the efficiency, representativeness, reliability and flexibility (Kothari, 2009). These were obtained through Yamane formula:

$$N = \frac{P}{1+Pe^2} \quad \text{...........(2)}$$

Where: N = required respondents; P = sample frame; and e = error limit
i.e. $N = 8{,}165/1 + 8{,}165(9.75\%)^2 = 105$ respondents

Purposive sampling was applied to get the respondents from revenue collectors' and agents category. The technique was

deployed as the process aimed to get information from the specific persons involved in the revenue collection with relevant knowledge and authority to provide data. Random sampling was applied to tax payers and residents in Moshi municipal. It was selected as it is free from biasness and provides equal and independent chances for respondents to be selected.

Both primary and secondary data were collected in this study. Primary data were gathered from tax payers, agents who are revenue collectors, residents, and heads of departments from the Municipal Council, with the use of questionnaires. Secondary data were gathered through reviewing information on financial position and Tax Policies by the Local Authority. We reviewed records such as tax collection policies and financial statements which gave the trend of revenue collection from own sources within Moshi Municipal Council. These gave more information because it provided the real information and evidence on the study.

To ensure validity and reliability of the study, a pilot study was carried out followed by the computation of the Chronbach's alpha coefficient for each of the constructs. Chronbach's alpha as a measure of internal consistency (i.e. coefficient of reliability) was used to estimate the reliability based on the correlations between different items on the same test (Borg & Gall, 2006). The study is considered reliable and more preferable if a Cronbach's alpha scale of 0.7 and above is obtained (Millery, 2003). Table 2 show the findings of the reliability test where the overall reliability in this case was at 0.73. This confirms that the reliability of the data collection tool was met.

Reliability Statistics		
Cronbach's Alpha 0.73	Cronbach's Alpha Based on Standardized Items 0.741	No of Items 6
Item	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Employee integrity	0.739	0.774	0.825
Perception and trend of revenue collection	0.747	0.757	0.827

Table 2: Reliability test

Data analysis was done by the use of descriptive statistics and inferential statistics using parameters such as mean, frequency and standard deviation to analyze data from this study. Data were then organized it into meaningful information for decision making and analysed using Spearman correlation. Finally, findings were scrutinized and then inferences drawn from which various recommendations have been provided.

4. STUDY FINDINGS AND DISCUSSION

4.1 Socio-demographic characteristics of respondents'

The study involved respondents with different demographic characteristics in terms of gender, marital status and education level. This information is very important to the study because it helps the reader to understand some pertinent issues that may have a bearing impact on the analysis. Findings in Table 3 reveal that there were 72.4% male and 27.6% female. This shows that more males were concerned with issues of revenue collection than females. The respondents had different educational background.

In terms of marital status; 67.6% were married and 32.4% were single. The respondents had different levels of education ranging from primary level (3.8%), secondary education (8.6%), high school were 3.8% and those attained diploma level were 35.2%. Most of the respondents had degree level (46.7%) while only 2 respondents had post graduate

education. More than half of the respondents (83.9%) have completed tertiary education as it can be seen in Table 3. It is believed with their educational status, respondents would provide in-depth information regarding revenue mobilization within the Moshi Municipal Council.

Demographic variable	Category	Frequency (n=105)	Percent (%)
Gender	Male	76	72.4
	Female	29	27.6
Marital Status	Married	71	67.6
	Single	34	32.4
Education Level	Primary	4	3.8
	Secondary	9	8.6
	High school	4	3.8
	Diploma	37	35.2
	Degree	49	46.7
	Post graduate	2	1.9

Table 3: Socio-demographic characteristics of respondents

4.2 Employees' Integrity on Revenue Collection

The study has indicated the employee integrity attributes (Table 4) affecting revenue collection. Employee/tax collector qualification had a mean score of 3.7778 and standard deviation of 1.49671 which imply that respondents vary significantly in their responses. Understanding of the duties among the employees had a mean score of 4.1746 and standard deviation of 1.63174 which again imply remarkable variation in their responses. How employee/tax collectors treat tax payers had a mean score of 3.6032 and standard deviation of 0.49317, in this construct, the standard deviation is lower compared to the previously presented and this imply that the respondents do not have more variations in the responses.

Items for employee integrity	Mean	Std. Deviation
Employee/tax collector qualification and competency	3.7778	1.49671
Employee/tax collector commitment to their duties	4.1746	1.63174
Maturity of the employee/tax collectors to handle their duties	3.6032	0.49317
Tax collectors and employee understanding of their responsibilities	4.3968	0.49317
Employee/tax collector demonstrate high level of honest	3.6032	0.49317
Employee/tax collectors demonstrate high level of trustworthiness	2.5556	1.5003
Tax collector have self-discipline to undertake their job	2.3968	0.49317
Employee/tax collector show high level of moral courage and drive	4.0000	0.64758

Table 4: Employee integrity and revenue collection

Other attributes include, employees/tax collectors demonstrate a high level of trust with a mean score of 3.6032 and a standard deviation of 0.49317, again the responses do not invariably differ from each one; employee/tax collectors ask payment from taxpayers staff with a mean score of 2.5556 and standard deviation of 1.5003 which denotes that the responses differ invariably among the interviewed respondents. Last item was employee/tax collector show high level of commitment which had a mean score of 4.0 with a standard deviation of 0.64758.

