EFFECTIVENESS OF INTERNAL AUDIT IN MANAGING LOCAL AUTHORITY FUNDS:

A CASE OF MUFINDI DISTRICT COUNCIL
EFFECTIVENESS OF INTERNAL AUDIT IN MANAGING LOCAL AUTHORITY FUNDS: 
A CASE OF MUFINDI DISTRICT COUNCIL

By

Richard Boniphace Dittu

A Dissertation Submitted to the School of Public Administration and Management in Partial Fulfilment of the Requirements for the Award of the Masters of Science in Local Government Management Degree of Mzumbe University

2015
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled;” Effectiveness of Internal audit in managing local authority funds: The case study of Mufindi District Council “in partial fulfillment for the degree of Masters of Science in Local Government Management of Mzumbe University

-------------------------------
Major Supervisor

-------------------------------
Internal Examiner

-------------------------------
External Examiner

Accepted for the Board of school of Public Administration and Management (SOPAM)

Dean, School, Board
DECLARATION

I, Richard Boniphace Dittu, declare that this dissertation is my own 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.................................................
COPY RIGHT

©

This dissertation is a copyright 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 the Mzumbe University, on behalf of the author.
ACKNOWLEDGEMENT

I thank God for keeping me to this stage which is manifestation of God’s wishes. I thank also my family of Mr. and Mrs. Boniphace Salu Dittu for being supportive during my course of this work. I also thank my wife for sponsoring my Msc. LGM studies and also the family of Mr. and Mrs. Abel Stephen Mkingwa for their support during finalisation of my studies.

I would like sincerely to thank Dr. Ernest Mwasalwiba, my supervisor, whose guidance and support encouraged me to this great stage. He was consistently supportive, tolerant and constructively challenging in the course of this study.

I extend my sincere gratitude to respondents of the questionnaire; their responses enabled me to achieve the objectives of this study. It however goes without saying that whatever limitations and shortcomings that remain are entirely my responsibilities.

Lastly, but not least, I thank my classmate, Mr. Eliezer Kiulamagulu, for his support to this last stage of my studies; regardless of other responsibilities he remained firm to make sure that my studies were completed with all hurdles in between.
DEDICATION

I dedicate this dissertation to my beloved Sister Anastazia Nmwashi Nkamba Boniphace Dittu who passed away on 13/07/1988 when I was 13 years old; may her soul rest in eternal peace.
LIST OF ABBREVIATIONS AND ACRONYMS

AcGEN  Accountant General
AOs    Accounting Officer
CAE    Chief Audit Executive
CAG    Controller and Auditor General
CD     Council Director
CEO    Chief Executive Officer
CIA    Chief Internal Auditor
COSO   Committee of Sponsoring Organizations
IAA    Institute of Internal Auditors
IAU    Internal Audit Unit
ICS    Internal Control System
IIA    Institute of Internal Audit
LAFM   Local Authorities Finance Memorandum
LGRP   Local Government Reform programme
MDAs   Ministries, Independent Departments and Executive Agencies
MDC    Mufindi District Council
MU     Mzumbe University
NBAA   National Board of Accountants and Auditors
PFR    Public Finance Regulation
PPRA   Public Procurement Regulation Authority
TIAS   Tanzania Internal Audit Services
URT    United Republic of Tanzania
ABSTRACT

The objective of the study was to determine the effectiveness of Internal Audit units in Local Government Authorities in managing LGA funds: The case of Mufindi District Council.

The research was conducted through a series of data collection phases using observation, interview and questionnaires. Most of the respondents were from Accounting and Auditing sections.

The results showed that internal audit units in the LGAs were not effective; their effectiveness was affected by several factors; including the independence of internal auditors, roles of audit committee, and resources to internal auditors, due care, training and promotion. These factors then affect effectiveness of internal audit unit; as a result they weaken the management of local authority funds in the Local Government Authorities.

To address the problem, various recommendations from literature and others from respondents were obtained; they include: strengthening the independence of internal auditors, improvement of Audit committee functions and compositions, improving communication right of Internal Auditors, increasing resources to internal auditors, improving access of information to internal auditors, complying with International Professional Practice Framework (IPPF) by IIA, improving communication of CAG and internal auditors and needs for representation of CAG in audit committee meetings.
TABLE OF CONTENTS

CERTIFICATION .................................................................................. i
DECLARATION .................................................................................. ii
COPY RIGHT .................................................................................. iii
ACKNOWLEDGEMENT ...................................................................... iv
DEDICATION ................................................................................... v
LIST OF ABBREVIATIONS AND ACRONYMS ................................vi
ABSTRACT ...................................................................................... vii
LIST OF TABLES ............................................................................. xii
LIST OF FIGURES ........................................................................... xiii

CHAPTER ONE .................................................................................... 1
INTRODUCTION AND PROBLEM SETTING ..................................... 1
  1.1 Introduction ............................................................................. 1
  1.2 Background to the Problem .................................................. 1
  1.3 Statement of the Problem ..................................................... 3
  1.4 Objectives of the Study ......................................................... 4
    1.4.1 Main Objective ................................................................. 4
    1.4.2 Specific Objectives ........................................................... 5
  1.5 Research Questions ............................................................... 5
  1.6 Significance of the study ....................................................... 5
  1.7 Limitations ............................................................................. 6
  1.8 Measures taken to address the limitations of this study were: .................. 6

CHAPTER TWO .................................................................................... 7
LITERATURE REVIEW ....................................................................... 7
  2.0 Introduction ............................................................................. 7
  2.1. Key Concepts ....................................................................... 7
    2.1.1 Local Government ............................................................ 7
    2.1.2 Internal Control ............................................................... 7
    2.1.3 Internal Audit ................................................................. 7
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1.4 Accounting System</td>
<td>8</td>
</tr>
<tr>
<td>2.1.5 Management</td>
<td>8</td>
</tr>
<tr>
<td>2.1.6 Audit Services</td>
<td>8</td>
</tr>
<tr>
<td>2.1.7 Audit Committee</td>
<td>8</td>
</tr>
<tr>
<td>2.1.8 Procurement</td>
<td>8</td>
</tr>
<tr>
<td>2.1.9 Accounting Officer</td>
<td>9</td>
</tr>
<tr>
<td>2.2 Framework of Internal Audit</td>
<td>9</td>
</tr>
<tr>
<td>2.3 Internal Audit and the Reason of its Existence</td>
<td>10</td>
</tr>
<tr>
<td>2.4 Objective and Scope of Internal Audit</td>
<td>11</td>
</tr>
<tr>
<td>2.5 The Role of Internal Audit Unit (IAU)</td>
<td>12</td>
</tr>
<tr>
<td>2.6 Essentials for Effective Internal Auditing</td>
<td>13</td>
</tr>
<tr>
<td>2.7 Internal Auditing Theories</td>
<td>14</td>
</tr>
<tr>
<td>2.8 Measuring Internal Audit Effectiveness and Efficiency</td>
<td>15</td>
</tr>
<tr>
<td>2.9 Sector–Private versus Public</td>
<td>17</td>
</tr>
<tr>
<td>2.10 Professional Proficiency of Internal Auditors</td>
<td>18</td>
</tr>
<tr>
<td>2.11 Organisational Independence</td>
<td>18</td>
</tr>
<tr>
<td>2.12 Top management Support</td>
<td>19</td>
</tr>
<tr>
<td>2.13 Role of the Internal Audit Service in Tanzania</td>
<td>19</td>
</tr>
<tr>
<td>2.14 Public Reforms taken on Internal Auditing - The Tanzanian Experience</td>
<td>20</td>
</tr>
<tr>
<td>2.15 Local Authority Finance Memorandum-Revised Edition June 2004</td>
<td>20</td>
</tr>
<tr>
<td>2.16 Empirical Literature Review</td>
<td>21</td>
</tr>
<tr>
<td>2.17 Conceptual Framework for the Study</td>
<td>22</td>
</tr>
<tr>
<td>CHAPTER THREE</td>
<td></td>
</tr>
<tr>
<td>RESEARCH DESIGN AND METHODOLOGY</td>
<td>23</td>
</tr>
<tr>
<td>3.0 Introduction</td>
<td>23</td>
</tr>
<tr>
<td>3.1 Research Design</td>
<td>23</td>
</tr>
<tr>
<td>3.2 Research Approach</td>
<td>23</td>
</tr>
<tr>
<td>3.3 Population and sample of the study</td>
<td>23</td>
</tr>
<tr>
<td>3.3.1 Sampling Design</td>
<td>23</td>
</tr>
<tr>
<td>3.3.2 Targeted Population</td>
<td>24</td>
</tr>
</tbody>
</table>
3.3.3 Selection of a sample

3.4 Types of Data, data analysis and data collection method

3.4.1 Nature and type of Data required

3.4.1.1 Primary Data

3.4.1.2 Secondary Data

3.5 Data collection Methods

3.5.1 Interviews

3.5.2 Questionnaires

3.6 Data Analysis Techniques

CHAPTER FOUR
DATA ANALYSIS AND DISCUSSIONS

4.0 Introduction

4.1 General Overview

4.2 Findings and Analysis

4.2.1 Analysis of the Questionnaire Responses

CHAPTER FIVE
CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

5.1 Conclusions

5.2 Recommendations

5.2.1 Establishment of Internal Audit Department

5.2.2 Review of the Public Finance Act

5.2.3 Reporting Structure

5.2.4 Employment and Rotation of internal Auditors

5.2.5 Development of New Scheme of Service

5.2.6 Recognition of the professional qualification of Internal Audit

5.2.7 Training of Internal Auditors

5.2.8 Development of codes of Ethics for Internal Audit Service

5.2.9 Suggestion for further Research Areas
REFERENCES ........................................................................................................... 46
APPENDICES ......................................................................................................... 49
LIST OF TABLES

Table 4.1 Question A- 1: What is your Education level? ...........................................27
Table 4.2 Question A- 2: How long you worked with the office .................................28
Table 4.3 Question B-1: How do you compare the number of staff in internal audit unit (IAU) against workload? ..................................................................................28
Table 4.4 Question B-2: Is the budget provided to internal audit unit adequate to perform its activities? ......................................................................................................................29
Table 4.5 Question C-1: Do you have audit committee in your council? ......................30
Table 4.6 Question D-1: Does your office have internal audit charter? ......................32
Table 4.7 Question D-6: What are the qualifications of internal auditors? ..............34
Table 4.8 Question E-1: What is your perception on the independence of internal auditors? .................................................................................................................................35
Table 4.9 Question E-4: In your opinion what is the role of audit committee on the working and independence of internal audit? .................................................................37
Table 4.10 E-5: What is the working relationship of internal audit and external audit? ........................................................................................................................................37
Table 4.11 Question E-6: In your opinion what factors threaten the effectiveness of internal audit unit? ....................................................................................................................38
Table 4.12 Question E-7: In your opinion how the effectiveness of internal audit unit cans be enhanced? ..............................................................................................................39
Table 4.13 Question E-8: What are the advantages of effectiveness of internal audit unit? .......................................................................................................................................39
LIST OF FIGURES

Figure 2.1: Conceptual Framework for the Study ......................................................... 22
CHAPTER ONE
INTRODUCTION AND PROBLEM SETTING

1.1 Introduction

This chapter covers the background of the study, statement of the problem, objectives of the study (both main and specific objectives) and research questions. Furthermore, the chapter covers the significance of the study, limitations of the study, scope of the study and the definitions of key terms.

