

**EFFECTIVENESS OF INTERNAL AUDIT AS AN INSTRUMENT
FOR IMPROVING MANAGEMENT IN THE PUBLIC SECTOR:
A CASE STUDY OF KIBAHA TOWN COUNCIL**

**EFFECTIVENESS OF INTERNAL AUDIT AS AN INSTRUMENT FOR
IMPROVING MANAGEMENT IN THE PUBLIC SECTOR:
A CASE STUDY OF KIBAHA TOWN COUNCIL**

**By
Angel Mosha**

**A Dissertation submitted in Partial Fulfillment of the Requirements for the Award
of the Degree of Master of Science in Accounting (Msc-A&F) and Finance of
Mzumbe University Dar es Salaam Campus College.**

2014

CERTIFICATION

We, the undersigned, certify that we have read and here by recommend for acceptance by Mzumbe University Dar es Salaam Business School a dissertation entitled *Effectiveness of Internal Audit as an Instrument for Improving Management in the Public Sector: A Case Study of Kibaha Town Council*, in partial fulfillment of requirements for the award of the Degree of Master of Science in Accounting and Finance of Mzumbe University.

Major Supervisor

Internal Examiner

External Examiner

Accepted for the Board of MUDCC

CHAIRPERSON, FACULTY/DIRECTORATE BOARD

DECLARATION AND COPYRIGHT

I, Angel Mosha, declare that, this dissertation is my original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

Signature_____

Date_____

© 2014

This dissertation is a copy right material protected under the Berne Convention, the Copyright Act 1999 and other international and national enactments in that behalf on intellectual property. It may not be reproduced by any means in full or in part, except for short extracts in fair dealings, for research or private study, critical scholarly review or discourse with an acknowledgement, without the written permission of Mzumbe University Dar es Salaam Business School (UDBS) on behalf of the author.

ACKNOWLEDGEMENT

I am very grateful to the Almighty God for giving me strength and the gift of life to go through this demanding but rewarding exercise. The completion of this study was realized through the will of God and the contribution and support of many people who whole heartedly supported me. Special thanks go to my supervisor, Dr. Wilhelm, who patiently and selflessly guided me throughout the entire process and assisted me with some very relevant guidance that helped kick start the project.

My appreciations also are extended to my employer National Audit of Tanzania for assisting me meet the cost of this degree as well as allowing me to pursue the study upon which this dissertation is produced. Many thanks to my colleagues in the internal audit department, who assisted, encouraged and supported me morally for the entire period of my studies. Likewise I extend my gratitude to fellow students from the Msc. Accounting and Finance evening program with whom I had a study support which enabled me realize my study ambition.

I also would like to thank all the KTC staff and the management who spent their invaluable time to respond to my questionnaires. Finally I am grateful and thankful to my husband and my children for their patient as well as moral and material support throughout the period of writing this dissertation. I am truly grateful for their support and understanding throughout my academic journey. I wish you all the grace of our Almighty God.

DEDICATION

I dedicate this dissertation to my dear family.

ABBREVIATIONS

AARF	Australian Accounting Research Foundation
ASX	Australian Stock Exchange
CPS	Central Payment System
CPO	Central Payment Office
EDP	Electronic Data Processing
KTC	Kibaha Town Council
IFMS	Integrated of Financial Management System
IIA	Institute of Internal Auditors
LPO	Local Purchase Order
MDA	Ministries, Departments and Agencies
NYSE	New York Stock Exchange
PFMRP	Public Finance Management Reform Programmer
RAS	Regional Administrative Secretaries
SEC	Securities and Exchange Commission
SPSS	Statistical Package for Social Sciences
US	United States
VPN	Virtual Private Network
TED	Town Executive Director
PMORALG	Prime Minister Office Regional Administrative Local Government

ABSTRACT

The research centred on the use of auditing to improving public sector management using KIBAHA TOWN COUNCIL (KTC) in the Coast Region, as a case study. The main issue that guided this study was whether the internal audit department is discharging its responsibilities effectively. The objective of this study was to assess the effectiveness of internal audit as an instrument for improving the management in the public sector in Tanzania.

In realizing its objective, the study has employed a case study design which has provided the opportunity to such techniques as questionnaires, interviews, observations and documentary review in the data collection process. The target population of this study targeted the KTC employees who formed 69 respondents. The data obtained in this research provided descriptive statistics and narrations. The study also used a multivariate regression analysis to determine the relationship between the independent variables and the dependent variable.

The study found that management support had the greatest effect to the internal audit department as an instrument towards improving management practices at Kibaha Town Council. This factor is followed by risk monitoring and on the other hand the internal controls were found to have the least effect. The study recommends that in order for the council to be effective in its operation and service delivery it needs to pay attention to the contribution of internal auditing on its operations. This should go hand in hand with instituting risk mitigation in council's internal auditing operation. Staffing of the internal audit should be considered critical for the effectiveness of the council internal audit department.

TABLE OF CONTENTS

	Pages
CERTIFICATION	i
DECLARATION AND COPYRIGHT	ii
ACKNOWLEDGEMENT	iii
DEDICATION	iv
ABBREVIATIONS	v
ABSTRACT	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	x
LIST OF FIGURES	xi
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the problem	1
1.2 Statement of the problem.....	2
1.3 Research objectives.....	3
1.3.1 Main research objective	3
1.3.2 Specific objectives	4
1.4 Research questions.....	4
1.4.1 Main research question	4
1.4.2 Specific research question	4
1.5 Scope of the study/ Delimitation of the study.....	4
1.6 Significance	5
1.7 Limitations of the study	5
1.8 Definition of terms.....	6
CHAPTER TWO	7
LITERATURE REVIEW	7
2.1 Introduction.....	7
2.1.1 Brief history of internal audit.....	7
2.1.2 Evolution of internal auditing	8
2.1.3 Roles and Duties of Internal Auditor	10

2.1.4 Internal control system.....	12
2.1.4.1 Internal control in the public sector	15
2.1.4.2 Internal control and internal auditing.....	15
2.1.5 Internal audit and external audit	16
2.2 Purposes of Auditing System in a Public Sector Management	17
2.3 Management Control in Public Sector.....	18
2.4 Economic implications of ineffective internal auditing system in the Public Sector Management.....	18
2.5 Reporting Structure and Professional Independence:	19
2.6 Importance of internal audit.....	20
2.7 Conceptual framework and effectiveness of internal auditing	23
2.7.1 Conceptual framework model.....	33
CHAPTER THREE	37
RESEARCH METHODOLOGY	37
3.1 Introduction.....	37
3.2 Research Design	37
3.3 Area of the study.....	37
3.4 Targeted population	38
3.5 Sample Size.....	38
3.6 Sampling procedures.....	39
3.6.1 Purposive Sampling	39
3.6.2 Simple Random Sampling	40
3.7 Data collection methods and instruments	40
3.7.1 Questionnaire	40
3.7.2 Interviews.....	40
3.7.3 Observation	40
3.7.4 Documentary Review	40
3.8 Validity and reliability	41
3.9 Ethical considerations in this study	41
3.10 Data analysis techniques	42
CHAPTER FOUR.....	43
RESEARCH FINDINGS AND ANALYSIS.....	43

4.1 Introduction.....	43
4.2 Research Findings.....	43
4.2.1 The Role of Internal Audit at Kibaha Town Council	43
4.2.2 Effectiveness of Internal Audit in improving public sector management	45
4.2.3 Effectiveness of Internal Audit in Internal Control	46
4.3 Challenges encountered by the Internal Audit Department at KTC.....	47
4.3.1 Mechanisms deployed by KTC in redressing the challenges	51
4.4 Analysis of the Research Findings: Inferential Analysis.....	51
4.4.1 Coefficient of Correlation	51
4.4.2 Model Summary	52
4.4.3 Multiple Regression Analysis	53
4.5 Summary and Interpretation of Findings	54
CHAPTER FIVE	56
CONCLUSIONS AND RECOMMENDATIONS.....	56
5.1 Conclusions.....	56
5.1.1 Roles of internal audit department at KTC.....	56
5.1.2 Effectiveness of the internal audit department at KTC.....	57
5.1.3 Challenges encountered by the internal audit department.....	59
5.1.4 Mechanisms to redress the challenges	59
5.2 Recommendations.....	59
5.3 Limitations of the Study	61
5.4 Policy Recommendations	61
5.5 Area for Further Research.....	62
REFERENCES.....	63
APPENDICES	66
APPENDIX 1: Questionnaire to head of sections and staffs.....	66

LIST OF TABLES

	Pages
Table 2. 1 Evolution of internal auditing.....	8
Table 3. 1 Composition of the Targeted population.....	38
Table 3. 2 Sample Size in relation to target population in each category	39
Table 4. 1 Effective of Internal Audit in improving public sector management.....	46
Table 4. 2 Effective of Internal Audit in internal control.....	47
Table 4. 3 Coefficient of Correlation	52
Table 4. 4 Model Summary	52
Table 4. 5 Coefficients of Multiple Regression Analysis.....	53

LIST OF FIGURES

	Pages
Figure 1 Conceptual Framework: Determinants of the effectiveness of internal audit unit	33
Figure 2 Conceptual framework on contribution of internal auditing in improving public sector management	35
Figure 3 Available staff vs. IKAMA requirement.....	48
Figure 4 Planned budget vs. Approved budget	49

CHAPTER ONE

INTRODUCTION

1.1 Background of the problem

There is general awareness all over the world for the need to pay greater attention to the improvement of public sector management. The reason is obvious, government constitutes the largest single business entity and her pattern of expenditure through its various parastatals, agencies and commissions stimulate lot of economic activities (Belloli, 2006). As a result of the governments' involvements in economic activities, initiatives are being taken all over the world towards improving the standards of accounting and auditing departments in its institutions.

The public sector accountant has the responsibility of developing systematic arrangements to assist management in the performance of the services of the institution while the public sector auditor has among other duties, the complementary role to examine whether management actually performs that efficiently (Beasley, 1996). The public sector auditor has to satisfy himself that the accounts presented have been prepared according to statutory and regulatory requirements considering that all proper accounting practices have been observed throughout the compilation process.

It is a fact that public sector has a significant role in improving the wellbeing of the communities in any nation. In Tanzania, local government authorities fall in the category of public sector institutions. These local governments are the ones whose management has a direct impact on people's lives in their respective localities (Chacha, M.A,2006). In this way, improving the manner in which these local institutions are managed is likely to be significance not only on the way they delivery goods and services to the population but also provide a good image of the public sector institutions within and outside Tanzania. Given this importance of public sector institutions, in the current moment the government in Tanzania has put much attention on developing and strengthening the audit department/function in the local government authorities. The logic behind this initiative is that in so doing there is a likelihood of improving the management of these institutions and hence being able to serve better the people in this era of decentralization. Therefore

this research is set to look at the current development in the management of the public sector, especially the initiative to strengthen the internal audit function in the public sector. In so doing the research aims at assessing the effectiveness of using internal audit as a tool for improving public sector management in the local government institutions.

1.2 Statement of the problem

Internal audit is an integral part for managing the finance of public organizations. A constant complaint in the sector is that internal audit department is too understaffed and generally under resourced to make it be fully effective. There is a claim that internal audit is challenged by the inadequate knowledge of Electronic Data Processing (EDP) and hence complicates the efficiency in auditing the computerized systems. The reliance on paper working has been the order of the day in the auditing function where as working on papers does not make the auditing function seem to ruin its efficacy as a crucial management tool for effectiveness of the public sector institutions. Despite these challenges, still the auditing function stands at the centre in the management of institutions. Thus understanding how its effectiveness can be maintained is likely to improve their sustainability and enable them realize their goals and objectives (Adeniyi 2004).

Internal audit is a cornerstone of good public sector governance and it is essential for ensuring the operation and appropriateness of controls. It reviews compliance with existing financial regulations, instructions and procedures; evaluates the effectiveness of selected internal controls; appraises the efficiency and effectiveness with which resources are used; reviews reliability and integrity of records keeping and reporting, investigates irregularities; ensures that revenue is collected and accounted for and verifies inventory records and their relationship with physical inventory (INTOSAI, 2001). Internal audit is effective if it meets the intended outcome it is supposed to bring about. The internal auditor's work is not done until defects are corrected and remained corrected (Sawyer, 1995). Van Gansberghe (2005) explains that internal audit effectiveness in the public sector should be evaluated by the extent to which it contributes to the demonstration of effective and efficient service delivery, as this drives the demand for improved internal audit service. According to Zeleke (2007) the internal audit activities help to prevent corruption, misappropriation of funds and other financial irregularities and ensure

effective and efficient utilization of resources to achieve the objectives of the organization.

However, the 2008-2009 global economic crises (Credit crunch) has undermined the very roles and purposes of the internal audit and above all, reduced the integrity of the internal audit units in promoting good corporate governance. Misappropriation of funds and corruption are now the order of the day in the public sector in all countries due to weak internal control systems (Van Gansberghe, 2005). Centre for Democracy and Development (CDD) of Ghana (2000), reported that government officials misappropriate public funds especially at the local government level and this has resulted to huge government budget deficit, low standard of living, and poor economic performance. The question that everybody will ask is, are the internal audit units effective in this present situation since they are the key element of the internal control systems of every organization? This has motivated the researcher to investigate into the effectiveness of the internal audit units audit as an instrument for improving the management of local government authorities.