It is thus argued that given the importance of employee integrity in tax collection, most local government consider the management of the competencies and capabilities of these facilities as the primary goal to ensure effective collection. To confirm the significance relationship between influence of the employee integrity and revenue collection, the resulting output in table 8 gives the values of the Spearman correlation. The correlation coefficient r measures the strength and direction of a linear relationship between two variables. The value of r is always between +1 and –1 (Table 5).

To interpret its value, Ramsey (2011) proposes the following criteria are deployed. Exactly –1 means a perfect downhill (negative) linear relationship; –0.70 denotes a strong downhill (negative) linear relationship; –0.50 denotes a moderate downhill (negative) relationship;–0.30 denotes a weak downhill (negative) linear relationship. If the coefficient of r=0 means there is no linear relationship. If the coefficient of r is +0.30 it denotes a weak uphill (positive) linear relationship,

+0.50 denotes a moderate uphill (positive) relationship; +0.70 denotes a strong uphill (positive) linear relationship and if exactly +1 a perfect uphill (positive) linear relationship. The results of the correlation analysis are presented in Table 5.

The correlation was intended to measure the relationship between employee integrity attributes and effective revenue collection. The results have revealed weak positive correlation between employee/tax collector qualification and effective revenue collection with Spearman rho (r=0.345) which denotes a weak uphill. Likely, weak correlation was found between employee commitment and effective revenue collection (r=0.268) which denotes that increase in commitment results into slight increase in effective revenue collection. Moreover, weak negative correlation was observed between employee maturity and effective revenue collection (r= -0.309). Weak positive correlation was observed between moral courage and effective revenue collection. These findings show that there is relationship between employee integrity and effective revenue collection although the relationship is not strong but it is statistically significant.

The findings are in line with the study of Tabuuza (2013) who contended that effective revenue collection in local government authorities need to take into account the qualification and overall integrity of employees to work in revenue collection units. Despite the fact that this study show relationship between the factors studied to effective revenue collection, however the findings shows that the relationship is weak which implying that they are not only the factors that influence effective revenue collection. In this regard, employee integrity seems to contribute less significantly to effective revenue collection as compared to other determinants discussed in this study which accounts for 85.8%.

Correlations (Spearman's rho)	1	2	3	4	5	6	7	8	9
Qualification (1)	1								
Commitment (2)	.753**	1							
Maturity (3)	-.910**	-.414**	1						
Responsibility (4)	-.288*	.414**	.658**	1					
Honest (5)	0.186	.629**	0.138	.658**	1				
Trustworthiness (6)	-.314*	-0.212	.301*	0.126	-.337**	1			
self-discipline (7)	-0.186	-.629**	-0.138	-.658**	-1.000**	.337**	1		
Moral courage (8)	.835**	.794**	-.657**	0	.657**	-.486**	-.657**	1	
Effectiveness Revenue collection (9)	.345**	.268*	-.309*	-0.087	0.087	-0.144	-0.087	.301*	1

** Correlation is significant at the 0.01 level (2-tailed).
*Correlation is significant at the 0.05 level (2-tailed).

Table 5: Spearman correlation of employee integrity variables

5. SUMMARY, CONCLUSION AND WAY FORWARD

This study focused on assessing employee integrity on effective revenue collection in Local Government Authorities using Moshi Municipal as a case in point. It has established that the attributes of employee integrity including moral courage, qualification and competence, trustworthiness and self-discipline influences significantly the effectiveness of revenue collection in local government authorities. Revenue collectors, tax payers, and employees in revenue collection in the municipal council were involved as respondents. Descriptive statistics and correlation were deployed to analyse data and establish the correlation between employee integrity and effective revenue collection was established. Correlation results show that Tax collectors' integrity attributes were observed to have a significant effect on revenue collection at the local government authority level. It is concluded that employees' integrity is a core value and must be an integral part of the LGAs tax collection and administration.

Herein, the current study has analysed the influence of employee integrity on revenue collection using Moshi municipal as a case. Reflections from the study objective, theoretical and empirical literature review together with the major findings of this study, reveals that employee integrity is a constraints in revenue collection. The removal of this constraint needs a holistic approach for further improvement of revenue collection

in local authorities. The study recommends municipal councils to have regular ethics and integrity training programmes, seminars and workshops to update the employees on their roles and responsibilities. The need for periodic reinforcement of the standards of conduct expected for LGAs tax employees, together with the establishment of clear monitoring and evaluation mechanism of these standards. Attention should be given to make sure that employee and agents dealing with tax collections demonstrate high level of trustworthiness, honest, self-discipline strong moral values, and they have self-discipline to undertake their job. It is also the recommendation of this study that, the LGAs should focus on integrity enhancements approaches like: the promotion of transparency and taxpayer rights, implementing a risk-based approach to internal control activities, and embedding high standards of revenue collection within the LGAs. Other recommendations of this study are need to improve Employee/tax collector qualification and competency, commitment to their duties, understanding of key responsibilities

Based on the study objective, theoretical and empirical literature review along with the key findings of this study, a number of gaps have been established in areas of employee competence and integrity. It is the researcher's opinion that they need further investigation. A comprehensive study could have been done to assess the impact of tax education to tax payers as coping strategy in widening Local Government Authorities tax base. Another area on which researchers may focus on is on the Institutional context and its contribution on revenue collection and administration in local Government authorities in the country. There is also a need for a baseline survey data that will provide accurate and formative data on the characteristics and strategies to improve revenue collection and administration in local Government authorities in the country.

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