1.2 Background to the Problem

Organisations, being either private or public need to improve the control, risk management and corporate governance. Amongst the key strategies deemed necessary in the success of the same, is the institution of the internal audit department. The ideas of introducing the internal audit services and its existence as the profession came into being in the mid-20th century. Initially, it was a very substantive activity that focused on re-inspection and rechecking. It also assisted external auditors with clerical tests and tasks (Hirth, 2005).

Nevertheless, recognition of the potential value of the internal audit department came later to the public sector than to the private sector almost in the 1950s with similar motivation, namely to review the accounting system and related internal controls; examination of financial and operating information for management, including detailed testing of transactions and balances; review of economy, efficiency, and effectiveness of operations and the functions of non-financial controls, review of implementation of corporate policies, plans and procedures. Primarily, a major transformation took place in the 1990s, with the advent of risk-based auditing. In Tanzania, the Committee of Sponsoring Organisations (COSO) Internal Control – Integrated Framework was launched, and risk came to be redefined in broader terms, well beyond the previous limits of financial reporting. Internal audit has now focused on limiting risk through the effective design and operation of controls.
Despite the establishment of internal audit departments in public sectors, there are still some weaknesses in managing the public resources. The effectiveness and strategic management of public resources in Tanzania has been an alarming and complex problem which seems to miss the immediate and simple solution. Organs like Internal Audit Functions and Examination Functions and many others with related functions have been introduced by the government in its efforts to foster the effectiveness and efficient use of public resources. However, as numerous as they are misappropriation and misallocation of public resources have been the daily phenomena that feature in the reports produced by the set organs. All local authorities have internal audits set but abuse of public funds in amount is still significant.

Implementation of government projects that cost a lot of money fails because of insufficient contractual agreements, lack of governance culture and acts of irresponsible officials. It is only through the effective and efficient internal audit department that these anomalies can be checked out.

According to the United Republic of Tanzania, Ministry of Finance and Economic Affairs, Japanese International Corporation Agency Development Study Support for Capacity Building on Public Financial Management (2007), lack of consciousness on the importance of the internal audit services is seen to be one of the weaknesses which affect the effectiveness of the internal audit services.

Tanzania has good laws regarding financial accountability; what remains is the leadership and responsibility to put them into practice. This will require leaders at all levels to ensure that oversight bodies function well. In particular, the CAG emphasises strengthening internal audit systems, establishing audit committee and following laid down procurement laws, according to Tanzania 2010/2011 CAG Reports.

However, in the daily news dated 18th June 2009, the CAG emphasised the recognition of the internal auditing, whereby he said the Tanzanian law doesn’t recognise internal audit as professional a factor that undermines their operations in the public sectors. Also, the performance of the internal audit units has indications that the members of staff from internal audit unit do not get the required support from the management thus making it difficult for it to achieve their intended objectives.
Moreover, lack of laws and regulations relating to internal audit, poorly structured reporting line, limited resource hidden the good performance of internal Audit Unit

A lot of grants, aids, donations and public funds have been injected into the Tanzania local authorities as well as into some projects in Tanzania; Mufindi district Council is among of them. But the expected performance is not satisfactory. There has been poor performance in government established projects, although there are controls that exist, internal audit services being the major controls followed by examination functions. For that matter the most independent service that is expected to enhance the best performance is the internal audit function that is instituted in the Tanzania local authorities. In some circumstances the audit services in the local authorities seem not to work effectively (CAG report, 2011/2012).

There has been a great concern over functions of the internal audit in public sector organisation as an important tool in public financial management and as a tool for improving performance in the public sector. This study was concerned with the assessment of the effectiveness of internal audit unit in the management of public funds in Tanzania local government authorities. The study focused on local government authorities, on own revenue, grant and transfer of funds from central government to Mufindi District council. The researcher strongly felt that there was a need to carry out the study in this area in order to assess how the internal audit services in public sector were effective.

1.3 Statement of the Problem

Demands for effective internal audit function are prevailing worldwide. In recent years, researchers and practitioners have widely discussed the need for internal auditors to add more value to their companies’ operations, and contribute to the achievement of corporate objectives. This new perspective has focused increasing attention on issues such as performance evaluation and effectiveness of internal auditing (Dittenhofer, 2001; Bou-Raad, 2000; IIA, 1999).

In the context of Tanzania, audit records, parliamentary debates and stakeholders’ observations indicate that our internal audit and control system is weak and wanting
Although there are some efforts being made on strengthening and review of the internal audit services in general, the following allegations/findings might contribute to the weak internal audit and control system: Lack of consciousness on the importance of the internal audit services is seen to be one of the factors which affect the effectiveness of the internal audit services (JICA, 2007); this is according to the United Republic of Tanzania, Ministry of Finance and Economic Affairs, Japanese International Corporation Agency Development Study Support for Capacity Building on Public Financial Management (2007). Also, lack of the laws and regulations relating to internal audit, this is according to the CAG who emphasises on the recognition of the internal auditing, whereby the Tanzanian law doesn’t recognise internal audit as a professional, a factor that undermines their operation in the public sectors (CAG report of 2009/2010).

Lack of support from the management, however the performance of the internal audit units, is has indications that the members of staff from internal audit unit do not get the required support from the management thus making it difficult for it to achieve their intended objectives.

Furthermore, the poorly structured reporting line and limited resources for internal audit was claimed by CAG in his audit report for the year 2010/2012 as a problem to the internal auditors to achieve its objectives.

Therefore, that is why the researcher was interested in conducting the study on assessment of effectiveness of the internal audit functions in managing public funds in Tanzania local authorities, with a focus on Mufindi District Council.

1.4 Objectives of the Study

This part explains both main and specific objectives.

1.4.1 Main Objective

The main objective of this study was to assess the effectiveness of internal audit functions in managing the Funds in Mufindi District Council in Tanzania. The study was on assessment of factors which influence the effectiveness of the internal audit unit specifically in managing public funds.
1.4.2 Specific Objectives

i. To examine the level of independence of internal auditors in MDC.

ii. To examine the adequacy of resources allocated to internal audit Unit in MDC.

iii. To evaluate the process of performing of audit work in MDC.

iv. To examine the role of audit committee contributions to the effectiveness of the internal audit functions.

1.5 Research Questions

i. Is the internal audit unit in MDC independent?

ii. Does IAU have adequate resources to perform their duties?

iii. Is the audit work carried out systematically in MDC?

iv. Is the role of audit committee contributions to the effectiveness of the internal audit functions?

1.6 Significance of the study

The findings of the research study are forming a basis for improvement of co-operation between Accounting Officer, internal audit unit at Mufindi district council. This tailor made co-operation will enable the internal audit department to achieve their auditing objectives economically and efficiently.

Findings from this research will create a source of home tailored literature for future readers in Tanzania; also they will serve as Mufindi district council materials for reference, and use by the researchers in higher learning institutions. Other public organisations may apply the findings to create efficiency and effective IAUs within their organisations.

The suggestions and recommendations will be used by the IAUs to improve existing situation regarding effectiveness of IAUs functions. The Government may adopt some of the suggestions to issue directives to the Mufindi district council, and about what must be done to make functions effective.
1.7 Limitations

The study encountered various limitations during data collection. These include the following:

i. A resource in terms of money and researcher assistants was very limited which makes the difficult to obtain required information.

ii. Bureaucracy also led to difficulties in getting required support in terms of obtaining required information.

iii. Some questionnaire respondents took too long to return the filled questionnaires; some questions were not filled and returned or they may not be fully filled.

1.8 Measures taken to address the limitations of this study were:

i. Using multiple sources of data collection tools (questionnaire, interview and documentary data collection tools) helped to address the limitations of single individual method of data collection tools.

ii. Reminders in terms of cell phones and physical ways were made so that most respondents filled and returned the questionnaires and all scheduled interviews were carried out.

iii. The researcher encouraged other researchers to conduct other further research on Effectiveness of Internal audit in managing local authority funds: The case study of Mufindi District Council.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter identifies, and synthesises various concepts and theories put forward by laws, regulations and various scholars in internal auditing functions in public and private sector. Also, it establishes the theoretical and empirical base on the assessment of the effectiveness of internal audit functions in managing funds in public sectors.

2.1. Key Concepts

2.1.1 Local Government

According to Warioba (1999), local government is defined as that party of government of a country operating at a local level, functioning through a representative organ, known as council, established by law to exercise specific power within a defined area of jurisdiction.

2.1.2 Internal Control

Internal Control refers to all the policies and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring, as far as practicable, the orderly and efficient conduct of its business including adherence to management policies, the safeguarding of assets, the prevention and detection of the fraud or error, the accuracy and completeness of the accounting records and timely preparation of reliable reports (Gansberghe, 2005).

2.1.3 Internal Audit

According to internal audit manual (by ministry of finance, accountant general’s department) states that; Internal audit means an independent appraisal activity established within a ministry, department or agency or other reporting unit which operates as a services provider to the head of unit involved, of which it controls activity functions by examining and evaluating the adequacy and effectiveness of internal controls in the unit received and for conducting operational/value for money audits.
throughout the unit in order to ensure that proper systems of internal control and accounting systems exist throughout the unit (Gansberghe, 2005).

2.1.4 Accounting System

An accounting system is the series of tasks and records of an entity by which transactions are processed as a means of maintaining financial records; such systems identify, assemble, analyse, calculate, classify, record, summarise and report transactions and other events (Public Finance Act No. 6 of 2001).

2.1.5 Management

Management comprises officers and others who perform senior managerial functions in an entity; management includes board of directors and audit committee in those instances when they perform such functions (Warioba, 1999).

2.1.6 Audit Services

Audit Services refer to audit work performed by an auditor with the over-all final responsibility for the audit (Public Finance Act No. 6 of 2001).

2.1.7 Audit Committee

In a publicly-held company Audit committee is an operating committee of the board of directors, typically charged with oversight of financial reporting and disclosure, committee members are drawn from members of the company’s board of directors, with a chairperson selected from among the members (Public Finance Act No. 6 of 2001).