It is a current fact that the government in Tanzania has insisted on the significance of the internal audit function for improving the general management of the public institutions, the question raised in this research study is that: Can the internal audit function achieve the intention of improving the management of public sector in Tanzania and what should be done to enhance its effectiveness? In the light of this question, therefore this research intends to assess the effectiveness of internal audit as an instrument of improving the management of public sector organizations, in so doing Kibaha Town Council (KTC) is used as a case study.

1.3 Research objectives

1.3.1 Main research objective

This research is set to fulfill the following main research objective: To assess the effectiveness of internal audit as an instrument for improving the management of local government authorities. In order for the study to be able to fulfill the intention of its main research objective Kibaha Town Council was selected for that matter.

1.3.2 Specific objectives

- (i) To identify the role of internal audit department in the management of local government authorities. .
- (ii) To examine the extent to which the internal audit department in local government authorities perform its roles.
- (iii) To determine the challenges encountered by the internal audit department in improving the management of the local government authorities.
- (iv) To determine what can be done to make the internal audit department work according to the expectations.

1.4 Research questions

1.4.1 Main research question

What is the effectiveness of internal audit as an instrument of improving the management of local government authorities?

1.4.2 Specific research question

The study addressed the following research questions

- (i) What is the role of internal audit department in the management of local government authorities?
- (ii) To what extent does the internal audit department in local government authorities perform its roles?
- (iii) What are the challenges encountered by the internal audit department in improving the management of the local government authorities?
- (iv) What can be done to make the internal audit department work according to the expectations?

1.5 Scope of the study/ Delimitation of the study

This research study focused on assessing the effectiveness of internal audit as instrument for improving the management of public sector in Tanzania. In order to realize this focus of the study Kibaha Town Council was selected as a case study.

1.6 Significance

The findings of this research provide the insights on how internal audit effectiveness can improve the management of local government institutions and in particular for Kibaha Town Council. It is believed that positive improvement in the public sector institutions is likely to benefit the citizens of the Tanzania. Therefore, this study provides crucial understanding to the policy makers and other stakeholders in Kibaha Town Council on the role and significance of the internal auditing.

The results of the study are significant in the way that they are to a large extent relevant for influencing the management activities in the internal audit of Kibaha Town Council.

For other researchers and those who will be interested with the functioning of the internal audit department, the findings and conclusions drawn in this research may act as part of the reference materials for the purpose of stimulating debates on the effectiveness of internal audit in the local government authorities.

1.7 Limitations of the study

Inadequate of fund in facilitating the smooth collection of data was one of the challenges encountered in this study. This was the likely challenge since the frequent visiting to the area of data collection was an order of the day. In most cases the appointments for interviews and collecting the questionnaires from the respondents were not met as agreed. This made the researcher to incur the extra cost in terms of travelling back and forth. Given the limit in the budget allocated for the research, some interviews were cancelled due to the fact that despite the researcher's persistence to interview those respondents it seems to indicate that more fund and time were needed to do so, something which was beyond the ability of the researcher.

As it has been noted elsewhere in this section, the un-honoured appointments meant that the time spent in the data collection was far beyond what was planned at the beginning given the fact that there was a fix time for concluding the research

Another limitation in this study came from the lack of access of some audited reports in the council office. There was a restriction on the part to the researcher to have access to

some audited reports which in a crucial way could set some light on the relevance of the internal audit function in the management of the council affairs. For their access a special permission was to be asked in writing from the council director, something which in most cases ended up without any response.

In some cases the aimed council officials could not be accessed for interviews and responding to the questionnaires, this forced the study to continue in a way that their views on the subject matter of this research were missed. Hence the conclusion of the study was to some extent affected by this limitation.

1.8 Definition of terms

Internal audit (Institute of Internal Audit) is defined as an independent, objective [assurance](#) and [consulting](#) activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the [effectiveness](#) of [risk management](#), [control](#), and [governance](#) processes.

Public sector (English dictionary) is defined as that part of a country's economy which is controlled or supported financially by the government. In Tanzania, the public service is a national institution of excellence that has an important role in the abolition of poverty and acquiring a sustainable economic growth

Improving management is defined as the way of changing, enriching and equipping the management knowledge about internal audit's function, importance and impact to an organization.

Instrument is used as a means, a tool or mechanism towards achieving the targeted objective. In this case internal audit as an instrument is used in improving management understanding about internal audit effectiveness in their day to day activities of the organization.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This study focuses on effectiveness of internal audit as an instrument of improving management. In order to achieve the objectives of this study, analysis of both empirical and opinion literature on internal auditing were made. In reviewing the literature, the following areas were considered:

Brief history of internal audit, Evolution of internal audit, Role of internal audit , Internal control system and Internal audit and external audit

2.1.1 Brief history of internal audit

The proliferation of large, dispersed, complex corporations, starting in the twentieth century, spurred the accelerated development of the internal audit function. The Institute of Internal Auditors (IIA) was established in 1941, largely in response to this development and modern internal auditing owes much of its early progress to the Institute of Internal Auditors. This includes the gradual expansion of the scope of internal audit activities and the professionalization of the internal audit practice.

It was not until 1947 that Institute of Internal Auditors (IIA) issued its first Statement of Responsibilities. The Code of Ethics was issued in 1968 and Standards in 1979. The first Certified Internal Auditor (CIA) exams were written in 1974, indicating that there was, that time, deemed to be recognised body of knowledge available for internal audit professionals. According to Pickett (2004), internal audit has come a long way over the last two or three decades. In the past, internal auditing was seen as a mechanism to double-check the thousands of financial transactions that were posted to the account each week. In the 1950s and 1960s, it only consisted of basic test of the accounts with a view to isolating errors and irregularities. In contrast, today's internal auditors facilitate the development of suitable controls as part of a wider risk strategy and provide assurances on the reliability of these controls. The move from detailed low-level checks of huge volume of mainly transactions to high-level put into corporate risk management has been tremendous (Rudasingwa, 2006). Risk management in an organization is important because organization operates in an environment with full of uncertainties. Therefore, the

internal audit in today's global world should shift way from traditional checking of volume of transactions to risk management and control. That is, it should focus on preventing errors and fraud rather than errors and fraud detection.

2.1.2 Evolution of internal auditing

By the seventies, internal audit practices had been expanding in scope in many parts of the world for some time now. The Table 1 below shows an indication of growth and development of the internal auditing profession.

Table 2. 1 Evolution of internal auditing

1. Check accounting records	1950
2. Assess compliance	1960
3. Examine procedures	1970
4. Evaluate controls	1980
5. Report on system of internal control	1990
6. Assess risk management	2000
7. Facilitate risk management	2001
8. Assure risk/ control	2002
9. Add value	2003
10.?	2004

Source: Pickett (2004)

According to Pickett (2004) the evolution and development of internal audit has gone through the following steps:

Checking accounting records

It had already been argued that internal auditing started out as a way of double-checking accounting records. A small team would be set up in the accounts section to examine as many financial transactions as possible and determine whether they were correct or not

Assess compliance

Over the years, there have been some attempts to move away from focusing only on the financial aspects. Audit team would also assess the extent to which operations staff complied with financial and basic offices procedures and regulations. This would typically be performed at a remote site where the rules on the receipt and banking of money, payment of vendors, staff claims, stock management and petty cash would be checked by the internal auditor.

Examine procedures

This stage emphasizes auditing procedures and make sure those procedures are followed. The audit team would review files and records and upon finding problems, try to suggest improvement and list the errors for correction.

Evaluation control

Further advancement was possible, where the focus on procedures was broadened to the much more dynamic concept of controls. Proper performance was seen as to relate to more than simply following the procedures manual. Performance encompassed the interaction of all measures that ensure that staffs were equipped and able to set targets, perform and measure the extent to which they have been successful.

Report on system of internal control

The next stage of development appeared in the form of the auditors providing an independent view on various systems of internal control employed by the organization.

Assess risk management

In 1990s, internal audit moved towards risk management to stave criticism of organization that had been damaged or even destroyed by scandals, mismanagement, or event that had a major adverse impact on their business. The call for systems of operational risk management underpinned the emphasis on corporate governance across all types of business and public bodies.

Facilitate risk management

There was a shift from just risk management to develop a system that would place internal auditors a position to be very proactive in identification, assessing and facilitating risk management. The Enterprise risk management model was developed to guide and develop the competencies of internal auditors to manage the risk of an organization.

Report risk assure controls

At this stage, there is need to report the result of auditing work to a high-level body in the organization. In turn, the board reports on its system of internal control in the annual report.

Add value

Recently, internal audit is described as adding value to the organization. Adding value is described by the Institute of Internal Auditor (2006) in the following way: Organization exists to create value or benefit to their owners, other stakeholders, customers and clients. This concept provides the purpose for their existence. Value is provided through development of products and service. In the process of gathering data to understand and assess risk, internal auditors develop significant insight into operations and opportunities for improvement that can be extremely beneficial to their organization. This valuable information can be in the form of consulting, advice, written communication or through other products, all of which should be properly communicated to the appropriate management or operating personnel

2.1.3 Roles and Duties of Internal Auditor

Internal auditors owe a responsibility to the management and the board, providing them with information about the adequacy and effectiveness of the sector's system of internal control and the quality of performance.

According to (Institute of Internal Auditor, 2006) The internal auditor ensures adherence to all financial, personnel, lending, data processing, the other administrative policy and procedure as well as the economy, efficiency and effectiveness with which resources are used.

Internal audit serves a major management control tool are to provide an assurance to management that the financial information furnished to management to aid decision making is reliable, accurate and based on reliable records and where otherwise to draw the attention of management to deficiencies in the organization or system of internal control and to highlight areas of management practices requiring corrective actions. Other responsibilities include the following;

- To review, evaluate and report on the adequacy or otherwise of financial control framework existing in the agency and its efficiency in assuring property, prudence, completeness and accuracy of the agency's activities and transactions.
- To carry out a complete and continuous auditing of the accounts and records of revenue, expenditures, plant, stores and other property.
- To evaluate whether actual performance is within the established financial control framework (compliance auditing).

According to Johnson (1996) General duties of an internal auditor in the public sector management include the following:

- An audited copy of a statement of the accounts is to be submitted in a prescribed form together with any report to the appropriate minister or secretary of state who in turn presents the accounts before the National Assembly.
- The auditors must state whether the accounts in their opinion give a true and fair view of the operation affairs.
- The auditor must state whether the accounts give all the information required under enabling statute.
- The auditors will normally report if they are not satisfied with any aspects of the financial statements.

2.1.4 Internal control system

According to Cook and Winkle (1976), the Internal Control System resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management. In this concept, by measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device, which is directly linked to the organizational structure and the general rules of the business (Cai, 1997). In today's business environment internal auditors is now providing management with a far broader range of information concerning the organization's financial, operational and compliance activities to improve effectiveness, efficiency, and economy of management performance and activities.

The internal auditors are expected to provide recommendations for improvement in those areas where opportunities or deficiencies are identified. While management is responsible for internal controls, the internal audit activity provides assurance to management and the audit committee that internal controls are effective and working as intended. The internal audit activity is led by the CAE. The CAE delineates the scope of activities, authority, and independence for internal auditing in a written charter that is approved by the audit committee. An effective internal audit activity is a valuable resource for management and the board or its equivalent, and the audit committee due to its understanding of the organization and its culture, operations and risk profile. The objectivity, skills, and knowledge of competent internal auditors can significantly add value to an organization's internal control, risk management, and governance processes. Similarly an effective internal audit activity can provide assurance to other stakeholders such as regulators, employees, providers of finance, and shareholders (IIA Research Foundation, 2004).

SEC officials have repeatedly emphasized the importance of the internal audit function to the overall control structure of an organization. For example, former SEC Chief Accountant Herdman (2002) stated that an effective internal audit function is "crucial to the success of a company in stemming fraud and abuse, and in the preparation of accurate financial statements." The SEC Director of the Office of Compliance Inspections and Examinations Richards (2002) noted that internal auditors have a critical role in fraud prevention and compliance promotion. More recently, the Associate Director of the Office

of Compliance Inspections and Examinations for the SEC has stated that she considers internal audit a critical component of a company's internal control structure (Gadziala, 2005).

Corporate governance developments around the world have reaffirmed the responsibility of the board in the process of ensuring the success and efficiency of the internal control framework of the company. As a result, the key role of the internal audit is vital in order to support the board in order to ensure sufficient oversight of internal control as well as in the process of doing so form in the integral aspect of the corporate governance framework of the organization. Thus the key role of the internal audits focuses on the process of assisting the board and/or its audit committee in the process of discharging its governance responsibilities by focusing on the following: an objective assessment of the existing risk and internal control framework; methodical examination of business processes and connected controls; reviews of the subsistence and value of assets; a source of information on major frauds and irregularities; unplanned and informal reviews of other areas of concern, including unacceptable levels of risk; reviews of the agreement framework and specific compliance issues; reviews of operational and financial performance; suggestions for more helpful and competent use of resources; appraisals of the achievement of corporate goals and objectives and finally advice and comment on devotion to the values and code of conduct/code of ethics of the organization (Deloitte, 2005).

In the private sector, company directors are responsible for determining policy, monitoring performance and taking corrective action if either policy or its implementation is defective. Internal control provides a means of assurance that corporate objectives are being achieved. The Institute Of Internal Auditors (2006), defines internal control as:

A process within an organization designed to provide reasonable assurance regarding the following primary objectives:

1. The reliability and integrity of information.
2. Compliance with policies, plans, procedures, laws and regulations.
3. The safeguarding of assets.
4. The economic and efficient uses of resources.

5. The accomplishment of established objectives and goals.

Internal control systems are therefore, fundamental to the success and survival of organizations. They put an organization on the trails. However, organizations sometimes go off the trail. This was the problem (failure of giant companies in USA) that resulted in the report of the Treadway Commission on fraudulent financial reporting and the formation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO Model, 1985). The COSO Model is dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. According to COSO Model (1985), internal control is a process, affected by an entity's board of directors, management and other personnel designed to provide reasonable assurance regarding the following categories:

1. Effectiveness and efficiency of operations.
2. Reliability of financial reporting.
3. Compliance with applicable laws and regulations.

The COSO Model identified the key concept of internal control as:

Internal control is a process. It is a means to an end and not an end itself.

Internal control is affected by people. According to the model, internal control is not merely policy manuals and forms, but people at every level of an organization.

Internal control can be expected to provide reasonable assurance, not absolute assurance, to an entity's management and board.

Internal control is geared to the achievement of objectives in one or more separate but overlapping categories.

The rationale behind the COSO Model includes:

Weak internal control systems lead to corporate losses and failure as in the case of Enron and WorldCom.

Internal control systems are the responsibility of directors, management and employees. However, they are particular responsibility of the board of directors.

Internal control is a moving target. It must be monitored and adapted to fit the circumstance. If it is neglected, it will deteriorate, lose relevance or prove ineffective.

2.1.4.1 Internal control in the public sector

Ministries, Departments and Agencies and Metropolitan, Municipal and District Assemblies do not have directors. Government wide laws and regulations regulate their affairs. Certain assets such as buildings and infrastructure may be outside the control of those who occupy them. Moreover, government entities rarely if ever collapse due to internal control failures and do not need to report to shareholders as the case may be in the private companies. The question that everyone may ask is, how relevant is internal control in a government context? It is relevant because government is the custodian of the resources owned by the citizens and they expect effective and efficient utilization of these resources to promote economic growth and development. The weakness or absent of internal control in a government institutions may lead to corruption, misappropriations of funds and inefficiencies in the systems. The compounded effects of corruption, misappropriation of funds and inefficiencies includes; low standard of living, government budget deficit and inequality of redistribution of resources. (Utouh, 2006)

One way of understanding the need for government systems of internal control, is to think about government entities as corporate bodies and to ask how system of control used in large private sector entities are relevant to management improvements (IFAC, 2006). It is appropriate for each local government level to develop its own internal control system that will ensure transparency, public accountability, effectiveness or efficiency and responsiveness

2.1.4.2 Internal control and internal auditing

These two terms are often misunderstood to mean one thing. However, they are different in scope and objectives. Internal control is a broader concept which includes internal audit. The objectives of internal auditing are to assist the organization, in particular managers and members of the board of directors, to discharge of their responsibilities effectively. Internal audit furnishes them with analysis, appraises, recommendation, advice and information concerning the activities reviewed. IIA (2006) explained that internal audit can be regarded as the means by which management learns if its internal control systems are appropriately designed and in fact working. The cornerstone of

internal control is the internal auditing. It is the responsibility of internal auditors to ensure that the top management and employees comply with the internal control systems and any weakness of the system should be identified and corrected. Therefore, internal audit is essential tool for ensuring the operations and appropriateness of internal controls.

2.1.5 Internal audit and external audit

Due to the increase in size and complexities of business units, internal auditing is becoming increasingly important. However, from the view point of external auditor, internal auditors represent one of the elements of internal control and perceived them as their assistant. With the newly defined internal audit, internal audit function is seen as independent, objective assurance and consulting activity designed to add value and improve an organization's operations (IIA, 2009). The external and internal auditors are not competitor and their efforts should be complementary to each other as both are necessary for the attainment of the objectives of an organization. The practitioners in the two folds use basically identical auditing techniques. They both have common objectives of ensuring that an organization's systems of internal controls are effective to prevent or detect fraud and errors and to provide adequate information necessary for preparing financial statements to reflect true and fair view of the state of affairs of the organization.

However, internal and external auditors are different in terms of the application of auditing techniques, independence, reporting and interest served. Internal auditors are employee of the organization whose records and procedures they examine. They owe their primary allegiance to company. Their jobs, compensations, opportunities for advancement are controlled by the same management that controls and supervised the accounting department under examination. This does not mean that internal auditors do not have some level of independence. According to Millichamp, (2002), the internal auditors should be placed in the organizational pattern of a business with independence in mind. Being bound more closely to its company than an external auditors bound to their clients, the internal auditing department enjoys a somewhat smaller degree of independence as compare to external auditor. The internal auditors work under the direction of the management of an organization or institution and they may be concerned with areas of managerial control. The objectives, therefore, is to assist management in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with

analysis, appraisal, recommendations, counsel and information concerning the activities reviewed. On the other hand, the external auditors are concerned with expressing their opinions on whether the financial statements of the auditee show true and fair view and whether the auditee complies with its own internal control systems, accounting standards and other legal requirements. The internal audit unit draws its mandate from internal audit charter while external auditors draw their mandate from company's code and other statutory regulations. With the reporting line, internal auditors report to top management or audit committee, but external auditors report to members of the organization.

Despite these differences, external auditors cannot do away with internal auditors because internal auditors are part of internal control system and are described as eyes and ears of the organization (Institute of Internal Auditors, 1999). With the help of the internal auditors, the external auditors would be able to complete their audit assignment within the timeframe. It is worth to mention that, the extent to which the external auditors rely on the internal auditors depends on the effectiveness of the internal audit unit. According to Millichamp (2002), the external auditors would rely on the internal auditors if the following important things are in place:

1. The internal auditors enjoy organizational independence;
2. The unit is adequately resourced;
3. There are competent and experienced internal audit staffs;
4. The recommendations of the internal auditors are implemented.

The reliance on the internal auditors by the external auditors does not relieve the later from their responsibilities as stated in the auditing standards and the companies code of Tanzania.

2.2 Purposes of Auditing System in a Public Sector Management

There are three major types of report that are basically relevant for auditing purposes. These are: Firstly, the internal reporting to managers for purposes of planning and control of current and anticipated operations. Secondly, the internal reporting to chief Executives and Directors or Managers for institutional policy decisions and the formulation of long range plans. Thirdly, the external reporting, mainly for credibility purpose before external

entities, government, financial houses, foreign creditors especially for legislation and decision on lending and investment activities.

2.3 Management Control in Public Sector

In the eye of Woolf (1986) the public sector is primarily composed of non-profit making organizations. Management control in its broadest context is the means by which an organization carries out its objectives effectively and efficiently. Public sector management can be generally distinguished as having hierarchical structures composed of responsibility centres, units, sections, departments and divisions. Central government department, the natural health services depend directly on the exchequer for all their funds. If changes are made for certain services they are usually nominal and have a little impact on the level of services offered.

Autonomous bodies are subjected to high degree of Central government control. Local government authorities receive by far the largest proportion of their funds through the rate support grant or allocation. They can equally raise revenue locally, primarily by levying rates; the extent of their power is strictly monitored by central government.

Therefore, the management and control of the public purse is the heart of government administration. The internal audit reports directly to the chief executive, the financial regulations, however, enjoins the chief executive of each ministry to ensure that the accounting and finance functions and internal audit functions are placed under the direct control of suitable competent accountants.

2.4 Economic implications of ineffective internal auditing system in the Public Sector Management

The dramatic collapse of the global stock markets and subsequent economic crises with its impacts, which accompanied it, resulted in a sharp concentration in both public and private sector established in Tanzania.

For an economic development of any public sector to be put correctly as well as guard the pattern its revenue and expenditure, a proper record of the expenditure items must be kept. The effectiveness of auditing System can be reinforced. Economically, internal auditing is

meant for internal consumption with varying socio-economic benefits. In Public Sector according to Azubike (2002), internal control is highly effective in increasing the reliability of accounting data and in protecting against fraud. The economic implications of an ineffective auditing system in a public sector management are the negative aspects of the positive development of the auditing system such as;

Inability to plan effectively due to the availability of unconfirmed financial operations of the enterprise in past years, Inability to make effective financial decision, Lack of credibility of enterprise before external entities-government financial house, creditors etc, Inadequacy of information about the enterprise's assets, Inability of the enterprise to rely on any proper statement on past, current and proposed future balance sheet on revenue, revenue sources, expenditure items, profits and losses, Difficulties in controlling the financial operations of the enterprise, There is the possibility of the emergence of fraud and Inability to detect easily the compliance of enterprise financial accounts with the requirement of law.

Reasons for ineffectiveness of internal auditing in the public sector management are as follows;

Lack of Audit Manual: The absence of standard internal audit manual and detailed audit work plan will affect the quality of audit work particularly for internal auditors who are either non-accountants or nonqualified accountants.

On-Career Auditors and Lack of Growth Prospect: Most internal auditors who are professionally qualified accountants have been prevented from ascending to levels or status that is equivalent to those held by their professional colleagues in the finance/accounts department. This gives such colleagues in the accounts department an advantage and a feeling of superiority to the internal auditor hence they stifle with imparity the process of information flow to the auditor and makes available only thing they want the auditor to see.

2.5 Reporting Structure and Professional Independence:

The internal auditor used to be a unit of the accounts department in the past but to ensure a level of independence, they were made to report directly to the Chief Executive. The change however negatively impacted on Public Sectors as most Chief Executives are

political officeholders, having no permanent interests and leading to non-commitment to internal audit reports.

Scope of Work: The absence of a proper definition of the duties, rights, privileges and limitations of the internal auditors also inhibits the satisfactory performance of his duties

Privileges of Office: The lack of adequate remuneration and pre-requisites of office has made some internal auditors to compromise their positions in favour of fraud stars.

Hazards of Office: Another factor, which impairs internal audit efficiency, is the hazards that stare the honest and principled internal auditor in the face there are reported cases of assassinations, burglary, native medicine and acid attacks on the lives and properties of internal auditors.

2.6 Importance of internal audit

Internal audit is an important part of the corporate governance structure within an organization. Corporate governance includes those oversight activities undertaken by the board of directors and audit committee to ensure the integrity of the financial reporting process (Public Oversight Board 1993). Three monitoring mechanisms have been identified in the corporate governance literature. They are external auditing, internal auditing, and directorships (Anderson et al. 1993, Blue Ribbon Committee 1999) as well as the audit committee (Institute of Internal Auditors [IIA] 2003).

In recent years, high profile corporate collapses have focused attention on corporate governance and also emphasized internal auditing as part of the governance process. The IIA sees the objective of internal auditing as both supporting and strengthening an organization's governance mechanisms and evaluating and improving the effectiveness of risk management and control (IIA 1999).

The importance of internal auditing has also been underpinned by the decision of the New York Stock Exchange (NYSE) to amend its listing requirements to mandate that all listed companies in the United States (US) have an audit committee (NYSE 2003) to liaise between internal auditors, external auditors and management, ensuring the independence of the audit function. There is evidence in the US that the Securities and Exchange

Commission (SEC) also attaches importance to internal auditing as there have been recent cases where enforcement actions by the SEC and subsequent settlements have required the registrant to engage internal auditors (Carcello et al. 2005). In Australia recent changes to the Corporations Act and the Australian Stock Exchange (ASX) Listing Rules have strongly emphasized the importance of good corporate governance. Given the perceived importance of internal audit as part of good corporate governance, these changes are likely to enhance the role and importance of internal audit in the Australian environment.

Despite the increasing focus on internal audit, there has been little research on the benefits and importance of this function. Studies have used an agency cost framework to illustrate the value relevance of the internal audit function (e.g., Carey et al. 2000; Carcello et al. 2005). While the variables of size, debt or agency are not associated with the presence of an internal audit function in Australian family owned companies, internal and external audit are used as monitoring substitutes by these companies (Carey et al. 2000). A more recent US study examined the size of internal audit budgets and found that they were positively related to company size; leverage; financial, service, or utility industries; inventory; operating flows; and audit committee review of the internal audit budget (Carcello et al. 2005). Results showed that internal audit budgets were negatively related to the percentage of internal auditing that was outsourced. The overall conclusion was that companies facing higher risk will increase their organizational monitoring through internal audit, providing evidence of the importance of the internal audit function.

Gramling et al. (2004) performed a literature review on the role of internal auditing in corporate governance. This review found that the role of an internal audit function in corporate governance has been analyzed using the external auditors' evaluation of its quality, determinants of its reliance decision, the extent and nature of its work relied on by the external auditor and other aspects of the external audit (Gramling et al. 2004).

Examination of this literature review shows that the majority of the research on internal audit has been related to the perceptions of the external auditor and whether the external auditor utilizes the internal auditor's work. Another way of evaluating the work of internal auditors is to examine how well they detect errors within an organization and there has been limited research on this topic. One study on this topic found the number and

magnitude of errors requiring adjustment by the external auditor have been found to be substantially lower for entities that had an internal audit department compared to those that did not have an internal audit department (Wallace and Kreutzfeldt 1991).

More recently, the role of auditors in detecting fraud as well as errors has received greater emphasis. In Australia additional requirements were imposed on external auditors to consider the possibility of fraud when conducting an audit under AUS 210 (Australian Accounting Research Foundation [AARF] 2004) and more recently ASA 240 (AUASB 2006). It is reasonable to expect that this increased emphasis on fraud awareness and detection affected the internal auditors' duties as well. Even back in the late 1990s, there is evidence that this was occurring in Australia as a survey found that fraud detection was being included in internal audit work (Birkett et al. 1999).