2.1.8 Procurement

Procurement is defined as the function responsible for the purchase, lease or other legal means of acquisition of goods, construction works, and services required to satisfy certain needs, at the right time from the right supplier or service provider, in the right quantities and at the right price. The goods, works or services supplied must meet the client’s needs at competitive price and from a capable supplier, contractor or service provider (Public Procurement Act, 2004).
2.1.9 Accounting Officer

Accounting Officer means a Government officer appointed in accordance with the provisions of the Public Finance act to hold vote and account for all monies expended from that vote (Public Finance Act No. 6 of 2001).

2.2 Framework of Internal Audit

Historically, internal audit has been considered as a monitoring function, the “organizational policeman and watchdog” (Morgan, 1979), tolerated as a necessary component of organisational control but deemed subservient to the achievement of major corporate objectives. However, Institute of Internal Auditors, (IIA, 1991; Taylor and Glezen, 1991; Konrath, 1996) defines internal auditing as “an independent appraisal function, established within an organisation to examine and evaluate its activities as a service to the organisation”. By measuring and evaluating the effectiveness of organisational controls, internal auditing, itself, is an important managerial control device (Carmichael et al., 1996), which is directly linked to the organisational structure and the general rules of the business (Cai, 1997).

In this period, internal audit is defined also by COSO (Committee of Sponsoring Organisations of the Treadway Commission, 1992) as a procedure which offers fundamental security to the business concerning the credibility of financial affairs. An important step was the new definition of Internal auditing issued by the IIA in June 1999, which clearly states that “the internal auditing activity should evaluate and contribute to the improvement of risk management, control and governance” (IIA, 1999). The new definition shifts the focus of the internal audit function from one of assurance to that of value added and attempts to move the profession toward a standards-driven approach with a heightened identity (Bou-Raad, 2000; Krogstad et al., 1999). More recently, the Institute of Internal Auditors (2004) stated that the internal audit activity should evaluate and contribute to the improvement of risk management, control and governance, recognise the assurance and consulting role of internal auditing in corporate governance. The Internal Control moves within a greater scope of management philosophy and of practical application, and adds up value, offering at the same time a systematic scientific approach on the assessment and the improvement of
the effectiveness of businesses (Papadatou, 2005; Karagiorgos et. al, 2006). From the above definitions, it is clear that the internal control is not just an one-sided tool for controlling the order and rightness of certain situations, but it is a method of detecting the value added up to a company, achieving the index of effectiveness and profitability of the company (Nagy and Cenker, 2002; Goodwin, 2004 Karagiorgos et Al., 2007)

2.3 Internal Audit and the Reason of its Existence

The Institute of Internal Auditors (IIA) Defines Internal Auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It defines the goals to be accomplished, establish measures relative to achieving those goals, and finally evaluate the overall internal auditing process. The internal audit is a special kind of economic contro; therefore, internal audit itself is a special kind of control function over other controls within the organisation (Cain Chun, 1997). Also, it assists an organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes (Pickett, 2005).

According to Colin Ferguson and Robyn Moroney, organisations with an internal audit function are more likely than those without such a function to detect fraud within their organisation (2004).

In the mid of 20th century, the establishment of a formal internal audit function to which these responsibilities are accomplished was seen to be of much importance. In due course, the internal audit function became responsible for “careful collection and interpretive reporting of selected business facts” to enable management to keep track of significant business developments, activities, and results from diverse and voluminous transactions (Mautz, 1964)

Internal audit started as an internal business function primarily focused on protection against payroll fraud, loss of cash, and other assets, internal audit’s scope was quickly extended to the verification of financial transactions, and still later, gradually moved from an “audit for management” emphasis to an “audit of management” approach.
The critical importance and relevance of internal auditing to business can best be gauged from the following visionary and prescient remarks by two of The IIA’s charter members:

In recent years the importance of good corporate governance has received significant public and regulatory attention. A crucial part of an entity’s corporate governance is its internal audit function (Paul Coram, 2004).

This study examined on how the Tanzania local government authorities, (Mufindi district council as case study) implemented the internal auditing and identified the factors that influenced the effectiveness of internal auditing services as a control tool of public funds management in Tanzania local government authorities.

2.4 Objective and Scope of Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (The Institute of Internal Auditors, 1999).

Internal audit is an independent appraisal function established by the management of an organisation for the review of its internal control system as a service to management. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources (Government of Tanzania Internal audit manual, 2003).

Internal audit primarily provides an independent and objective opinion to the Accounting Officer on risk management, control and governance, by measuring and evaluating their effectiveness in achieving the organisation’s agreed objectives. In addition, internal audit’s findings and recommendations are beneficial to line management in the audited areas. Risk management, control and governance comprise the policies, procedures and operations established to ensure the achievement of objectives, the appropriate assessment of risk, the reliability of internal and external reporting and accountability processes, compliance with applicable laws and
regulations, and compliance with the behavioural and ethical standards set for the organisation (HM Treasury, 2001).

Internal audit also provides an independent and objective consultancy service specifically to help line management improve the organisation’s risk management, control and governance. The service applies the professional skills of internal audit through a systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the organisation’s objectives, and through recommendations for improvement. Such consultancy work contributes to the opinion which internal audit provides on risk management, control and governance (HM Treasury, 2001).

2.5 The Role of Internal Audit Unit (IAU)

Internal audit is an independent department within an organisation. It helps management by reviewing, assessing and evaluating the internal control system.

The role of the Internal Auditor is to support the management of the organisation through establishing, monitoring and maintaining effective systems of control and reporting within the organisation. The Internal Auditor should be independent, and be seen to be independent, of those officers of the organisation charged with carrying out day to day activities of the organisation. The Internal Auditor is not there to find out and to apportion blame. The Internal auditor is there to assist the organisation to act in a way that best protects its interests and thus the interests of the citizens of the country.

The objective of internal auditing is to assist all parts of management in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations and expression an opinion on the activities reviewed. The Internal results and recommendations are made to the relevant accounting officer on how internal controls could be improved. These recommendations should ensure that the risks to achieving the objectives of the system under review are reduced.
2.6 Essentials for Effective Internal Auditing

In order for the function and objectives to be achieved as intended, the audit function ought to be given power to act with integrity and produce reliable services. According to the Tanzania internal audit manual (2003), Government audit functions need the following:

i. **Independence**: the internal auditor should have the independence in terms of organisational status and personal objectivity, which permits the proper performance of his / her duties.

ii. **Staffing and training**: the internal audit service should be appropriately staffed in terms of numbers, qualifications and experience, having regard to its responsibilities and objectives. The internal auditor should be properly trained to fulfil all his / her responsibilities.

iii. **Relationships**: the internal auditor should seek to foster constructive working relationships and mutual understanding with management, the external auditors, with any other review agencies, and with the audit committee.

iv. **Due care**: the internal auditor should exercise due care in fulfilling his / her responsibilities.

v. **Evaluation of internal control system**: the internal auditor should identify and evaluate the organisation's internal control system as a basis for reporting upon its adequacy and effectiveness.

vi. **Planning, controlling and reporting**: the internal auditor should adequately plan, control and record his / her work.

vii. **Evidence**: the internal auditor should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendations.

viii. **Reporting and follow up**: the internal auditor should ensure that findings, conclusions and recommendations arising from each internal audit assignment are communicated promptly to the appropriate level of management and he should
actively seek a response. He should ensure that arrangements are made to follow up audit recommendations and to monitor what action has been taken on them.

To fulfil these roles the duties of the Internal Audit Service are laid down in Regulation 34 of the Public Financial Regulations, 2001, as outlined in section 2.1 (Public Financial Regulations, 2001).

2.7 Internal Auditing Theories

Internal auditing theories can be borrowed from the theories for auditing. One of these theories is the agency theory. Agency is the name given to the practice by which productive resources owned by one person or group are managed by another person or group of persons. At its simplest agency theory is the recognition that the inclination of agents, in this cases the directors or managers of the business, is to act rather more in their own interest than those of their employers and shareholders. The institute of chartered Accountant in England and Wales, in November 2006, put it this way: - In principle, the agency model assumes that no agents are trustworthy and if they can make themselves richer at the expense of their principals they will. The poor principal, so the argument goes, has no alternative but to compensate the agent well for their endeavours so that they will not be tempted to go into business for them using the principal’s assets to do so.

The origin of auditing goes back to times scarcely less remote than that of accounting. Whenever the advance of civilisation brought about the necessity of one man being entrusted to some extent with the property of another the advisability of some kind of check upon the fidelity of the former would become apparent. The extent to which principals don’t trust their agents will tend to determine the level of the monitoring mechanism created for the overview of agents’ activities and the extent to which agents’ compensation levels are determined to be acceptable. Upon this principle rests the foundation of auditing profession (Millichamp and Taylor, 2008). As mentioned in the agency theory, the problem which has always existed when managers’ report to owners is – can the owners believe the report? The report may; - contain errors, not disclose fraud, be inadvertently misleading, be deliberately misleading, fail to disclose relevant information and fail to conform to regulations.
The solution to this problem of credibility in reports and accounts lies in appointing independent professionals called auditors to investigate the report and report their findings (Millichamp and Taylor, 2008).

2.8 Measuring Internal Audit Effectiveness and Efficiency

When effectively managed, internal auditing becomes an important element in helping an organization achieve its objectives. Organisations with internal audit activities are better able to identify business risks and system inefficiencies, take appropriate corrective action, and ultimately support continuous improvement. However, to maintain and enhance internal audit’s credibility, its effectiveness and efficiency must be monitored.

This study will help internal auditors to measure their effectiveness and efficiency by providing guidance on establishing a performance measurement process, identifying key performance measures, and monitoring and reporting on the level of customer service provided to internal audit stakeholders.

Sources to consider when identifying key performance effectiveness and efficiency measures of the internal audit activity include The IIA’s International Professional Practices Framework (IPPF), the internal audit charter and mission, applicable laws and regulations, and audit strategies and plans. Effectiveness and efficiency measurements can be both quantitative and qualitative. It is important for the internal audit activity to obtain feedback from key stakeholders on audit effectiveness and make adjustments where needed.

This new perspective has focused increasing attention on issues such as performance evaluation and effectiveness of internal auditing (for instance Dittenhofer, 2001; Bou-Raad, 2000; IIA, 1999). Several parties advocated the need to assess internal auditing (IA) effectiveness, though, at present, there is not a shared framework of reference to this scope (for instance Ridley & D’Silva, 2008; Mihret & Yismaw, 2007; Van Gansberghe, 2005; KPMG, 2004; Dittenhofer, 2001; Sawyer, 1995; Barrett, 1986). Recently, Sarens (2009) has raised the question “when can we talk about an effective IA function?” in his editorial work about future perspectives of IA research.
Looking at the existing literature, there are many possible answers to this question. Different authors have related IA effectiveness to different issues, focusing on IA processes, outputs and outcomes.