Some studies have evaluated the ability of internal auditors to perform fraud-related work. External and internal auditors achieved a high level of consensus in their financial statement fraud risk ratings suggesting that internal auditors are as aware as external auditors of where fraud is likely to be detected (Apostolou et al. 2001). When considering fraudulent financial reporting, internal auditors think that fraud is the reason for an unexpected difference in income when (1) income is greater than expected and (2) when debt covenants are restrictive, conditioned on income being greater than expected (Church et al. 2001). The focus of these studies has been financial statement fraud.

The nature of the internal audit function is also an important consideration that may potentially affect its value to an organization. Companies may use their own staff (insource), use an external firm (outsource) or a combination of the two. While outsourcing the internal audit function does not significantly affect users' perceptions of auditor independence or financial statement reliability (Lowe et al. 1999) or their perception of protection from financial statement fraud (James 2003), companies that decide to outsource perceive that external providers are technically more competent (Carey et al. 2006). However, a limitation with these prior studies is that they were performed by measuring perceptions not actual performance. Given that many organizations make decisions about whether to in source or outsource their internal audit

function, the quality of performance of these respective functions is an issue that warrants more examination than just “perceptions”.

Reviewing the internal audit literature shows limited research on the importance and benefits of internal audit per se or the relative importance of in sourcing compared to outsourcing the internal audit function. The present study addresses these questions by examining how effective the internal audit function is improving public sector management.

2.7 Conceptual framework and effectiveness of internal auditing

Conceptual framework

The researcher adapted the Conceptual framework of the effectiveness of internal audit provided by IIA (2006). It provides comprehensive determinants of internal effectiveness for both public and private sector (See appendix 1)

Existence of audit committee

An audit committee is an independent committee which comprises experts from various fields in the organization. It plays significant role in promoting good corporate governance. As part of corporate governance structure, audit committee is one of the key players in ensuring that, resources are safeguard and utilized efficiently and effectively in achieving an organizational objectives. The presence of audit committee in an organization protects the independence of internal auditors which is one of the qualities of auditors. Bishop, Hermanson & Lapides (2000), argue that cooperation between internal auditors and audit committee is an important element of sound corporate governance. The relationship between the audit committee and internal auditors is an important one, with both a reciprocal strengthening of each other's function (Goodwin & Yeo, 2001). This means that audit committee can strengthen the internal audit function by protecting their independency and also makes sure that audit recommendations are implemented by management. Internal auditors on the other hand, can be important resources to the audit committee as it strives to fulfil its responsibilities (Turley & Zaman, 2004). The assertion of Turley & Zaman, 2004 is in line with Bishop et al., (2001), who posit that internal audit

is a valuable resources that can provide information needed for audit committee to meet their governance mandate.

The professional audit standards and codes of ethics

Traditionally, the scope of work and responsibilities, reporting line and appointment of internal auditors were done by management. This had made it possible for management to have full control over the activities of internal auditors, thereby interfering with the independency of the internal auditors. In recent times, IIA provides standards and code of ethics for internal auditors. The purpose, authority, and responsibility of the internal audit activities should be formally defined in a charter, consistent with the standards and approved by the organization's audit committee (IIA, 2009). Standards and code of ethics provide that, an effective internal audit unit acts as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Since 1978, the standards and code of ethics have set out the expected approach, principles, and behaviours that internal auditors apply to their work. Adopted by worldwide standard-setting bodies in the public sector, as well as by all IIA members, the standards and code of ethics are the profession's foundation and quality benchmark. By following standards and code of ethics, internal auditors can provide an effective, independent assurance and consulting service to their organizations.

To reduce the incidence of impairment of independency of internal auditors, the corporate governance board which includes audit committee, should set out internal audit charter. According to IIA (2006), the internal auditors should draw their powers, authorities, and responsibilities from the charter instead of taking instructions from management. The section 1000.A1 of the IIA (2009) provides that, the nature of assurance service provided to the organization must be defined in the internal audit charter. The mandatory nature of the definition of internal auditing, the code of ethics, and the standards must be recognized in the charter.

Management support

Management support for internal audit unit is another important factor that determines the extent to which the unit can fulfill its objectives. The commitment and support of top management is essential for the effective internal audit. Management can demonstrate its

support for internal audit by emphasizing the value of independent and objective internal auditing in identifying areas for improving performance quality and by implementing the recommendations of internal audit unit. In the case of district, municipal and metropolitan assemblies, the chief executives and other high government officials should show a high commitment in improving the quality of internal audit. Support for the internal audit unit in all parts of the organization to ensure as far as possible that the auditors are treated with respect. It would be important that the role of internal audit and its powers are well understood within the organization.

To a large extent, internal audit is as useful as management allows it to be. If internal audit issues reports which are critical of certain part of the organization and management takes no action for political reasons, this would only serve to undermine the internal audit function and reduces its effectiveness (Gray& Manson ,2000).According to Mihret &Yismaw (2007) management's failure to implement recommendations of internal audit has far reaching implications on the auditor's attitude towards improving audit quality, their commitment to develop a career as internal auditors. This is also in line with the thinking of Van Gansberghe (2005), who submits that the implementation of audit recommendation is highly relevant to internal audit effectiveness. Mihret &Yismaw (2007) also added that audit findings and recommendations would not serve much purpose unless management is committed to implement them. The findings of these studies implies that people would not find internal audit profession attractive to them and even those who take internal audit appointment may not demonstrate high professionalism in carrying out their duties if they do not see how they contribute to the overall achievement of an organizational objectives.

Adams (1994) used agency theory to explain that it is in the interest of management to maintain a strong internal audit department. While there is a degree of continuing communication between internal auditors and management, internal auditors should not be commanded by the top management, and there should be no intervention by the management to affect the audit results. The mandate, scope, methodology, and results should be determined solely by the internal audit charter without seeking consent from top management.

Organizational setting

Organizational setting includes the status of internal audit in the organizational structure; the probity of internal audit office, budgetary status of the internal audit office; the policies and procedures of the organization; and the existence of sound established criteria to evaluate auditee's practices and organizational independency. It provides the context in which the internal audit operates. Therefore, organizational setting can exert influence on the level of effectiveness that internal audit could achieve.

Organizational policies and procedure

In order to make internal auditing effective, there should exist clear policies and procedures against which organizational practices are to be gauged. The policies and procedures should be well-understood by internal auditors so that they can help to improve upon those policies and procedures. According to Mihret & Yismaw(2007), this component of the organizational setting factor rates fairly in terms of its influence on audit effectiveness. IIA (2009) explains that the chief executive must establish policies and procedures to guide the internal audit activity. These policies and procedures would specify the responsibilities of internal auditors and how audit reports should be presented and who should receive the reports.

Internal audit status and organizational independency

Organizational independence allows the audit activity to conduct work without interference by the entity under audit. The audit activity should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so. Coupled with objectivity, organizational independence contributes to accuracy of the auditors' work and the ability to rely on the results and report (Zelege, 2007).

The level of contribution that internal auditors can make in improving risk management and organizational performance depends on its status in the organization. The internal audit function of an organization should be given a sufficiently high status in the organizational structure to enable better communication with top management and to ensure independence of internal auditor from auditees (Mihret & Yismaw 2007). This argument was in line with the assertion of Zelege (2007), who argued that organizational independence allows the audit unit to conduct work without interference by the entity

under audit. The audit unit should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so.

IIA (2009:1100), emphasis that the internal audit activity must be independent and internal auditors must be objective in performing their work. IIA (2009) defined organizational independence as —the freedom from conditions that threaten the ability of the internal audit activity or chief audit executive to carry out internal audit responsibilities in unbiased manner. The internal auditors in practical manner cannot be independent from management but the independency has to do with the mental attitude and objectivity of the auditors. Independence is paramount value in providing effective internal audit service to the management, for it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited.

According to Van Gangesberghe (2005), internal audit must contribute positively to management, while at the same time not becoming its servant but faithfully report on the status to the board or other equivalent governing body. Audit should be isolated from any intervention posed against its objectivity. The status of internal audit should provide job security for internal auditors so that they cannot be dismissed for the sake of producing objective findings. In institutions, the organizational structure of internal auditors represent variations that highlight two outstanding issues regarding objectivity: statutory independence and budgetary independence. Management who are involved in corrupt practices often becomes eager to intervene in the audit reviews, scope of work, and the results. To avoid such attempts, the head of internal audit should hold an adequately powerful position to be isolated from such influences. A concrete audit charter to bind all parties strictly is considered the most effective way to reduce outer influence.

Unrestricted access

Audit should be conducted with complete and unrestricted access to all forms of audit evidence like employees, property, policies and procedures of internal control systems, key information necessary for audit work (Zelege, 2007). The IIA (2009), states that the internal auditors must be allowed total access to assets, employees, records and all forms

of audit evidence necessary for their work. The authority of the internal auditors to have total access to audit should be stated in the internal audit charter of the organization.

Budgetary status of the internal audit

The audit activity must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control of the organization under audit because the budget impacts the audit activity's capacity to carry out its duties. The efficiency and effectiveness of internal audit unit depends on the availability of resources. Inadequate resources will limit the scope of audit work.

IIA (2009:2030) states that the chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. The required resources needed by the internal audit unit are normally determined at the early stage of audit plan so that it can be incorporated into the master budget of the organization. The audit activity must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control organization under audit because the budget impacts the audit activity's capacity to carry out its duties (Zelege, 2007). Modern auditing demands the use of appropriate technology and auditing the technology itself as audit area, developing staffs through several cost effective means like training. The opportunity to seek for outside expertise when the need arises could also enhance the work of internal audit (Zelege, 2007).

Internal audit quality

Internal auditors must possess the knowledge, skills and other competencies needed to perform their responsibilities. According to IIA (2009), knowledge, skills and other competencies is a collective term that refers to the profession proficiency required of internal auditors to effectively carry out their professional responsibilities. The knowledge, skills and other competencies would enable internal auditors to plan their audit work properly, perform and communicate on timely basis the findings and recommendations to the right people. The internal audit work includes; numerical strength and expertise of staff, the scope of service, audit planning, field work and quality review and audit communication.

Numerical strength and expertise of staff

The internal audit unit can plan, perform and communicate the findings and recommendation effectively if it has the required number of staff with requisite skills and knowledge. For internal audit to be effective, it needs to be well-resourced in order to meet quantitative and qualitative demands of the audit process. Both the quantitative of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work. Zain, Subramaniam & Goodwin (2004), argue that the size of the internal audit function as well as the extent of prior audit experience of the internal audit staff are likely to enhance the quality of the internal audit. Zain et al., (2004), explained that in a larger internal audit unit, there will be more staff and consequently it can be expected that the scope of the internal audit work covered would be much greater than in a smaller sized unit. When the internal audit staffs are inadequate, it limits the scope of work and more importantly, because audit work is time bound, the internal auditors may not be able to meet the deadline. The internal audit unit with the larger staff will provide an opportunity and flexibility of staff rotation. Given that internal audit staffs overtime are likely to develop familiarity with the operational and organizational employees, staff rotation is likely to promote a more healthy relationship, resulting in more objective audit investigation (Zain et al., 2004).

The research findings of Mihret & Yismaw (2007) also revealed that internal audit staff rotation will enhance the independence of the internal and this would contribute to effective internal audit. This assertion supports the submissions of Zain, et al (2004). The studies of Mihret & Yismaw (2007) and Zain et al., (2004) are in line with the empirical findings by Gul & Subramaniam (1994). Based on an experimental study of internal auditors, they found that internal auditors in a situation of high familiarity with operating personnel were less objective when faced with an audit conflict than those auditors in situation of low familiarity. Zain et al., (2004) further argue that the large proportion of internal staff with knowledgeable and prior audit experienced, the higher the internal audit quality. It is expected that a functional unit with experienced staff will undertake duties more effectively because they should be more competent and conversant in discharging their responsibilities based on prior work experience. For instance, when more experienced staff encounters difficulties situations or complex multi-task, they will be able to deal with such situations more quickly and effectively than their less experienced

counterparts. In addition, internal audit staffs with prior experience and expertise in auditing are also expected to provide more valuable input towards improving the internal controls of the organization. A higher proportion internal audit staff with prior audit experience should enhance the quality of the internal audit work, leading to greater propensity for external auditors to rely on internal audit work.

Due professional care

The internal audit quality also requires internal auditors to approach their work with due professional work. The internal auditors must apply the care and skills expected of a reasonably prudent and competent internal audit (IIA, 2009). The standard provides that, the internal auditors must exercise due professional care by considering the:

1. Extent of work needed to achieve the engagement's objectives
2. Relative complexity, materiality, or significance of matters to which assurance procedure are applied
3. Adequacy and effectiveness of governance, risk management and control process
4. Probability of significance errors, fraud, or non-compliance
5. Cost of assurance in relation to potential benefits
6. Objectivity and professional judgment of materiality and risk assessment

In exercising due professional care, internal auditors must consider the use of technology-based audit and other data analysis. The internal auditors must be alert to significant risks that might affect objectives, operations or resources.

Audit planning

Planning is generally considered a vital activity and includes preparing a strategic plan, annual plans and programs for individual audit assignments. For internal audit to be effective, it must have a comprehensive audit plan that defines the objectives, the scope of work over a period of time, the time schedule for individual audit assignment and the resources needed to carry out the audit work. According to Mihret & Yismaw (2007), audits plans enable the audit staff to evaluate risk and identify high-risk areas that deserve audit attention. An effective internal audit function require the head of the internal audit

office to periodically report to top management or audit committee on the internal audit activity's purpose, authority, responsibility and performance relative to its plan.

Communication

The audit work is not complete until the findings and recommendations are communicated to the right people at the right time. The internal auditors should issue a written audit report upon completion of audit and do a follow-up to ensure that recommendations are implemented. According IIA (2009:2420), audit communication must be accurate, objective, clear, concise, constructive, complete and timely. It states that; —Accurate communications are free from errors, distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and a balanced assessment of all relevant facts and circumstances.

Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvement where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action. If the final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

The internal control and structure in government institutions should provide a clear channel of communication between and within relevant entities. Management takes the responsibility for the risk of not implementing the audit recommendations; however, internal auditors owe it a duty to do a follow-up to ensure that management implements the recommendation (Walker, 1996). Keating (1995), claims that the internal audit work is only beginning when audit reports are issued. This suggests that a follow-up is critical to bring about outcomes. If a follow-up is weak or absent, the impetus gained by audit recommendation will be lost and the credibility of internal audit will suffer (Mihret & Yismaw 2007). This suggests that, no matter how well the internal auditors have planned

and performed the audit; how significant the findings, the report may fall into disuse unless the audit report is of high professional quality to motivate the readers to take corrective measures concerning the deficiencies cited. In addition, since auditors use the audit reports for a preliminary review in subsequent audits, improved quality of the report will have a positive contribution to the quality of subsequent audits. It is good to allow for flexibility of preparing audit report.

Fieldwork and quality review

Fieldwork involves performing the task identified in the audit programs to collect evidence for assessment of the auditee's current operation considering audit criteria. The fieldwork should be recorded in audit working papers in a consistent and standardized manner. The IIA (2009) also requires the internal auditors to develop and document work program that achieve the engagement objectives and the information must be sufficient, reliable and useful to achieve engagement objectives. The IIA interpreted sufficient information as being factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques.

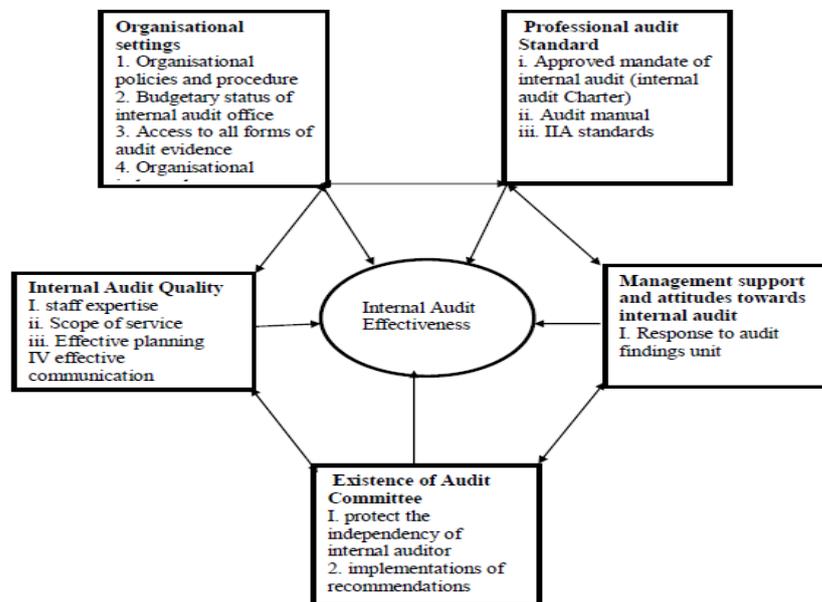
Scope of service

This covers the areas of operation by internal auditors in an organization. This is normally defined in the internal audit charter. The independence of internal auditors will be impaired if the management defines the scope of audit work for them. To improve the quality of internal audit, the scope of service should be defined by the internal audit mandate such as internal audit charter. The IIA (2009), provides that, the scope of service must be sufficient to satisfy the objectives of the engagement and if internal auditors develop reservations about the scope during the engagement, these reservations must be discussed.

The internal audit scope of work should include risk management, compliance audit, financial and regulatory audit, safeguarding, prevention and detection of fraud. The most highly performed internal audit activities with the response rate ranges from 68% to 100% include: compliance audit, financial and regulatory audit, checking budget implementation, evaluation of accounting records, protection of assets and fraud detection (Belay, 2007). However, the audit areas that internal auditors would pay attention to

depend on the objectives of the organization and the potential risk that would hinder the achievement of the objectives. The scope of internal audit work should include audit activities that would enhance good governance so as to improve public sector management.

Figure 1 Conceptual Framework: Determinants of the effectiveness of internal audit unit



Source: Institute of Internal Auditors (2009)

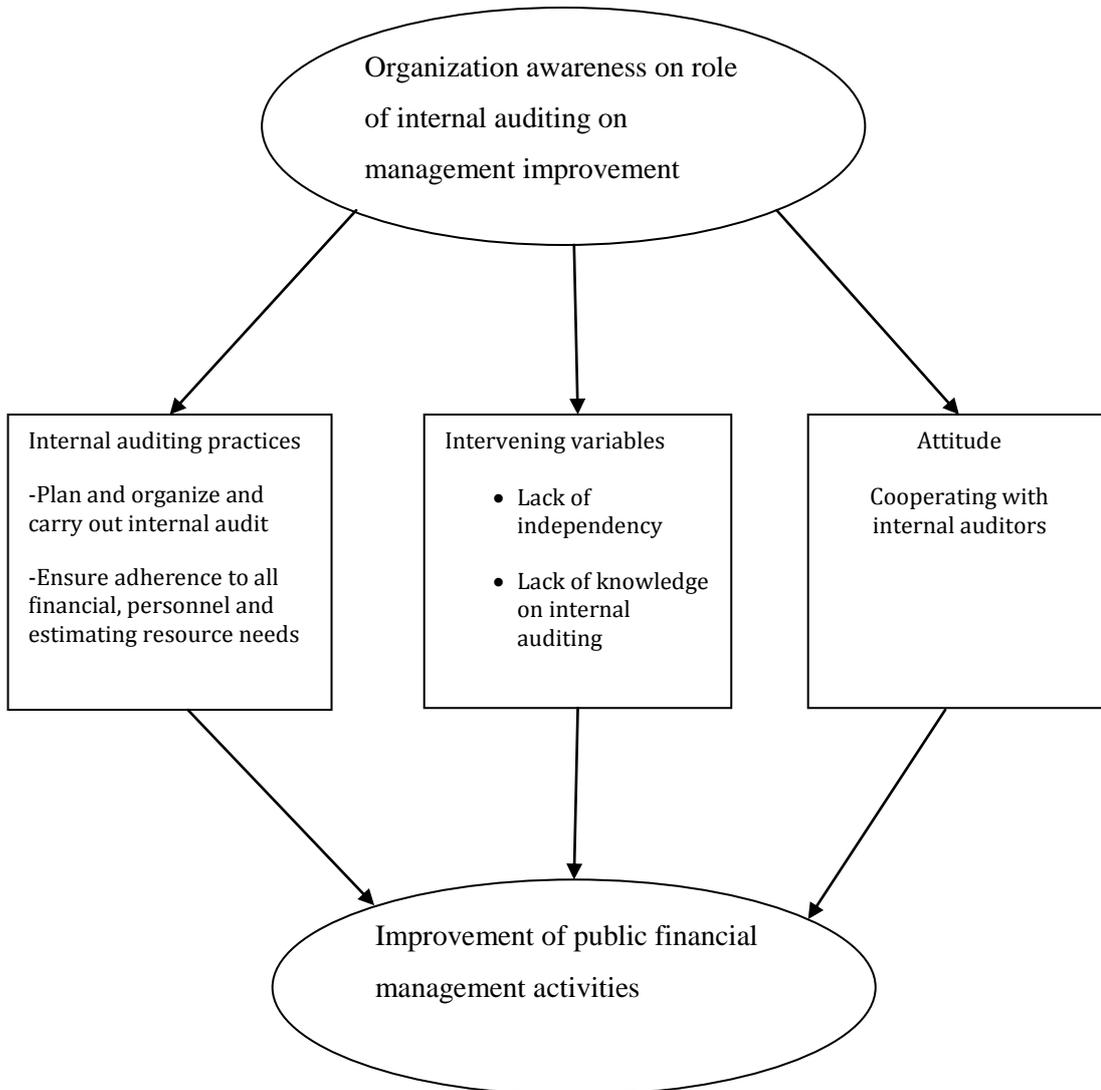
2.7.1 Conceptual framework model

Despite the fact that this is not an intervention study, this study recognized the model of intervention by Brunelle et al., (1998) as a useful tool to understand the effectiveness of internal audit in improving public management in EAE as, Owler and Brown (1999) stipulated that the objective of internal auditor is to protect management against errors of principle and neglect of duty. In summary, the model allowed to identify, understand and organize thought about the implementation internal auditing functions in public sectors.

In this study, internal auditing effectiveness in involvement in KTC financial management activities are examined under the influence to intervening variables such as availability of enough and knowledgeable staff personnel, internal auditing independency. The

theoretical aspects covered in the model include whether Internal Audit department in Kibaha Town Council is adequately staffed to perform its role effectively in such institution, internal audit involvement in KTC financial management activities and how that may influence KTC goals achievement and persistent existence of frauds and fraudulent activities in KTC despite the existence and adequate functioning of Internal Audit Departments. Involvement of internal auditing in KTC financial management activities serves a major management control tool and provide an assurance to management that the financial information furnished to management to aid decision making is reliable, accurate and based on reliable records and where otherwise to draw the attention of management to deficiencies in the organization or system of internal control and to highlight areas of management practices requiring corrective actions.

Figure 2 Conceptual framework on contribution of internal auditing in improving public sector management



Source: Adopted and Modified from Brunelle, Drouin, Godbout and Tousignant (1999)

The figure 1 indicates that involvement of internal auditing in financial management activities will not be effective if intervening variables are not well managed (Brunnelle, et al., 1998). For internal auditors to be effective, certain inputs must be made available. For example, Internal Audit assists members of the executive and senior management in the effective discharge of their duties and responsibilities. This allows them to be furnished with an analysis appraisal, recommendations, counsel and information concerning the

activities reviewed. All this need to have internal audit furnished with enough and well educated staff.

The audit function has become an integral part of government financial management and an instrument for improving performance in the public sector. Internal audit undertakes reviews of individual systems and processes and consequently makes recommendations to heads of public sector entities on how internal controls could be improved. The internal audit function is in a good position to help senior management of public institutions to identify risks, suggest risk management strategies and, ultimately, provide assurance that the risks are being appropriately managed. Based on the Audit Committee, on the one hand internal auditing contribute as an instrument of improving management of the council by: Bringing best practice ideas about internal controls and risk management processes to the audit committee; providing information about any fraudulent activities or irregularities (Rezaee and Lander, 1993); conducting annual audits and reporting the results to the audit committee and encouraging audit committee to conduct periodic reviews of its activities and practices compared with current best practices to ensure that its activities are constituent with leading practices.

This charter discussed the history and evolution of internal audit, role of internal auditor, internal control and internal audit, external audit and internal audit and conceptual framework which includes: Presence of Audit committee, Organizational Settings, Approved audit mandate and standards, Management support and Internal audit quality as some of the factors that ensure the effectiveness of internal audit function in the public sector.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research design, the target population, the sample size and procedures that were used to select the sample elements. It covers the research instruments and the procedure for collecting the primary data and secondary data as well as provides the methods that were used to analyze the collected data.

3.2 Research Design

The study used a case study design whereby the research study had the opportunity to triangulate information from multiple sources of data such as interviews, observations and documentary sources. However in some situation the use of survey was also preferred in order to capture the quantitative aspects of the study such as the understanding of the frequency of phenomenon being studies and the preferences attached to it. In the survey, questionnaires were employed to collect the relevant data. Thus both qualitative and quantitative research approaches was used (Best and Khan, 2006). The rationale this methodological choice is that this research aimed at conducting an in depth analysis of the effectiveness of internal audit as an instrument for improving management in Kibaha Town Council.

3.3 Area of the study

Kibaha Town Council was study area. Kibaha district covers an area of about 1,812 totals Sq. Kms. Kibaha District is one of the 6 districts of the Coast Region Tanzania. The district is bordered to the North by the Bagamoyo District, to the East by Dar-es-Salaam, to the South by the Kisarawe District and to the West by the Morogoro Region.

Kibaha Town Council established on 17th September,2004 under Act 7 & 8 of 1982 Section 8 & 9 of the Local Government (Urban /District Authorities) under the Ministerial establishment GN No. 352 dated 19/4/2004 and Certificate of establishment was issued by Clerk of the National Assembly on 17th October,2007.

The Council is under the supervision of the Ministry of Local Government under the Prime Minister's Office. The running of the Council is vested on the councilors of 12

members who are either elected or nominated in accordance with section 19 of the Act. The day to day running of the affairs is on the Council Director.

Kibaha Town Council is a Grade One Council .The head office of the council is located at Kibaha. The area of the Council is 750 kilometer square. According to the 2002 census, the Council population is 78,295; 38,846 being women and 39,448 being men. The Council has 3 divisions and 13 wards consisting of 53 Mitaa and 25 villages.

3.4 Targeted population

Population is the group of individuals having one characteristic that distinguishes them from other groups (Best & Khan, 2006; Creswell, 2005). The target population denotes where the actual list of sampling units from which the sample is selected (Creswell, 2005). In this study, the targeted population is as shown in the Table 3.1 below.

Table 3. 1 Composition of the Targeted population

S/N	Respondent categories	Total
1	Executive Director	1
2	Deputy Director	1
3	Human Resources officers	5
4	Chief Accountant	1
5	Accountants	10
6	Internal Auditors	4
7	Audit Committee	5
8	Cashiers	2
9	Head of Departments	10
	Grand Total	39

Source: Kibaha Town Council, 2014

3.5 Sample Size

The sample size of this study is 27 respondents selected from different categories of the population as indicated in Table 3.2 below.