Certain authors related IA effectiveness with the quality of IA procedures, such as the level of compliance with IIA standards or the ability to plan, execute and communicate audit findings (for instance Fadzil et al., 2005; Xiangdong, 1997; Spraakman, 1997). However, this approach suffers from a major limitation as it is based on the hypothesis that IA activity is effective if IA procedures are carried out properly, without considering the needs of the main stakeholders in each individual audit (Lampe & Sutton, 1994). This is in contrast with the current trend that stresses the relevance of value-added activities and indicates stakeholders’ satisfaction as one of the critical performance categories for IA activities (see, for instance, the Practice Advisory 1311-2).

A second stream of research relates IA effectiveness to the output of IA activities (Frigo, 2002), looking for instance at the ability of IA to respond to auditees’ needs (see, for instance, Frigo, 2002; Ziegenfuss, 2000; Barrett, 1986). In this context, a recent work by Ziegenfuss (2000) has highlighted that the survey results of auditee satisfaction and the percent of recommendations that are implemented are the performance measures considered by the CAE to be most suitable to evaluate IA effectiveness.

Finally, a few authors went further, relating IA effectiveness to the outcome of the audit activities (i.e. the impact of a certain output of the audit process). According to Dittenhofer (2001), “when evaluating the effectiveness of the internal auditing operation, a positive response would be given when the internal auditor: (1) audits the achievement of the auditees’ objectives and finds no problems, and no problems surface following the audit; or (2) audits and finds problems; and (3) recommends solutions to the problems; and the solutions resolve the problems”. From this statement it is clear that outcomes address a wide range of aspects, i.e. all the elements on which audit activities have an impact. These include both efficiency and effectiveness of the audited processes, and corporate performances. At a process level, for example, the impact of IA activities has been related to cost savings generated by the implementation of suggested recommendations (see, for instance, Cashell and Aldhizer III, 2002).
At a corporate level, outcome can address the IA contribution to corporate performance, such as profit, growth, or share price; or its role in the avoidance of corporate failures by ensuring sound corporate governance. This last issue has been given particular attention in the most recent literature. Sarens (2009), based on Gramling et al. (2004), suggested that IA can be considered effective when the quality of IA function “has a positive impact on the quality of corporate governance”. He also goes on linking IA quality to the “capacity to monitor and improve risk management and internal control processes”.

2.9 Sector–Private versus Public

The categorisation of public versus private sector is based on the goals of the organisation. Private organisations are generally interested in maximising their profits, while public organisations focus on improving public services delivery. Goodwin (2003, 2004), in two studies dealing with internal auditors in Australia and New Zealand, identified several important differences between IA in the private versus the public sector. Goodwin (2004) notes two main points where public and private organisations diverge. First, public sector agencies operate in a rigid framework where the organisation’s activities must be authorised by legislation.

Second, these agencies are service-oriented, and hence attach lower priority to cost factors and issues associated with profitability. In the earlier of the two studies, examining the relationship between the audit committee and the internal audit function, Goodwin (2003) found several differences between the public and the private sectors, and recommended further examination of sector differences in IA. Spraakman (1985) argued that internal auditing is both more common and perceived as more important in public organisations than in private ones – a finding supported by Goodwin (2004), who similarly found that public sector IA functions have a higher status than their private sector counterparts. However, other arguments point to the opposite conclusion. There are grounds for saying that private organisations, in general, have greater need for the control and supervision that internal auditing entails. Pfeffer and Leblebici (1973) argued that organisations which operate in a competitive business environment face more pressure than public ones, and one way they react to this pressure is by strengthening their systems of internal control. While the environment of the 1970s is far different from that of today, more recent studies offer similar reasoning.
For instance, Thomas (1996) argues that control systems play a more important role in private organisations because of their dynamic and complex environments, which generate more risks for the organisation. Therefore, internal auditing should be both more important and more effective in private than in public organisations.

2.10 Professional Proficiency of Internal Auditors

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires professional staffs that collectively have the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajiry, Brierley and Gwillian 2003). Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organisations and the IIA (2008). Bou-Raad (2000) argued that auditors must have a high level of education in order to be considered a human resource. The diversity of skills required, according to Bou-Raad, represents a major challenge to professional bodies, tertiary institutions and management. The few studies that have looked into this issue have found that the greater the professional qualifications of the internal auditors in a given department, defined by the length of their professional training and educational level, the greater the effectiveness of this department (Albrecht et al., 1988; Ratliff 1996). Nanni (1984) found that auditor experience had a positive effect on evaluations of internal accounting control.

2.11 Organisational Independence

The role of IA in organisations is complex. Van Peursem (2004) identifies strong potential for confusion in the relationship between internal auditors and management: internal auditors are expected to aid managers in doing their jobs, and at the same time to independently evaluate management’s effectiveness. Internal auditors are charged with upholding the best interests of their employer, but they may be reluctant to counter management, regardless of the consequences. Bou-Raad (2000) argued that the strength of an IA department must be assessed with respect to the level of independence it enjoys from management and from operating responsibilities. The IIA, the American Institute of Certified Public Accountants (AICPA) and others have likewise identified
organizational independence as crucial to the viability of the internal audit function (Brown, 1983).

2.12 Top management Support

The management literature offers ample evidence for the key role of top management support in the success of almost all programmes and processes within an organisation. Fernandez and Rainey (2006) argued, based on a thorough literature review, that top management support and commitment to change play a crucial role in organisational renewal, as senior managers can mobilise the critical mass needed to follow through on efforts launched by one or two visionary thinkers. A number of empirical studies have found top management support for quality to be a key factor in its improvement (for example, Dale and Duncalf 1985; Ebrahimpour and Lee 1988). Top managers’ attitudes and behaviours have also been found to be related to quality management practices (Flynn, Schroeder and Sakakibara, 1994).

2.13 Role of the Internal Audit Service in Tanzania

Internal Auditors provide an opinion on the soundness or otherwise of the internal control system as a result of their reviews of individual aspects of the Government of the United Republic of Tanzania’s systems and processes. These opinions may then be collated by the Assistant Accountant General, with other evidence, to form an overall annual opinion on the whole internal control system across all government institutions. These opinions should be reflected in the annual internal audit report to the Treasury Audit Committee. Any aspects that require particular improvement are also highlighted.

The Tanzania Internal audit Service has two linked roles; improvement and assurance. These are to:

- Ensure that the Government of the United Republic of Tanzania’s management and internal control systems are continually being improved and optimised in response to an ever changing environment provide reasonable assurance to the relevant Permanent Secretaries and the Paymaster General that significant risks in Ministries, Departments and Agencies are being appropriately managed, with an emphasis on the role of internal controls.
- Provide reasonable assurance to the relevant Permanent Secretaries and the Paymaster General that significant risks in Ministries, Departments and Agencies are being appropriately managed, with an emphasis on the role of internal controls.

2.14 Public Reforms taken on Internal Auditing - The Tanzanian Experience

In recent years, the importance of the internal audit profession has gained significantly within the country. The Institute of Internal Audit (IIA) was established in 2006 to promote greater awareness and facilitate accredited training to Internal Auditors. Another salient feature in PFM reforms is the creation of a centralised internal audit function within the MoF Department of Internal Auditor General established in 2010. This is sought to strengthen the PFM mandate and capacity of the MoF so as to provide technical guidance for internal auditors across MDAs and LGAs and be the only responsible agent on behalf of Government suiting and channeling of new international 24 standards and unifying of national procedures and controls in accordance with best practices.

2.15 Local Authority Finance Memorandum-Revised Edition June 2004

The LAFM states that “the responsible Accounting Officer (AO) of a LGA whose accounts are required to be audited under section 45(1) of Local Government Finance Act No. 9 of 1982 shall establish and operate an effective internal control system and employ an Internal Auditor who shall have the right of access at all times to such documents of LGA relating to the accounts of the body, as appears to him/her to be necessary for the purpose of such audit and shall be entitled to require from any officer of LGA such information and explanation as he/she will think necessary for the purpose”.

The internal auditor, under the control and direction of the council director (CO), shall be responsible for carrying out a review of financial and related systems of council to ensure that the interest of the council are protected. Review precludes the auditor from being involved in any line management functions such as the checking of payment vouchers prior to payment. However, an independent pre-audit section or unit under the treasurer may be established.
2.16 Empirical Literature Review

Haylas and Ashton (1982) in their efforts to provide evidence on the effectiveness of the particular audit techniques in detecting errors that affect the financial statements and on the causes of such errors conducted a study of 281 errors requiring financial statements adjustments. The results of the study suggested that all of the intentional errors are concentrated in relatively few audit areas majority of such errors affect income but the direction of the effect may either be an understatement or overstatement. Regarding signalling off an error, they found that a large portion of financial statement errors are initially signalled by less vigorous audit procedures such as analytical review and discussion with clients. Client personal problems such as inexperience, incompetence and insufficient knowledge and inadequate control, follow up or review were found instrumental in causing more errors. Salih (1983) evaluated the internal controls of Ethiopian Airlines, Nairobi branch office and concluded that lack of segregation of accounting and custodian functions was the greatest weakness of the Branch office. He argued that there is need to centralise cash receipts, establish an internal audit, separate duties of purchase activities, establish perpetually inventory system for tickets. In an attempt to define a client’s control environment from the auditor’s perception, Haskins (1987) identified 48 client control attributes and their perceived levels of importance in adequately describing a client’s control environment thus serving to define more clearly audit planning concepts. Audit firms, firms’ specialisation and audit rank were found to be significant mediating contextual variables and that seniors had the largest share of the evaluation of internal control attributes responsibility.

Schneider and Wilners (1990), in their study examined the effectiveness of internal audit and external audit in determining financial reporting irregularities. They conducted an experimental study that examined the effects of manager’s perception of internal and external auditing on the potential of financial irregularities. A total of 264 subjects, the majority of whom were experienced managers, were required to make decisions on three cases involving materiality type of irregularity, perceived extent of Generally Accepted Accounting Standards (GAAP) violation and incentives for misstating income. The decisions were made in a situation where there was no auditing at all, only internal auditing or external auditing.
The results clearly supported internal and external auditing as deterrents to financial reporting irregularities when all of the four factors were present. It was also found that internal auditing effects were similar to those of external auditing. The study, however, suffered from the inability to explain why the existence of audits was perceived as having deterrent effects (Schneider and Wilners, 1990). Ismailjee (1993) evaluated the internal controls of the Nyayo Bus Service Corporation, Nairobi and concluded that the analysis conducted on the cash receipts as well as the cash disbursements and the purchase cycle areas bore fairly strong controls. He attributed this largely to the fact that the government accounting system was still in operation in those areas. He however found weakness in the organization chart, payroll and the stores accounting system.

2.17 Conceptual Framework for the Study

The following below is the conceptual framework developed by the researcher on the basis of practical experience. However, the effectiveness of internal audit services depends on the following factors: the effective laws and regulations, knowledge/consciousness on the internal audit work, management support, and resource and good reporting line system. Therefore, the effectiveness of internal audit services is the interrelationship between many factors as indicated in the figure below.

Figure 2.1: Conceptual Framework for the Study

Source: Work of the researcher (2014-07-09)
CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

The purpose of this chapter is to get details of all the procedures the researcher used and the tasks performed in order to confirm the expected output research questions. Its importance is to prepare the whole research process. This chapter outlines the methodologies which were used in this study, it explains how data were collected and sampling techniques used how data was analysed and the research design.

3.1 Research Design

According to Church Hill & Brown (2007), a research design is simply a framework or plan for study used as a guide in collecting and analysing data. This study used both exploratory and descriptive research design.

3.2 Research Approach

The research was conducted through a series of data collection methods using a questionnaire which was submitted to different council officers and employees to fill. Also, data collection involved respondents not related with auditing or accounting activities.

3.3 Population and sample of the study

3.3.1 Sampling Design

A sample is a finite part of a statistical population whose properties are studied to gain information about the whole (Webster, 1985). Researchers rarely survey the entire population for two reasons: the cost was too high, and the population is dynamic in that the individuals making up the population may change over time.
3.3.2 Targeted Population

The population under investigation consisted of all Mufindi Council departments, whereby employees in various cadres were involved.

3.3.3 Selection of a sample

For the purpose of this study the sample was selected using stratified random sampling. Stratified random sampling is the probability sampling procedure in which the population is divided into two or more relevant strata and a random sample (systematic or simple) is drawn from each of the strata (Saunders, Lewis and Thornhill, 2009).

3.4 Types of Data, data analysis and data collection method

3.4.1 Nature and type of Data required

The researcher used both primary and secondary types of data as follows:

3.4.1.1 Primary Data

The primary data collection in this study was mainly based on a structured questionnaire. A structured questionnaire containing both open and closed-ended questions for getting original data was used. Open-ended questions which are likely to receive a long answer were used because they require the respondents to think and reflect, give opinions and feelings, and they control the conversation to the respondent. Closed-ended questions which could be answered with a single word or short phrase were used because they give facts, are easy to answer, quickly to respond and keep control of the conversation with the questionnaire.

The researcher gathered information from respondents randomly selected from members of staff, management and Internal Audit Unit (IAU). Where appropriate the researcher also used observation method whereby respective internal auditor officers were observed while at work.
3.4.1.2 Secondary Data

Secondary data on Internal Auditing were obtained from existing published and unpublished literatures. They also derived from NBAA Library, Mzumbe University Library, and website.

3.5 Data collection Methods

The researcher used observation, interviews, and questionnaires in collection of data.

3.5.1 Interviews

The researcher, through face to face interactions, asked the respondents some relevant questions and recorded answers. This was additional information to the questionnaires.

An interview guide was prepared in order to have consistency. In this case structured and unstructured interviews were used. The interviews were conducted to middle cadres and executive officers.

3.5.2 Questionnaires

There was a set of questions designed to be leading questions whereby the respondents were required to answer YES or NO. Also, for the purpose of having independent opinions the respondents were required to fill in the gaps and make comments. The questionnaires were in English language as Appendix 1 shows.

3.6 Data Analysis Techniques

The data were analysed using ACL package version 9.2.3, which has various functions for data analysis like count record, statistical, stratify, classify, summarise, cross tabulate, benford analysis. Also, descriptive statistics such as the calculation of frequency, percentage, mean, standard deviation was done. ACL has a function of tool and analysed which can be used to analyse explanatory research data.
CHAPTER FOUR
DATA ANALYSIS AND DISCUSSIONS

4.0 Introduction

This chapter the researcher discusses the findings of the research basing on the primary data and secondary data collected, starting with general overview of the findings and examining the factors that are present and functional the internal auditing system in Mufindi District council is said to be effective. The researcher was able to have discussions and interviews with key stakeholders of internal audit services in the Mufindi District council, main respondents were the Accounting Officer and Head of Internal Auditors.

The researcher managed to collect questionnaire from all departments of the council together with other stakeholders as well as the District Executive Director was interviewed. This chapter provides answers to key questions raised, within the framework of limitations. Data collected were analyzed based only on qualitative method of data analysis.

4.1 General Overview

The researcher conducted survey on departments that have the headquarters offices in Mafinga. And the respondents had the relevant experiences and appropriate positions in relations to internal auditing in their departments.

4.2 Findings and Analysis

The discussions and analysis of the findings done on the main factors that have direct relationships with effectiveness of the internal audit services as observed by the researcher. The questioners provided were divided into five sections as follows: section one (assessing the work force of the internal audit unit), section two (assess the function of internal audit unit in the organisation), section three (assess the effectiveness of audit committee), section four (assessing the qualifications and standards guiding the audit activities), section five (assessing the challenges, performance and line of reporting for the internal audit).the analysis is elaborated below.
4.2.1 Analysis of the Questionnaire Responses

The discussions and analysis of the findings where done on the main factors that have direct relationships with effectiveness of the internal audit services as observed by the researcher. The questioners provided were divided into five sections as follows: part A (Respondent profile), part B (assessment on the resources available to the internal audit unit), part C (assessment on the public audit committee), part D (to assess the organization setting of internal audit unit), part E (the question about the challenges, performance and line of reporting for the internal audit unit). The analysis is elaborated below.

PART A: RESPONDENT PROFILE

Table 4.1 Question A- 1: What is your Education level?

<table>
<thead>
<tr>
<th>F2</th>
<th>Count</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A- PhD</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B- Postgraduate degree</td>
<td>15</td>
<td>26</td>
</tr>
<tr>
<td>C- Undergraduate degree</td>
<td>35</td>
<td>60</td>
</tr>
<tr>
<td>D- Diploma</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>E- Certificate</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>58</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Responses from questionnaire**

From the table above it shows that more than 60% of the respondents were graduates. This means those respondents have knowledge and skills which can provide constructive inputs to this study.
Table 4.2 Question A- 2: How long you worked with the office

<table>
<thead>
<tr>
<th>F6</th>
<th>Count</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A - Less than 1 year</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>B -1-10yrs</td>
<td>17</td>
<td>29</td>
</tr>
<tr>
<td>C -10-20yrs</td>
<td>30</td>
<td>51</td>
</tr>
<tr>
<td>D - More than 20yrs</td>
<td>10</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>59</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Responses from questionnaire

From the above table, it shows that 51% of the respondents have worked with the organization between 10 and 20 years, this shows that most of the respondents have experience which can add value to this study. They know the organisation weakness and strength regarding the internal audit office.

PART B: Assessment on the resources available to the internal audit units.

In this question the researcher intended to evaluate the resources available to internal audit units if they are enough and not limited. The respondents responded is indicated below.

Table 4.3 Question B-1: How do you compare the number of staff in internal audit unit (IAU) against workload?

In this question the researcher aimed at evaluating if internal audit unit has resources to perform their duties. The responses were as follows below.

<table>
<thead>
<tr>
<th>F2</th>
<th>Count</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A - Too many</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>B - Adequate</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>C - Few</td>
<td>38</td>
<td>64</td>
</tr>
<tr>
<td>D - Too few</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>59</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Responses from questionnaire

From the above table, 64% of the respondents showed that the internal unit had few staffs as compared to the workload. This shows that the effectiveness of internal audit
cannot be reached with few staff. The research on the other side indicates that only 2% of the respondents indicated that the internal unit was too many, while 25% said that they were are adequate. This has an impact on the effectiveness of the report produced by internal audit which in turn affects the effectiveness of internal audit units as one of the specific objectives of determining the adequacy of resources to internal audit units since the effectiveness of IAU depends on the report by internal auditors.

Table 4.4 Question B-2: Is the budget provided to internal audit unit adequate to perform its activities?

<table>
<thead>
<tr>
<th></th>
<th>A -YES</th>
<th>B -NO</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is the budget adequate?</td>
<td>11 (19%)</td>
<td>48 (81%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>Are resources, working tool and office space sufficient?</td>
<td>17 (29%)</td>
<td>42 (71%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>Do you have audit committee in your council?</td>
<td>59 (100%)</td>
<td>0 (0%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>Most of audit committee members are from the council itself?</td>
<td>55 (93%)</td>
<td>4 (7%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>Are the Audit committee recommendations worked on effectively?</td>
<td>14 (24%)</td>
<td>45 (76%)</td>
<td>59 (100%)</td>
</tr>
</tbody>
</table>

Source: Responses from questionnaire

From the above table 81% of the respondents said that the budget to internal audit unit was not adequate to perform their duties. Therefore it was difficult to perform its duties effectively. This then has an impact on evaluating the process of performing audit work in LGAs. The process of performing audit work in LGAs as one of the specific objectives on examining the impact of internal auditor works. Since the internal audit is not provided with enough budget to perform their duties, the report produced will not have positive impact due to the fact that lack of resources affects audit coverage and knowledge and skills of internal auditors. Also, budget constraints affect tools needed for auditors to perform their duties effectively.

This is in line with an article by Mboagella (2011) who said that “resources is one of the challenges for internal audit functions in Tanzania, especially in public sector which then leads to inadequate coverage in their duties”.
Furthermore, the recent report 2010/11 of the CAG shows this to be the biggest challenge for internal audits in public sector.

**Question B-3: Are the resources in terms of working tools and office spaces to internal audit sufficient as compared to other departments?**

From the above table in question B-2, 71% of the respondents replied that internal audit unit had no tools to perform their duties as compared to other department. This shows that the internal audit unit is not given its importance and hence difficult to perform their activities. This also is in line with the above findings which indicate that resources internal auditor is the big problem which affects the internal audit works as one of the specific object of the study. It also affects the performance of audit committee as another specific objective of the study as internal audit report affects recommendations of the audit committee who rely on internal audit works.

**PART C: Assessment on the Public audit committee**

**Table 4.5 Question C-1: Do you have audit committee in your council?**

<table>
<thead>
<tr>
<th>Do you have audit committee in your council?</th>
<th>A -YES</th>
<th>B -NO</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>59 (100%)</td>
<td>0 (0%)</td>
<td>59 (100%)</td>
<td></td>
</tr>
<tr>
<td>Most of audit committee members are from the council itself?</td>
<td>55 (93%)</td>
<td>4 (7%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>Are the Audit committee recommendations worked on effectively?</td>
<td>14 (24%)</td>
<td>45 (76%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>Do audit committee have audit committee charter?</td>
<td>8 (14%)</td>
<td>51 (86%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>Do CAG informed and represented in the audit committee meetings?</td>
<td>5 (8%)</td>
<td>54 (92%)</td>
<td>59 (100%)</td>
</tr>
</tbody>
</table>

**Source: Responses from questionnaire**

From the above table, 100% of the councils had audit committees. Therefore, the councils complied with Finance Act, and it shows that there is progress in making the internal audit unit independent. This finding assisted in answering one of the specific objectives of examining effectiveness of the audit committee as it shows all councils have audit committee in place as the Public Finance Act, 2004 directs for establishment of this committees.
According to Salehi 2009, there are factors that affect the independence of auditors that have been studied that include the presence/absence of audit committee.