Table 3. 2 Sample Size in relation to target population in each category

S/N	Respondent categories	Target Pop (as per Table 3.1)	Sample size in each pop. category	Sampling selection procedure
1	Executive Director	1	1	Purposive
2	Deputy Director	1	1	Purposive
3	Human Resources officers	5	3	Simple random
4	Chief Accountant	1	1	Purposive
5	Accountants	10	5	Simple random
6	Internal Auditors	4	4	Purposive
7	Audit Committee	5	5	Purposive
8	Cashiers	2	2	Purposive
9	Head of Departments	10	5	Simple random
	Grand Total	39	27	

Source: Kibaha Town Council, 2014

3.6 Sampling procedures

Sampling procedure is the process of selecting a given number of the subjects, in this research; two sampling procedures were employed, namely: simple random and purposive sampling techniques.

3.6.1 Purposive Sampling

This method was used to select 14 respondents due to the importance of their positions in the council. Respondents who were selected using purposive sampling techniques were Executive Director; Deputy Director, Chief Accountant, Members of the audit committee, internal auditors and cashiers (see Table 3.2)

3.6.2 Simple Random Sampling

Other 13 respondents were from the population category which provided equal chance for the subjects to be selected into the study sample, therefore for them simple random sampling was the appropriate technique for their selection. Those who were selected through simple random sampling were human resource officers, heads of the departments in the council and those employees who work in the accounting unit of the council (see Table 3.2).

3.7 Data collection methods and instruments

The data in the study were collected through the following techniques:

3.7.1 Questionnaire

This was the main instrument for data collection where both open and closed ended questions were constructed for the purpose of gathering information of the respondents. All 27 respondents were provided with the questionnaires to fill. This provided them with the opportunity to express their views and opinions without being interrupted.

3.7.2 Interviews

Interviews were viewed to be significant to collect information and data from the council director, chief accountant and internal audit staff. These respondents, apart from being provided with the questionnaires it was viewed that it was important to hear their opinion and attitudes in respect to the effectiveness of the internal audit as an instrument for managing the local government authorities.

3.7.3 Observation

In some other cases the researcher had the opportunities to view how the internal audit staff performed their duties including the challenges they encountered in their daily functioning in Kibaha Town Council.

3.7.4 Documentary Review

Council audited reports were reviewed to see what was commented and whether there were any actions the council management took to alleviate the challenges or problems.

The minutes of the various meetings of the council audit committee were reviewed to see what were deliberated in the meetings to ascertain whether they aimed at enhancing the effectiveness of the internal audit department of the council.

3.8 Validity and reliability

According to Berg and Gall (1989), validity is the degree by which the sample of test items represents the content of test is designed to measure. Content validity which was employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Mugenda and Mugenda (1999) contend that the usual procedure in assessing the content validity of measure is to use a professional or expert in a particular field.

The study was undertaken with great care to ensuring that the findings are reliable and valid. In every stage during data collection process, all key individuals in the council who are involved with the internal auditing were involved in the data collection process and their views were the ones which formed the key findings of this research. After the analysis of the data, the outcome was taken back to the council for the few selected respondents to go through the report and comment whether it reflected what they provided when they filled the questionnaires as well as their responses to the interview questions.

3.9 Ethical considerations in this study

Consideration of ethics and values in research reminds the researcher's responsibility for acknowledging, keeping the public informed and protecting the privacy and welfare of human subjects (Mason & Bramble, 1997). In this light, anyone who enters into research activities needs to adhere to ethical obligations. During this study, the researcher observed all necessary research rules, regulations, and responsibilities during the preparation and conduction of research in the field. Therefore, attention was adhered to in obtaining consent from each respondent and assurance of confidentiality was given to all respondents. Other scholars' ideas were acknowledged accordingly.

3.10 Data analysis techniques

Once the data is collected it was checked for completeness ready for analysis. The data from the field was first coded according to the themes researched on the study. The research is both quantitative and qualitative in nature. This implies that both descriptive statistics and conceptual content analysis was employed. Analysis was done with aid of the statistical package for social sciences (SPSS) package version 19.0. Descriptive statistics generated such as percentages, mean scores and proportions was presented in tables, charts and figures. Qualitative data from open questions was presented in text. The researcher also used a multivariate regression analysis to determine the relationship between the independent variables and the dependent variable. The regression equation was;

$$IAE = b_0 + b_1 COMP + b_2 SIZE + b_3 IC + b_4 MSUP + b_5 IND + e_i$$

Where:

IAE = internal audit effectiveness

COMP = competence of the internal audit department

SIZE = size of the internal audit department

IC = Internal Control

MSUP = management support for internal audit

IND = independence of the internal audit department

CHAPTER FOUR

RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

The chapter presents the research findings and their discussions. In this regard, the research objectives form the foundation upon which the research data are revealed and discussed. The chapter highlights the roles of the internal audit department and the way the department performs its roles. Thereafter the chapter notes the challenges encountered by the internal audit department and the way forward towards improving the functioning of the internal audit department in the local government authorities. The presentation of data basically focuses on KTC as a case being studied.

4.2 Research Findings

This chapter presents a summary of the findings of the study. The conclusions to the main issues of the study and recommendations are also established. The public demand accountability and transparency from government and the government can protect itself by improving the internal audit unit procedures that will provide some level of assurance that government is not wasting public resources. The recent economic melt-down further called for improving internal audit units. In response to this crisis, the IIA has issued auditing standards to guide the auditing and accounting profession in the public sector and countries are expected to develop their own public auditing standards by considering the local environment and keeping it consistent with the internal perspective.

4.2.1 The Role of Internal Audit at Kibaha Town Council

Evaluation of internal control system

Through this role, the internal audit department has to ensure that the whole process of payment and receipts are done correctly. For instance, they make sure that the payment vouchers have the entire supporting document before they go to the final payment. Hence through this department they make sure that any kind of risk regarding payments is well detected before final processing.

Reporting the identified anomalies to the audit committee

From the above evaluation, the internal audit department prepares their reports and hand over to the audit committee for further procedures. There after the audit committee address the issue to the management and make sure that all the issues raised by the internal audit department are well replied. Not only the internal queries but also the external queries regarding to the council are well replied. By doing this, have enable the council for the last six years have maintain a good report “Unqualified Report” for the Controller and auditor general

Risk assurance

Evaluates and provides reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the Council Management’s objectives and goals to be met

Council sustainability evaluation

Evaluate The Council’s sustainability in providing service to the community. Through internal audit department has managed to ensure that below services under the table have reached to the society successful.

Projects	When was it evaluated
Water sector project	Financial year 2011/2012
Health sector project	Financial year 2012/2013
Education sector project	Financial year 2012/2012
Environmental Project	Financial year 2012/2013

Source: Kibaha Town Council, 2014

Continuous education and staff development

Through this role, the internal audit department has enabled the staff to be aware of the council activities on how they are conducted. For instance the accountants are being aware on all the procedures about the chain of the payment and hence the council has managed to achieve their goals successful. Through educating the staffs, the same knowledge has been able to be reached to the community as well.

Maintaining open communication

Through this role, the internal audit department has to ensure that the management is well informed on the trend of financial management. The same is done to the council audit committee. This role also ensures that both the management and the audit committee are informed on the sustainability of the council development projects for the well being of the communities in general

4.2.2 Effectiveness of Internal Audit in improving public sector management

The study was inquisitive to determine effectiveness of the internal auditing in improving public sector management. For easier understanding the researcher provided a scale of 1-6 where 1 represented poor (ineffectiveness) while 6 represented excellent (very effectiveness). From the findings, most of the respondents indicated that internal audit is effective as indicated by mean score of 4.32, internal auditing suggest that management support for internal audit is also effective and provide assurance that internal control is appropriately managed effectively as depicted by mean score of 4.26 as in each case. Respondents pointed that risk monitoring was effective due to application of internal auditing in risk management as illustrated by mean score 4.03. Further respondents indicated that competence of internal audit department and management performances were ineffective as illustrated by mean score of 3.97 and 3.53 respectively. Based on the assessment of ethics and values within the council, size of the internal audit and unplanned informal reviews of other areas of concern including unacceptable levels of risk were effective as depicted by mean score of 3.74, 4.00 and 3.53 respectively. This reveals that application internal auditing within Kibaha Town Council effectively helps in improving public sector management.

Table 4. 1 Effective of Internal Audit in improving public sector management

	Mean	Standard Deviation
Internal audit effectiveness	4.00	0.735
Competence of the internal audit department	3.97	0.716
Size of the internal audit department	4.00	0.697
Risk Monitoring	4.03	0.753
Internal Control	4.26	0.891
Management support for internal audit	4.26	0.644
Assess ethics and values within KTC	3.74	0.828
Assess management performance and improvement	3.63	1.195
Independence of the internal audit department	4.32	0.662
Unplanned and informal reviews of other areas of concern, including unacceptable level of risk	3.53	0.862

Source: Kibaha Town Council, 2014

4.2.3 Effectiveness of Internal Audit in Internal Control

Table 4.2 depicts the summary of the findings on the effective of internal audit in internal control. According to the findings, respondents pointed that assessment of internal control framework was effective as depicted by mean score of 4.24, accounting information and communication and reviews of individual systems and processes were also effective as pointed by mean score of 4.16 as per each case. Internal control provide financial controls effectively as shown by mean score of 4.00, ongoing and independent reconciliation of all balances, control information within KTC, Methodical examination of budget processes and connected controls, Operational policies controls, Managerial controls and provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process were also effective as shown by mean score of 3.97, 3.95, 3.87, 3.82, 3.66 and 3.63 respectively. This implies that internal auditing as an instrument of improving management of KTC influences internal control operation of the council to a great extent.

Table 4. 2 Effective of Internal Audit in internal control

	Mean	Standard Deviation
Review of individual systems and control	4.16	0.916
Provide financial control	4.00	0.900
Managerial control	3.66	0.938
Operational policies controls	3.82	0.955
Control information within the KTC	3.97	0.753
Accounting information and communication	4.16	0.823
Assessment of internal control framework	4.24	0.852
Methodical examination of budget processes and connected controls	3.87	0.906
Provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making processes	3.63	0.751
Ongoing and independent reconciliation of balances	3.95	0.899

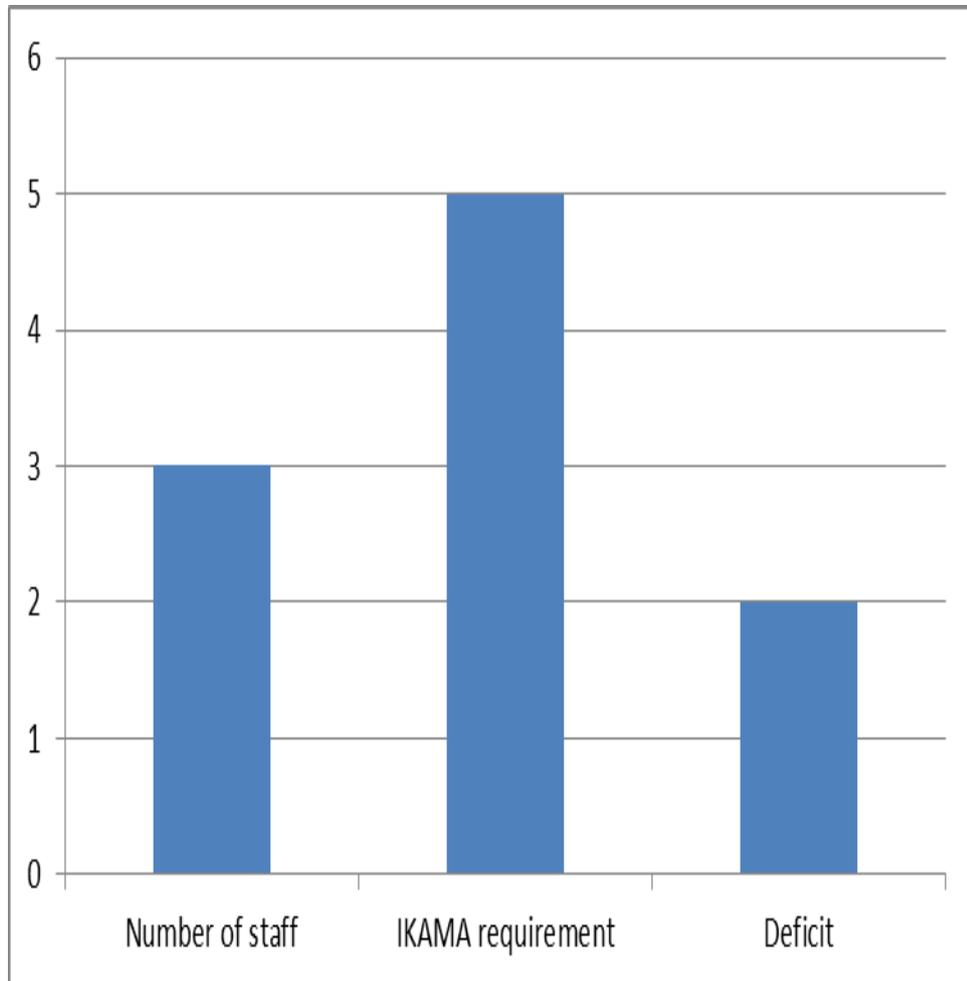
Source: Kibaha Town Council, 2014

4.3 Challenges encountered by the Internal Audit Department at KTC

Few numbers of Staff

There is inadequate allocation of staff and other resources that correspond with the Internal Audit needs. Kibaha Town Council staff establishment requires the Internal audit unit to have five staffs however the KTC Internal Audit Unit is having three staffs which results to the in accomplishment of the annual Internal Audit plan. The following chart below shows the summary of the staff that KTC has on the Internal Audit Unit and the requirement according to the staff requirement that is referred to as IKAMA requirement.