**Question C-2: Most of audit committee members are from the council itself?**

From the table in question C-1, 93% of the respondent showed that most of the members of the audit committee are from the council, therefore it implies that there is no independence of internal auditor as the auditor is examined by the same staff who audits. One of the specific objectives was to examine the effectiveness of the audit committee, the results show that only 7% of the audit committee members are from the council itself, executive staff in the council. This violates the principle rule in the auditing that you cannot audit yourself, the executive management cannot audit itself and take steps against itself (Mbongella, 2011).

**Question C-3: Are the audit committee having enough resource to perform their duties?**

From the table in question C-1, 76% of the respondent replied that the audit committee has not enough resource to perform their activities. This implies that they cannot perform effectively their duties and therefore internal auditor independence cannot be assured. This also answers the specific objective on the effectiveness of audit committee, since the committee has no resource even their skills, knowledge and coverage of their duties will be affected and hence the effectiveness will not be as expected. According to Salehi (2009), there are factors that affect the independence of auditor that have been studied; one of them is financial condition. Therefore, resource constraint to audit committee affects their effectiveness.

**Question C-4: Are the Audit committee recommendations worked on effectively?**

From the table in question C-1, 76% of the respondent replied that the audit committee recommendations are not worked on effectively, therefore they are not effective to guarantee internal control system and internal auditor independence. This also cements the above finding on which the audit committee has not enough resource to perform their duties, this leads to ineffectiveness in their duties. This addresses the specific research objective of examining the effectiveness of audit committee.
**Question C-5:** Do audit committee have audit committee charter?

From the table in question C-1, 86% of the respondent replied that the audit committee has no charter, this means that the working of audit committee is not effective as the charter is the strong tool which defines the working of the committee. One of the specific objectives was to examine the effectiveness of audit committee, lack of audit charter of most audit committee means the committee are not effective to perform their duties.

**Question C-6:** Do CAG informed and represented in the audit committee meetings?

From the table in question C-1, 92% of the respondent replied that the CAG is not informed and represented in the audit committee meetings. This implies noncompliance to Finance Act which then has implications to audit committee not effective and then lack of internal auditor independence.

**PART D: Assessment on the challenges, performance and line of reporting of internal audit unit.**

**Table 4.6 Question D-1: Does your office have internal audit charter?**

<table>
<thead>
<tr>
<th></th>
<th>A -YES</th>
<th>B -NO</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does your office have internal audit charter?</td>
<td>11 (19%)</td>
<td>48 (81%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>Is there any quality review of internal audit work?</td>
<td>6 (10%)</td>
<td>53 (90%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>Is there direct communication of the internal auditor and Controller and Auditor General?</td>
<td>2 (3%)</td>
<td>57 (97%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>Is there internal audit plan every accounting period for the internal auditor?</td>
<td>49 (83%)</td>
<td>10 (17%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>Internal Auditor has full access to all records and information of the organization?</td>
<td>12 (20%)</td>
<td>47 (80%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>Does the internal audit comply with International Professional Practices Framework (IPPF) issued by IIA?</td>
<td>6 (10%)</td>
<td>53 (90%)</td>
<td>59 (100%)</td>
</tr>
</tbody>
</table>

**Source: Responses from questionnaire**

The above table shows that 81% of the respondents showed that there is no audit charter in their office; this shows that the working of internal audit unit is not effective as the charter governs the working of internal auditors. The charter also states the independence of internal auditor; having no charter means even their independence is questionable.
This has a direct effect on the communication right, reporting, procedures of internal auditors as this are the specific objective of the study as the charter act as the contractual agreement of internal auditors and the Management.

**Question D-2: Is there any quality review of internal audit work?**

From table in question D-1, 90% of the respondent replied that there is no quality review of the internal audit work, this therefore implies the work of internal auditor is not reviewed by external part to show if it is effective. This can lead to reluctance of internal auditor to strengthen the internal control system in the organisation, it implies then that internal controls in councils are not effective. NBAA regulations require quality review for auditors with the aim of increasing effectiveness of audits. This also affects internal auditor reports as they lack quality review which increases its effectiveness, one of the specific objectives of this study. Annual confirmation of compliance with the policies and procedures on independence from its staff (Wallman 1996, and Sarbanes-Oxley Act, 2002) will increase internal auditor independence and hence effectiveness in control system in Local government authority.

**Question D-3: Is there direct communication of the internal auditor and Controller and Auditor General?**

From table in question D-1, 97% of the respondent replied that there is no direct communication of the auditor to CAG, this therefore affects the internal auditor independence and hence effectiveness of the internal audit unit. Direct communication of internal auditors to CAG will enhance internal auditor’s independence before the office of Internal Auditor General starts his operations effectively. This finding addresses one of the specific objectives on examining the communication right of internal auditor which can increase internal auditor independence, hence limiting of communication right leads to lack of independence of internal auditors.

**Question D-4: Is there internal audit plan every accounting period for the internal auditor?**

From table in question D-1, 83% of the respondent said that the audit units prepare their audit plan. Therefore, the audit unit plan their work but as above seen the resource is one of the limiting factors in meeting their plans.
According to NBAA, code of Professional ethics requires that audits establishes policy and procedures designed to provide it with the reasonable assurance that its personnel are complying with the relevant ethical requirements among of which is the professional independence. This finding implies that internal audits plans their work but are affected with the resources to implement their plans.

**Question D-5: Internal Auditor has full access to all records and information of the organization?**

From table in question D-1, 80% of the respondent replied that internal auditor has no full access to information which implies the auditor work is not effective to ensure internal audit effectiveness. This also shows that internal auditors are not independence to their work. Also, this finding implies the internal auditors are not trusted to confidential information while the code of ethics by NBAA directs auditors to abide to ethics and one of them is the issue of confidentiality.

**Table 4.7 Question D-6: What are the qualifications of internal auditors?**

<table>
<thead>
<tr>
<th>F7</th>
<th>Count</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A- Certificate</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B - Diploma</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>C - Degree</td>
<td>38</td>
<td>64</td>
</tr>
<tr>
<td>D - Degree and CPA</td>
<td>13</td>
<td>22</td>
</tr>
<tr>
<td>E - Degree, CPA, Masters</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>59</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Responses from questionnaire*

From the above table 64% of the respondent said the qualifications of internal auditor is degree, this imply that most of the internal auditors are not professional to their work as the required qualifications are degree, CPA and CIA. According to Mbongella (2011) for internal auditors in Tanzania to perform internal audits that add value and to be able to benchmark their work with global standards they need to have Certified Internal Auditor (CIA) qualification besides CPA. Also, it is important to ensure internal audit functions have multiple skills within their departments to be able to audit all major areas of operations of their organizations. Currently Tanzania has less than 20 Certified Internal auditors compared to over 200 in Kenya. Therefore, their work is not effective due to lack of required skill and knowledge.
This finding address one of the specific objectives of examining attitude, procedures and impact of internal auditors reports which cannot be effective as most of auditors have not the required qualifications to perform their duties effectively.

**Question D-7:** *Does the internal audit comply with International Professional Practices Framework (IPPF) issued by IIA?*

From the table in question D-1, 90% of the respondent responded that the internal audit unit does not comply to IPPF, therefore their effectiveness of internal audit unit in the councils is very low and hence independence of internal auditors. NBAA regulations are now mandatory for internal audits to comply to IPPF to perform internal audits works that add value and to be able to benchmark their work with global standards. The finding also address one of the specific objective of examining internal auditor procedure of work which it shows is not good as it does not follow stipulated regulations.

**PART E: Respondent opinion on internal auditor independence and internal audit services**

**Table 4.8 Question E-1: What is your perception on the independence of internal auditors?**

<table>
<thead>
<tr>
<th></th>
<th>Not important</th>
<th>Important</th>
<th>Very important</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is your perception on the independence of internal auditors?</td>
<td>2 (4%)</td>
<td>5 (10%)</td>
<td>45 (86%)</td>
<td>59 (100%)</td>
</tr>
<tr>
<td>What is your opinion on the working relationship between internal audit unit and Management?</td>
<td>40 (70%)</td>
<td>13 (23%)</td>
<td>4 (7%)</td>
<td>57 (100%)</td>
</tr>
<tr>
<td>In your opinion how do you judge perception of stakeholders on the importance of internal audit work?</td>
<td>30 (57%)</td>
<td>17 (32%)</td>
<td>6 (11%)</td>
<td>53 (100%)</td>
</tr>
</tbody>
</table>

**Source: Responses from questionnaire**

From the above table, it shows that 86% of the respondent indicated that the independence of internal auditor is very important issue in the working of internal auditor. Independent auditor add value to organisations, it enables internal auditor opinion to be of value as an auditor can evaluate the organisation free of pressure/influence from other people. The respondent therefore suggests that
independence of internal auditor is a crucial element in strengthening the effectiveness of internal audit unit. Also, the finding justifies the general objective of this study on the effectiveness of internal audit unit in local government authorities for managing public funds as 86% of the respondents see this to be important.

**Question E-2: What is your opinion on the working relationship between internal audit unit and Management?**

From the above table in question E-1, 70% of the respondent indicated that the working relationship between internal auditor and Management is not good. It implies that there is a problem between this parties which is attributed, in most cases, the functions of internal auditor is not well understood by either parties or one part. The basic role of internal auditor is to assist Management in carrying their duties, assist Management by carrying audit, which then assist Management through giving various recommendations for decision making which improve organisation performance. This result suggests that the working of internal auditor is not independent. Therefore, there is a need of making internal auditor independence so that the value of internal auditor can be realized. Also, it imply the internal auditor is not working as consultancy activities which the literature see as important to internal auditor according to Saens and de Beelde (2006) and Paape, Scheffe and Snoep (2003) who suggested it is better for internal auditor to perform consultancy assignments in order to protect and maintain independence.

**Question E-3: in your opinion how do you judge perception of stakeholders on the importance of internal audit work?**

From the above table in question E-1, 57% of the stakeholder does not value the working of internal auditors; this suggests that the performance of internal auditor does not meet the expectations of stakeholders. One of the reasons of internal auditor work not being valued is lack of independence of internal auditor which then influences their opinion, independent internal auditor express opinion free from influence. The results also suggest that internal auditors work needs to be improved and one of the things is to make internal auditor independent.
Table 4.9 Question E-4: In your opinion what is the role of audit committee on the working and independence of internal audit?