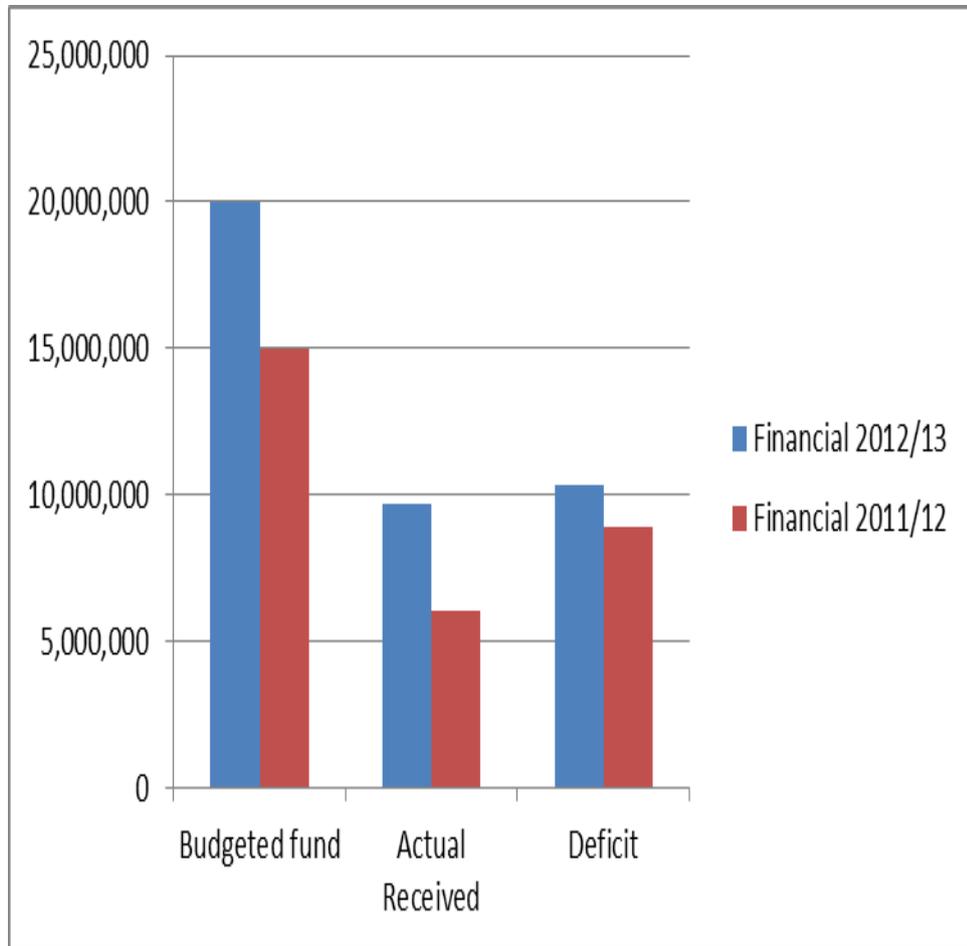
Figure 3 Available staff vs. IKAMA requirement



Lacking Budget

The Internal Unit of KTC depend mostly on Local Government Grant which despite of coming late but comes below budget. However, they also depends on the own source contribution. The below chart shows the actual vs budget of the budget being given to the internal audit department.

Figure 4 Planned budget vs. Approved budget



Uncompleted of Annual plan: Due to the scarce resource available the Internal Audit Unit fail to accomplish its annual plan. The followings are the activities that were not being able to be completed due to the shorted staff shortage, insufficient resources under the financial year 2013/2014.

s/no.	Department unit	Audit activity	Audit objective
1.	Livestock keeping	Availability of sound and adequate system for the transportation of livestock for collection of animal taxes and council cess.	To ascertain the soundness and adequacy of the system in place
2.	Land and urban settlements	Absence of council land utilization plan within the council jurisdiction.	To ascertain whether there is an established and maintained plan for the utilization of the land.
		Lack of maintenance of proper record regarding issued title deeds	To ascertain whether proper records are maintained
		Non-compliance with laws when resolving land conflicts	To ascertain compliance with related laws and regulations
		Ability of the council management in collecting the cess relating to land	To ascertain whether the adequate and reasonable amount of cess is budgeted and collected as required.
3.	Agriculture-DADPS	Workability of ward resources center at Kibuta, Msimbu, Mafumbi, and Mzenga	To ascertain whether the community does receive the service as intended by the Government.
4.	TASAF	Distribution of the funds to the villages and the general management of the sub projects at the villages	To ascertain whether: <ul style="list-style-type: none"> i. Distributions of the fund do comply with the TASAF guidelines. ii. Projects do comply with sector norms. iii. There is proper coordination between VFC, HODs, CMCs and VCs.
5.	Administration	Contract management to WEOs office at Chole, Kibuta and Mzenga.	To ascertain whether value for money had been achieved during the implementation of those projects.

Lack of Independence: Internal Audit Unit is reporting to the Town Executive Director (TED) of KTC who is the head of the Council of which Internal Audit Unit is auditing. TED is signing all internal audit reports submitted to the Resident Auditor of National Audit Office and Internal Auditor General, this lead to the removal of some observation which has a great impact to the Council.

4.3.1 Mechanisms deployed by KTC in redressing the challenges

The management of Kibaha Town Council through human resource department have make sure the shortage of the staff is solved by reminding the PMORALG to recruit more staffs so that they can obtain the requirement according to the IKAMA. However, mean time KTC has taken a trouble through staff reshuffling to give a backup the internal audit department so that to ensure that their work is done according to their schedule. Apart from reshuffling, the management has allowed the internal audit unit to work more on extra hours and by doing so they are going to be paid an extra duty payment for the extra hour added

4.4 Analysis of the Research Findings: Inferential Analysis

To establish the relationship between the independent variables and the dependent variable the study conducted inferential analysis which involved coefficient of correlation, coefficient of determination and a multiple regression analysis.

4.4.1 Coefficient of Correlation

To compute the correlation (strength) between the study variables and their findings the study used the Karl Pearson's coefficient of correlation (r). From the findings, it was clear that there was a positive correlation between internal audit effectiveness and internal control as shown by a correlation figure of 0.5834, it was also clear that there was a positive correlation between internal audit effectiveness and risk monitoring with a correlation figure of 0.5141, it was also clear that there was also a positive correlation between internal audit effectiveness and management support with a correlation value of 0.7463. This shows that there was positive correlation between internal audit effectiveness, internal control, risk monitoring and management support at KTC

Table 4. 3 Coefficient of Correlation

		Internal audit effectiveness	Internal controls	Risk Monitoring	Management support
Internal audit effectiveness	Pearson Correlation	1			
	Sig.(2-Tailed)				
Internal controls	Pearson Correlation	0.5834	1		
	Sig.(2-Tailed)	0.0033			
Risk Monitoring	Pearson Correlation	0.5141	0.3424	1	
	Sig.(2-Tailed)	0.0021	0.0014		
Management support	Pearson Correlation	-0.7463	0.1240	0.623	1
	Sig.(2-Tailed)	0.0043	0.0120	0.0042	

Source: Kibaha Town Council, 2014

4.4.2 Model Summary

The coefficient of determination was carried out to measure how well the statistical model was likely to predict future outcomes. The coefficient of determination, r^2 is the square of the sample correlation coefficient between outcomes and predicted values. As such it explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (internal audit effectiveness) that is explained by all the three independent variables (risk monitoring, internal controls and management support).

Table 4. 4 Model Summary

Model	R	R square	Adjusted R square	STD Error Estimate
1	.814	.663	.369	.213

Source: Kibaha Town Council, 2014

The four independent variables that were studied (Risk monitoring, Independence, internal control, management support) explain only 66.3% of internal audit effectiveness in KTC as represented by the R square. This therefore means that the three independent variables

contribute about 66.3% on internal audit effectiveness as a an instrument for improving management at KTC while other factors not studied in this research contribute to 33.7% internal audit effectiveness at KTC.

4.4.3 Multiple Regression Analysis

The researcher further conducted a multiple regression analysis so as to identify effectiveness of internal audit as an instrument for improving management in the public sector KTC being the study case. Multiple regressions is a statistical technique that allows the study to predict a score of one variable on the basis of their scores on several other variables. The main purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Table 4. 5 Coefficients of Multiple Regression Analysis

Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	STD error	Beta		
1	Constant	0.329	0.291		1.131	0.282
	Internal Control	0.073	0.069	-0.252	-1.010	0.334
	Risk monitoring	0.058	0.085	-0.131	-0.606	0.557
	Management support	0.291	0.088	0.555	2.329	0.040

Source: Kibaha Town Council, 2014

A Dependent Variable: Credit Availability

The regression equation, $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \alpha$ becomes:

$$Y = 0.329 + 0.073X_1 + 0.058X_2 - 0.291X_3$$

Where Y is the dependent variable (audit effectiveness), X1 is Internal controls, X2 Risk monitoring, X3 is credit terms and X4 management support.

From the regression equation established, taking all other factors (Risk monitoring, internal controls and compliance and management support) constant at zero, internal audit effectiveness within KTC would be 0.329. Further, if all the other variables are kept constant, a unit increase in internal controls will lead to a 0.073 increases in internal audit

effectiveness at KTC. A unit increase in risk monitoring will lead to a 0.058 increases in internal audit effectiveness at KTC while a unit increase in management support will lead to a 0.291 increase in internal audit effectiveness at KTC.

4.5 Summary and Interpretation of Findings

From the study findings it was clear that internal auditing is effective in risk management in assess communication, suggest risk management strategies and provide assurance that the risks are being appropriately managed, risk monitoring and risk mitigation and risk identification. This is in agreement with earlier findings by Brunelle et al., (1998) that effectiveness of internal audit in improving public management as Owler and Brown (1999) stipulated that the objective of internal auditor is to protect management against errors of principle and neglect of duty. Also plays a unique role in improving management of public sector by monitoring organizational risks and ensuring that organizational processes are efficient and effectively controlled. On the same risk assessment, assess ethics and values within the organization, assess performance management and unplanned and informal reviews of other areas of concern, including unacceptable levels of risk were effective. This is consistent with Spira & Page (2003) who found that the internal audit activity evaluates risk exposures relating to the organization's governance, operations and information systems, in relation to; effectiveness and efficiency of operations, reliability and integrity of financial and operational information, safeguarding of assets and compliance with laws, regulations, and contracts. Jackson (2000) also observed that the idea of risk had become essential to the improvement of management in the public sectors and become connected to the idea of internal controls.

Further, the study found that assessment of internal control framework, accounting information and communication and reviews of individual systems and processes, Internal control provide financial controls, ongoing and independent reconciliation of all balances, control information within the organization, methodical examination of budget processes and connected controls, operational policies controls, managerial controls and provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process were effective aspect in internal control due to application of internal auditing. This is in line with CAI (1997) who indicated that by measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an

important managerial control device, which is directly linked to the organizational structure and the general rules of the business. Herdman (2002) also stated that an effective internal audit function is “crucial to the success of a company in stopping frauds and abuse and in the preparation of accurate financial statements.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

Internal auditing has been established as an essential means for the proper management of business economic resources. The internal audit function for the public sector has received wide attention in recent years. The rationale is that it provides checks for the operations of the public sector institutions, of which local government authorities are part. Since the local government authorities in Tanzania are the institutions which are at the local level for citizens' welfare, the internal audit department in the LGAs like KTC is in place to ascertain that the value for money in the council operations is adequately achieved and the citizens are well served.

5.1 Conclusions

5.1.1 Roles of internal audit department at KTC

The study sought to find out on effectiveness of internal audit as an instrument for improving management in the public sector. Based on the study finding, the study concluded that internal auditing is effective in evaluation of internal control system, reporting the identified anomalies to the audit committee, risk assurance, Council sustainability evaluation and Maintaining open communication

On effectiveness of evaluation of internal control system, the study concluded that assessment of internal control framework, accounting information and communication and reviews of individual systems and processes, Internal control provide financial controls, ongoing and independent reconciliation of all balances, control information within the organization, methodical examination of business processes and connected controls, operational policies controls, managerial controls and provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process were effective.

To the aspect of risk assurance, the study found that suggestions for more helpful and competent use of resources, appraisals of the achievement of corporate goals and objectives, advice and comment on devotion to the values and code of conduct/code of

ethics of the organization and disbursements and comply with specified procedures within the organization were effective.

Further the study concluded that discipline, transparency and accountability, responsibility, independence and fairness had improved within local government.

It was also clear from the findings that the internal auditors receive little support of management and the organisation settings are restricting their work. The internal auditors lack experience and expertise to provide quality work. There is no audit committee and internal audit charter in some assemblies to enhance the independence of the internal auditors. It can be concluded from these evidences that, the units are not effective in ensuring good corporate governance system in the council

5.1.2 Effectiveness of the internal audit department at KTC

The success of the internal audit unit in delivering good corporate governance, as stated in the findings, depends on the following; Internal audit effectiveness, Competence of the internal audit department, Size of the internal audit department, Risk Monitoring, Internal Control, Management support for internal audit, Assess ethics and values within KTC, Assess management performance and improvement, Independence of the internal audit department and Unplanned and informal reviews of other areas of concern, including unacceptable level of risk

Management support

As per the professional standards of Institute of Internal Auditors, management support is one of the key areas that will ensure effective delivery of internal audit service in the public sector

Internal audit quality

The quality of internal audit is one of the determinants of the effectiveness of the internal audit as an instrument for improving management in the public sector. The internal audit quality demonstrates the capability of the unit to provide useful audit findings and recommendations. This covers the expertise, strength and experience of the internal audit staff; reasonableness of the scope of service and effective planning, and execution and

communication of internal audits. To assess the internal audit quality, questionnaire and an interview were used to obtain evidence. Other documents such as audit plan, audit report and engagement letter were also reviewed to support the evidence.

Expertise, strength and experience of internal audit staff

Evidence from the study shows that KTC has an average of three (3) internal audit staff. However, through questionnaire and interviews 65% of the respondents expressed that the number is adequate while 35% of them stated the number is inadequate. Moreover the 2 staff has a Diploma, and 1 has other qualifications. However, none of them is a qualified accountant. Short-term courses and in-service training are necessary to upgrade the competences of the internal auditors. However, the council is not doing much in this regard. The professional qualities that the internal auditors should possess include competencies, objectivity, and professionalism, independent attitude of mind, good judgment, integrity and confidentiality.

Scope of service

The questionnaire responses and a review of audit reports reveal that the internal auditors concentrated on compliance of law and regulations; assessing reliability and soundness of financial information; evaluating of accounting errors and fraud detection. However, the internal auditors pay less attention to risk management, evaluation of project and productivity. This could be due to lack of experience and expertise to cover these areas.

Audit plan

The internal audit units in the council have 3-year strategic plan and this is executed on the basis of annual plan. Even though, the units have annual plan, most of their audit activities are determined by Town executive director. This evidence suggests that the units do not work according to their plan.

Audit communication

The internal audit units prepare comprehensive and concise annual auditor reports. However, during the interview with the head of the internal audit stated that they do not meet the timeframe within which to submit their reports. The reasons they gave are; inadequate resources including appropriate technology, delay in having access to audit evidences. The units do not also have formal follow-up procedure to ensure whether

corrective actions are taken as per the recommendations. Though it is the responsibility of the management to bear the risk for not implementing the recommendations, the internal auditors have the responsibility to do a follow-up to find out if management values their services.

5.1.3 Challenges encountered by the internal audit department

The most challenge that will enable the internal audit department to function well according to their plan is the issue of the budget in accomplishing their duties on time. Once the management has played their role in making sure the internal audit department has obtain all the fund according to their budget, this will enable to play their role successful. However, the other challenge is the issue of inadequate resources including appropriate technology, delay in having access to audit evidences. Unawareness of the auditing accounting standards that the accountant uses while preparing their financial statement, this has been so difficult by the internal audit department while performing their duties.

5.1.4 Mechanisms to redress the challenges

The management of Kibaha Town Council through human resource department have make sure the shortage of the staff is solved by reminding the PMORALG to recruit more staffs so that they can obtain the requirement according to the IKAMA. However, mean time KTC has taken a trouble through staff reshuffling to give a backup the internal audit department so that to ensure that their work is done according to their schedule. Apart from reshuffling, the management has allowed the internal audit unit to work more on extra hours and by doing so they are going to be paid an extra duty payment for the extra hour added

5.2 Recommendations

Few numbers of Staff

Town Human Resource Officer should make a close follow up to PMORALG to insure that the requested staffs are being provided

Budgetary status of the internal audit

The audit activity must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control of the organization under audit because the budget impacts the audit activity's capacity to carry out its duties. The efficiency and effectiveness of internal audit unit depends on the availability of resources. Inadequate resources will limit the scope of audit work. The Town Planning Officer should make sure that the KTC own source collection is contributing to the internal audit budget.

Other recommendation

1. The internal audit units need to be adequately resourced including the use of appropriate technology. The availability of resources would enable the internal auditors to do quality work within the timeframe.
2. There should be regular in-service training and short term courses for internal auditor. This would help them to upgrade themselves in order to meet challenges of modern internal audit.
3. The internal auditors should be given high status in the council so that they can not be manipulated by management. The chief internal auditors should be placed at a level that is recognized in the council, preferable the level with the fiancé officers and other key influential persons in the assemblies.
4. The internal audit agency should monitor the internal audit units on regularly basis. Monitoring would help the agency to know whether the units achieving the desired results. Monitoring includes addressing internal audit findings and recommendations and ensures that the council management to take corrective actions.
5. It is also recommended that the internal auditors should not stay in a particular assembly for more than two years. This is also necessary to enhance their independence.
6. The work of the internal audit units should not be decided by the Town executive director. The unit should be autonomous to decide what auditing activities to carry out. When Town executive director define the work of internal audit, the scope of the unit would be limited and the independence of the auditors would be at risk.

5.3 Limitations of the Study

The researcher encountered various limitations that were likely to hinder access to information that the study was looking for. The main limitation of study was its inability to include more public institutions across the Country. This was a study focusing on the local government. The study could have covered more institutions across public sector so as to provide a broader based analysis however time and resource constraints placed this limitation.

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about their council. The researcher handled the problem by carrying an introduction letter from the University and assured them that the information they gave would be treated confidentially and it would be used purely for academic purposes.

The small size of the sample could have limited confidence in the results and this might limit generalizations to other situations.

Reluctance to respond to questionnaires was another limitation in collecting the required data for the study. This was due to some reservations held by the target population. This hence would have led to generalization during the analysis and presentation of the data made from those who responded to represent the views of the rest of the respondents. The researchers countered the limitation by making prior arrangements with the respondents as well as making personal calls and visits to remind the respondents to fill in the questionnaire.

5.4 Policy Recommendations

The study recommended that in order for the government to be effective in its operation and service delivery they should recognize contribution of internal auditing. Additionally, the study recommended that for the local government to be effectively mitigate risk they should apply internal auditing in its operation. On effectiveness of internal auditing on internal control, the study recommended that all council should apply internal control in its operation to ensure effective operation. Likewise the study recommended that

government to accept internal auditing as a tool for effective internal control so as to realize their objectives set with ease. To the internal control in compliance and consult, the study recommended that council to outsource for internal auditing services in order to improve on their performance and create trust among their clientele (citizens). Inclusively, the study recommended that for effective service delivery government authority should comply with the internal auditing policies to create transparency of the public resources uses and eradicate perception that the resources are misused.

5.5 Area for Further Research

My research seems to suggest that the further research should be done on the way the Government is doing on addressing the issue of providing full Independence to the Internal Audit Units.

The study also suggested further research to be done on effectiveness of internal auditing to the private organization in order to depict reliable information that illustrates real situation in both public and private sector organizations.

REFERENCES

- Abbott, L. J., S. Parker, and Y. Park (2000). The effects of audit committee activity and independence on corporate fraud. *Managerial Finance*: 26 (11): 55-67.
- Adeniyi A.A (2004). *Auditing and Investigations*, Wyse Associates Limited, Ikeja Nigeria. Pp.204
- Alvis A. (1961). *Auditing on Integrated Approach*. Las Vegas: the Goigrd press unit.13: 1-24.
- (AUASB)(2006). Auditing and Assurance Standards Board *ASA 240: The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report*. Melbourne:AUASB.
- Birkett, W. P., M. Barbera, B. Leithhead M.Lower and P. Roebuck. (1999). *Internal Auditing: The Global Landscape*. Altamonte Springs, FL: Institute of Internal Auditors' Research Foundation.
- Brenda, Porter,Jon Simon and David Hatherly (2001). *Principle of external Auditing*: Cooperhs and Lybrand (1991) Students Manual of Auditing.
- Cai, C. (1997) 'On the functions and objectives of internal audit and their underlying conditions', *Managerial Auditing Journal*, 12(4), pp. 247-250
- Carmichael, D.R., Willingham, J.J. and Schaller C.A. (1996) *Auditing concepts and methods*: 6th edition, McGraw-Hill.
- Chacha, .M.A,(2006). *The different type of internal audit' NBAA workshop paper on internal audit function its role and relevance*, May 2006, pp3-4 Committee of sponsoring Organization of Tread way Commission (COSSO).

- Church, B. K., J. J. McMillan, and A. Schneider (2001). Factors affecting internal auditors' consideration of fraudulent financial reporting during analytical procedures. *Auditing: A Journal of Practice & Theory* 20 (1): 65-80.
- Companies Ordinance (CAP 212) of (2002)
- Drogalas, G., Soubeniotis, D. and Fotiadis, Th. (2005) '*Conceptual Framework of Internal Auditing: theoretical approach and case study analysis*', Dioikitiki Enimerosi, pp.52-65.
- Gramling, A. A., M. J. Maletta, A. Schneider, and B. K. Church (2004). *The role of the internal audit function in corporate governance: A synthesis of the extant internal auditing literature and directions for future research. Journal of Accounting Literature Pg 23: 194-244*
- Herdman, R. (2002). Making audit committees more effective. Speech at Tulane Corporate Law Institute, March 10. Available at: <http://www.sec.gov/news/speech/spch543.htm>.
- Institute of Internal Auditors-UK (1995). *Standards for the Professional practice of Internal Audit*: Altamonte Springs.
- Jackson, G (2000), 'Comparative Corporate Governance: Sociological Perspectives', in J. Parkinson, A. Gamble & G. Kelly (Eds.), *The Political Economy of the Company*, Hart, Oxford, pp. 265 – 297
- Mussa. K. (2004) '*A critical and emergent challenge to the internal Auditors in Tanzania*' NBAA workshop paper forensic Accounting Competencies.
- Pickett (2000), developing internal Audit competence R.K. Mautz and Hussein .A. Sharat (2002) the philosophy of auditing Utouh, I.S (2006) '*The role internal audit in public sector*' NBAA workshop paper on internal audit function its role and relevance 2006 Dar es Salaam.

Spira, LF and Page, (2003), "Risk management: the reinvention of internal audit and the changing role of internal audit", *Accounting, Auditing & Accountability Journal*, Vol. 16 No. 4, pp. 640-61.

Owler L. & brown J.L. (1999): *Cost and Management Accounting Methods*, Macdonald & Evans Press London pp.39

Tracey J. (1994): *Fundamentals of Financial Accounting*, John curly and sons Inc. New York. pp.17

Vos P.M. (1997): *Auditing Practice*, Macdonald & Evans Press Ltd. London pp.72

APPENDICES

APPENDIX 1: Questionnaire to head of sections and staffs

The questionnaire intends to explore the Effectiveness of Internal Audit as Instruments of Improving Public Sector Management. It is basically for the purpose of research that intends to fulfill the requirements of the Masters of Science in Accounting and Finance (Msc A&F) program at the Mzumbe University, Dar es Salaam Business School (DBS) All information provided by respondents will be treated confidentially. However, the result of the research will be beneficial to number of stakeholders including the government, workers, employers, employees and decision makers and general public.

1. Choose one of the following which you think is appropriate answer
 - (i) Internal Audit has highly instrument of improving public sector management
 - (ii) Internal Audit has not highly instrument of improving public sector management
 - (iii) Internal Audit has less instrument of improving public sector management

2. Choose one of the following to establish the extent to which Effectiveness of Internal Audit as Instrument of Improving Public Sector Management
 - (i) 1% to 20%
 - (ii) 21% to 40%
 - (iii) 31% to 60%
 - (iv) 61% to 80%
 - (v) 81% to 100%

3. What do you consider to be the trend of Internal Audit as Instruments of Improving Public Sector Management?
 - (i) Increasing
 - (ii) Decreasing
 - (iii) No improvement
 - (iv) Constant

4. Circle any of the following which you consider to be correct statement about Effectiveness of Internal Audit (Please circle as many as apply)
- (i) Internal Audit perform it's role according to statutory law (International Standards of Auditing (ISAs)
 - (ii) Internal Audit is an independent appraisal function establish by the management for the review of the internal control system as a service to management
 - (iii) Internal Audit is in favor of management
 - (iv) Internal Audit prepare quarterly Audit report and submit to the office of CAG in compliance with PAA no 11 of 2008
 - (v) Recommendations being given by Internal Audit report implemented by management
 - (vi) Internal Audit prepare annual audit plan and approved by the board (Audit Committee)
 - (vii) Management review Internal Audit report
 - (viii) The impacts of internal Audit is proving the Public Sector Management
 - (ix) One of the role of Internal Audit is just to advice on mismanagement of funds
 - (x) Internal Audit has highly improves the public sector management
 - (xi) Internal Audit are essential but strategies are poor
 - (xii) One purpose of Internal Audit is to detect and report on fraud and other improprieties
5. Is there any significant of Internal Audit to improve public sector management? YES/NO, if the answer is YES, outline what are the activities performed by Internal Audit so as to improve public sector management
-
-
-
-
6. What do you consider to be the Effectiveness of Internal Audit of Improving Public Sector Management (Please circle)

Poor					Excellent
1	2	3	4	5	6

7. Do you consider that the roles of Internal Audit as instruments is in favor of improving public sector management

Poor					Excellent
1	2	3	4	5	6

8. What do you consider to be the challenges facing Internal Audit of improving public sector management?

.....

.....

.....

.....

9. Do you think management support the Internal Audit? If the answer is NO, why?

.....

.....

.....

.....

10. In your opinion, what do you think the Government/Management should do for Internal Audit to effectively improving the public sector management

.....

.....

.....

.....

.....

.....

.....

.....