<table>
<thead>
<tr>
<th>F12</th>
<th>Count</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>To improve working and independence of internal audit</td>
<td>42</td>
<td>84</td>
</tr>
<tr>
<td>Not to improve working and independence of internal audit</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>I don’t know</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Others (mention)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Responses from questionnaire

Eighty four per cent (84%) of the respondent indicated that audit committee is important organ in working and independence of internal auditors, it suggests that to make internal auditor perform to expectations there is the need of making audit committee function well. To improve independence and performance of internal auditor is direct proportional to performance of audit committee. Therefore, the study suggests that audit committee needs to be strengthened so that internal auditors can work well and then strengthen the internal control system. According to the PFA2004 Audit committee among other duties it evaluates works of internal auditor.

Question Source: Responses from questionnaire

Table 4.10 E-5: What is the working relationship of internal audit and external audit?

<table>
<thead>
<tr>
<th>F13</th>
<th>Count</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not good</td>
<td>43</td>
<td>77</td>
</tr>
<tr>
<td>Good</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Very good</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>I don’t know</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Responses from questionnaire

The study shows that 77% indicated that the working of internal auditor and external auditor is not good, which implies that external auditor does not rely on work done by internal auditors. The working relationship between these parties is that before external auditor make use of internal audit work, he/she examines if the internal auditors are
independent, if not then the external auditor makes no use of internal audit works. Therefore, the studies indicate that the internal auditor are not independent, which has an effect of complicating work of external auditors who always have limited time to go audit all organisations activities hence their contribution of their opinion is not of great value in situation where their working relationship with internal auditor is not good. Therefore, central government needs to enhance independence of internal auditor so that the value of external auditor to organisation is increased.

Table 4.11 Question E-6: In your opinion what factors threaten the effectiveness of internal audit unit?

<table>
<thead>
<tr>
<th>F14</th>
<th>Count</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting right</td>
<td>37</td>
<td>63</td>
</tr>
<tr>
<td>Communication right</td>
<td>31</td>
<td>53</td>
</tr>
<tr>
<td>Training</td>
<td>29</td>
<td>49</td>
</tr>
<tr>
<td>Resource</td>
<td>21</td>
<td>36</td>
</tr>
<tr>
<td>Audit committee</td>
<td>43</td>
<td>73</td>
</tr>
<tr>
<td>All the above</td>
<td>41</td>
<td>69</td>
</tr>
<tr>
<td>None of the above</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Others (mention)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>59</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Responses from questionnaire**

Sixty nine per cent (69%) indicated that, effectiveness of internal audit unit is affected by reporting right, communication right, training, and resource and audit committee. They ranked the factors differently from factor which affect more to less as follows: audit committee (73%), reporting right (63%), communication right (53%), training (49%) and resource (36%). The audit committee evaluates work of internal auditor that is why it ranked high and is governed by PFA. Other factors are the reporting line, where internal auditor report his/her work and the communication right, to whom can auditor communicate his/her work whenever the situation needs so as to improve his/her report. Therefore, the above factors need to be worked out so as to improve the effectiveness of internal audit unit.
Table 4.12 Question E-7: In your opinion how the effectiveness of internal audit unit can be enhanced?

<table>
<thead>
<tr>
<th>F15</th>
<th>Count</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving factors above in E-6</td>
<td>55</td>
<td>100</td>
</tr>
<tr>
<td>Others (Mention)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Responses from questionnaire

From the above table, 100% of the respondent agrees the factors affecting internal audit unit effectiveness are audit committee, reporting right, communication right, training and resource, this finding cements the above finding which also shows that most of the respondent agreed with this factors being the one affect internal audit effectiveness. Therefore, improving these factors enhance the effectiveness of internal audit unit LGAs.

Table 4.13 Question E-8: What are the advantages of effectiveness of internal audit unit?

<table>
<thead>
<tr>
<th>F16</th>
<th>Count</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving funds management in LGAs</td>
<td>42</td>
<td>93</td>
</tr>
<tr>
<td>I don’t know</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>others (mention)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Responses from questionnaire

Ninety three per cent (93%) of the respondent shows that effectiveness of internal audit unit will improve funds management in the local government’s authorities. Therefore, the study can conclude that effectiveness of internal audit unit is a crucial factor in improving funds management in LGAs and the government needs to strive to improve and enhance the effectiveness of internal audit unit in LGAs.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter briefly concludes the overall findings on effectiveness of the internal audit in Tanzania Local Authorities. The findings emanate from interviews, questionnaires and discussions with District Council Internal Auditors, key stakeholders within the Accounting Officer office, Heads of different departments within the council, council employees and other interested parties in Internal Audit development in the Local authorities. The chapter also provides feasible recommendations and potential areas for further research and improvement.

5.1 Conclusions

The findings of this research provided a substantial evidence to conclude that in general internal auditing in the LGAs is not effective. Ineffectiveness is a result of a number of factors. The critical factor affecting the effectiveness of internal auditing in LGAs is independence status of internal audit. The head of internal audit is the Accounting Officer (District Executive Director) and also he/she is responsible for the day to day supervision of the internal audit and systems. Under this arrangement the Accounting Officer has dual roles, one being accounting, the other is the oversight function of public finances. The same person through the internal audit arm, which renders internal audit function to be lacking independence and objectivity, performs these responsibilities, which are the principle qualities of an effective oversight function.

Another factor, which contributes much to the ineffective of internal audit services, is the set-up of the audit committee. The audit committee plays a crucial role in enhancing independence and objectivity of internal auditing function in respect of reporting and performance.

The principal weakness of the audit committees formed under Public Finance Regulations lies in the fact that most of the members are drawn from senior members of the management of the organization.
Apart from the ambiguity as to the required level of seniority of the member in the organisation, the members lack independence and objectivity, which are vital ingredients of effective oversight functions.

Appointment of members from senior official of the LGA means that the committee members are performing an oversight role of their activities. Independence and objectivity of the members is seriously impaired when it comes to discussing issues relating to one of their colleague or the Accounting Officer who had appointed them. By this reasoning, it is obvious that members chosen from within the organisation will be affected by conflict of interest arising from the mentioned scenarios.

Another factor, which affects the performance of the internal audit, is the issue of stakeholders in terms understanding and perception of internal audit and its importance of its services within their organizations. They provide less support to internal audit units in terms of resources provisions for internal audit units. Lack of understanding and wrong perception towards internal audit by different stakeholders in LGAs hinders effectiveness and efficiency of internal audit units.

Another weakness was the low awareness at LGAs on the roles and importance of the internal audit. The internal audit unit of the LGAs formulates the recommendations on the basis of their findings and reports to the heads of the organisations through the Audit Committee. In order to ensure the effectiveness of internal audit, it is necessary for the head of organisation to formulate and implement the measures in response to the recommendations. However, due to the low awareness such improvement in the business process is rarely seen in MDC.

Understaffing in terms of numbers and relevant skills and knowledge is another obstacle for internal auditing in LGAs to be effective in service delivery. The current scheme of service for the internal audit service allows staff with accounting qualification to work in the audit function. This was based on the assumption that internal audit work is about compliance with the financial regulations and procedures.

Having internal audit staff with accounting background only, it is not possible for internal audit units to perform other internal audit activities and such as performance audit as well as areas beyond financial compliance.
Internal auditing’s cultural shift from a policing activity to a function that contributes positively to the organisation needs to be nurtured and well managed. Success factors must be redefined to measure implementation of recommendations rather than merely reporting the number of errors detected. These changes will need time and will usually go through transitional stages. Demonstrating effective and efficient service delivery will drive the demand for an enhanced internal audit function.

5.2 Recommendations

The following are the recommendations given by the researcher after analysing findings and discussion from the questionnaire, discussion and interview from different stakeholders involved in this research. Recommendation given will useful in improving the effectiveness of internal audit in MDAs and raise the status in terms of independence and objectivity.

5.2.1 Establishment of Internal Audit Department

The Government should establish and empower in terms of resources an independent department of internal audit as a step to further improve the accountability, transparency and good governance process in the management of public resources. The establishment of the department will also be compliant to recommendations of the Controller and Auditor General.

It is further recommended that the implementation should not be limited to removing the internal audit function under the Accounting Officer but rather implementing it in a way to enable creation of a well-structured and effective Internal audit service capable of delivering high quality of service to the Tanzania Local Government Authorities. A service that will be capable of serving the government with the highest level of independence, and provide objective recommendations that will improve the service delivery of the Government.

5.2.2 Review of the Public Finance Act

There is a need to review or make amendment of the existing Public Finance Act. The amendment is necessary for the following reason;
(i) To include the provisions that will facilitate an enabling environment for an effective internal audit services. The important issues to be included are such as, reporting responsibilities and linkage between the audit Units at MDA level and the Treasury,

(ii) To include in the act the necessary provisions that clearly set out the responsibilities between the internal audit function and the management of the organisation and the audit committees in relation to internal control, risk management and governance arrangement,

(iii) Improve the provisions relating to the establishment and operation of effective audit committees.

It is recommended that, the amendment of the law needs to be done first before the establishment of the department. Effective internal audit system must have a framework from which it draws its operating mandate and authority.

5.2.3 Reporting Structure

In order to allow for adequate independence of the entire internal audit function in the government the researcher recommends that, the head of internal audit function in the government should report to the paymaster general who is the permanent secretary to the Treasury. This will make the whole internal audit function to be administratively answerable to the paymaster general. Furthermore, this will enhance organizational independence of the internal audit function.

5.2.4 Employment and Rotation of internal Auditors

In this aspect researcher recommend that, at all times the internal audit maintains adequate level of independence and objectivity this will be achieved when the employment of internal auditors in the government service should be centralised under internal audit department which report to the permanent secretary, Treasury. The auditors serving the LGAs should be seconded and rotated periodically.

5.2.5 Development of New Scheme of Service

The researcher recommends the review of existing scheme of service to consider opening the internal audit function with staff from other professional background.
Internal audit is now coming up as a distinct profession in its own course of study and professional development scheme. It is thus recommended that internal audit staff to undergo specific training in the area of audit procedure, process and reporting. This means a staff employed as internal auditor from whatever background may be able to become a brilliant internal auditor in the same way as an accountant may become.

Most of the audit projects require a multiple skills team to come up with value adding output. A combination of different but relevant skills in an audit team has proved to have a synergetic on the performance of the audit function.

5.2.6 Recognition of the professional qualification of Internal Audit

In line with development of new scheme of service for internal audit services, the researcher recommends that the internal audit certification that is recognised by the institute of internal auditors be recognised to be important qualifications for the internal auditors in the service of the government.

This will necessitate going through the different levels of examinations conducted by the institute of internal auditors. The exams test competencies in similar way as the CPA examination does to the accounting professional. It is here recommended that these examinations be made mandatory for every staff working in the internal audit service.

5.2.7 Training of Internal Auditors

The researcher recommends that the government should continue to invest in building the capacity so as to come up with a cadre that will be able to deliver quality service to the government which it is supposed to serve. It is also recommended that a drafting of a long term plan that will define actions and milestones that will cover the period to 2015 which the government has set for internal audit be fully compliant with international internal audit standards.

Aligning the training with the development plan will facilitate the design and implementation of a more effective capacity building process for internal audit function.
5.2.8 Development of codes of Ethics for Internal Audit Service

The researcher recommends that, there is a need to develop as early as possible the code of ethics for the staff of internal audit service. This will enable aligning the ethical standards and the behaviours of the internal auditors as part of the development of the training programme of the internal auditors.

Generally, bringing about the necessary changes in culture, perception, and even internal audit services will do improvement of the effectiveness of internal audit at LGAs. Indeed, strong, active leadership support to improve governance is over-whelming prerequisite for successful reform of internal audit in public sector. Buy in and active involvements are needed from the head of internal auditing, senior management, audit staff and accounting officers. For sustainable change, internal corporation is not enough. External relationships must cultivate as well. Stakeholders and policy and decision makers must be kept aware of changes, reforms, and improvements in internal auditing, so they will take into account the contributions internal audit can offer.

Finally, it is hoped that the research findings in this research will be of benefit to the public sector in Tanzania. If that should occur, the primary objectives of this research project would have been achieved.

5.2.9 Suggestion for further Research Areas

The following are potential area for further research:

(i) The role of Audit Committee in Public Finance Management in the Local Government Authority of the URT.
REFERENCES


Auditors and Accountants (Registration) Act, 1972 as revised in 1995


Frigo, Mark L. A Balanced Scorecard Framework for Internal Auditing Departments.

IIA Research Foundation. Altamonte Springs, FL.: 2002


National Board of Accountants and Auditors (2002), Tanzania Auditing Standards, NBAA, Dar-es-salaam, Tanzania


Public Procurement Act, 2004 and the Public Procurement Regulations, 2005


pp.7


Stake R.E. (1995), The Art of case study design,
APPENDICES

QUESTIONNAIRE – INTERNAL AUDITORS STAFF

Dear Respondent

This is part of my research on the effectiveness of internal audit department in local government authorities on improving public fund management. The research mainly aims at establishing the effective of internal audit department in LGAs in order to improve local government finance management in LGAs. Your respond will be of advantage to my dissertation which I am doing now at Mzumbe University, School of Public Administration and Management.

It is not necessary to mention your name if you feel is confidential issue and this information will be treated confidential and will be used for the case of study/dissertation purpose only, the questionnaire is designed in a way that is simple for you to fill in short time.

Thank you in advance for the time and effort I appreciate it and if you have any comments on the questions please do not hesitate to contact me through the email below.

With thanks,

Richard Boniphace Dittu.
Msc. LGM – Student.

For any query feel free to communicate with me through the following contacts:

Email: ditturichard@gmail.com
Tell: +255784 479 478
     +255754 479 478
     +255713 479 478
     +255773 479 478
Part A - respondent profile

Please tick (✓) beside the appropriate answer.

A-1. What is your Education level?
   a) PhD                                           (    )
   b) Postgraduate degree                  (    )
   c) Undergraduate degree               (    )
   d) Diploma                         (    )
   e) Certificate                         (    )

Other – specify _____________________________

A-2. Your position _____________________________

A-3. How long you worked with the office:
   a) Less than 1 year                   (    )
   b) 1-10yrs                            (    )
   c) 10-20yrs                           (    )
   d) More than 20yrs                   (    )

Part B: assessment on the resources available to internal audit department. Please tick (✓) beside the appropriate answer

B-1. How do you compare the number of staff in internal audit depart. (IAD) against workload?
   a) Too many             (    )
   b) Adequate          (    )
   c) Few                 (    )
   d) Too few           (    )

B-2. Are the budget provided to internal audit unit adequate to perform its activities?
   a) Yes                     (    )
   b) No                      (    )

B-3. Are the resources for internal audit department sufficient as compared to other departments?
   a) Yes                     (    )
   b) No                      (    )
Part C: assessment on the public audit committee. Please tick (√) beside the appropriate answer

C-1. Do you have audit committee in your council?
   Yes [ ]  No [ ]

C-2. Most of audit committee members are from the council itself?
   Yes [ ]  No [ ]

C-3. Are the audit committee having enough resource to perform their duties?
   Yes [ ]  No [ ]

C-4. Are the Audit committee recommendations worked on effectively?
   Yes [ ]  No [ ]

C-5. Do audit committee have audit committee charter?
   Yes [ ]  No [ ]

C-6. Do CAG informed and represented in the audit committee meetings?
   Yes [ ]  No [ ]

Part D: To assess the organizational setting of internal audit unit.

D-1. Does your office have internal audit charter?
   Yes [ ]  No [ ] others [ ]

D-2. Is there any quality review of internal audit work?
   Yes [ ]  No [ ]

D-3. Are there clear policies and procedures against internal audit unit?
   Yes [ ]  No [ ]

D-4. Is there internal audit plan every accounting period for the internal auditor?
   Yes [ ]  No [ ]

D-5. Internal Auditor has full access to all records and information of the organization?
   Yes [ ]  No [ ]

D-6. Does the internal audit comply with International Professional Practices Framework (IPPF) issued by IIA?
   Yes [ ]  No [ ]
Part E: The questions about the challenges, performance and line of reporting for the internal audit unit.

E.1. To whom internal audit reports?
   a) Audit committee ( )
   b) Accounting officer ( )
   c) Head of departments ( )

E.2. Comment on the Improvements required to make Internal Audit Unit and audit committee in Public sector Effective?

……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………

E.3. What do you consider to be limiting factors for Internal Audit Unit in performance of their statutory functions?

……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………

E.4. Which challenges do your department is facing concerning effectiveness of internal auditing?

……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………


E.5. What action taken by your organization upon the challenges mentioned in question E.4 mention,
...........................................................................................................................................................
...........................................................................................................................................................
...........................................................................................................................................................
...........................................................................................................................................................
...........................................................................................................................................................

Optional

Name of department................................................................................................................................

Questionnaire completed by: ....................................................................................................................

Position: ...................................................................................................................................................

Thank you in advance again, for the time and effort I appreciate it and if you have any comments on the questions please do not hesitate to do so.

With thanks,

Richard Boniphace Dittu.
QUESTIONNAIRE – OTHER EMPLOYEES AND STAKEHOLDERS

Dear Respondent

This is part of my research on the effectiveness of internal audit department in local government authorities on improving public fund management. The research mainly aims at establishing the effective of internal audit department in LGAs in order to improve local government finance management in LGAs. Your respond will be of advantage to my dissertation which I am doing now at Mzumbe University, School of Public Administration and Management.

It is not necessary to mention your name if you feel is confidential issue and this information will be treated confidential and will be used for the case of study/dissertation purpose only, the questionnaire is designed in a way that is simple for you to fill in short time.

Thank you in advance for the time and effort I appreciate it and if you have any comments on the questions please do not hesitate to contact me through the email below.

With thanks,

Richard Boniphace Dittu.

Msc. LGM – Student.

For any query feel free to communicate with me through the following contacts:

Email: ditturichard@gmail.com
Tell: +255784 479 478
+255754 479 478
+255713 479 478
+255773 479 478

Part A- respondent profile

Please tick (√) beside the appropriate answer.

A-1. What is your Education level?
   a) PhD ( )
   b) Postgraduate degree ( )
   c) Undergraduate degree ( )
d) Diploma ( )
e) Certificate ( )
Other – specify _____________________________
A-2. Your position _____________________________
A-3. How long you worked with the office:
a) Less than 1 year ( )
b) 1-10yrs ( )
c) 10-20yrs ( )
d) More than 20yrs ( )

Part B: respondent opinion on internal auditor effectiveness and internal audit functions

Question B-1: What is your perception on the effectiveness of internal audit department?

<table>
<thead>
<tr>
<th>Not needed at all</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important</td>
<td></td>
</tr>
<tr>
<td>Important</td>
<td></td>
</tr>
<tr>
<td>Very important</td>
<td></td>
</tr>
</tbody>
</table>

Question B-2: What is your opinion on the working relationship between internal audit department and council director, HOD and councillors?

<table>
<thead>
<tr>
<th>Too bad</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Not good</td>
<td></td>
</tr>
<tr>
<td>Good</td>
<td></td>
</tr>
<tr>
<td>Very good</td>
<td></td>
</tr>
<tr>
<td>Excellent</td>
<td></td>
</tr>
</tbody>
</table>
**Question B-3:** in your opinion how do you judge perception of stakeholders on the importance of internal audit unit work?

Not needed  
Not important  
Important  
Very important

**Question B-4:** In your opinion what is the role of audit committee on the working and the effectiveness of internal audit unit?

To improve working and independence of internal audit unit  
Not to improve working and independence of internal audit dept  
I don’t know  
Others (mention)

**B-5:** What is the working relationship of internal audit and external audit?

Not good  
Good  
Very good  
I don’t know

**Question B-6:** In your opinion what factors threaten the effectiveness of internal audit unit?

# of staff in IAU  
Top management  
Training  
Resource  
Audit committee  
All the above  
None of the above  
Others (mention)

**Question B-7:** In your opinion how can the effectiveness of internal audit department are enhanced?

Improving factors above in B-6  
Others (Mention)
**Question B-8:** What are the advantages of internal audit department effectiveness?

<table>
<thead>
<tr>
<th>Good public fund manag. in LGAs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I don’t know</td>
<td></td>
</tr>
<tr>
<td>others (mention)</td>
<td></td>
</tr>
</tbody>
</table>

**Part C:** Please respond to correct answer about the functions of internal audit unit (IAU) in your organization. Tick (√) beside the appropriate answer

C-1. Are all audit activities done by the auditors?
   - Yes [   ] No. [   ].

C-2. Does IAU support the Management in all financial matters?
   - Yes [   ] No. [   ].

C-3. Does IAU provide reports as required monthly or quarterly?
   - Yes [   ] No. [   ].

C-4. Are the audit’s staffs attending seminars related to the increase the value in their work?
   - Yes [   ] No. [   ].

C-5. Does Internal Audit make follow up on the recommendations they give?
   - Yes [   ] No. [   ].

C-6. Does the internal audit departments staffs skilled and competent?
   - Yes [   ] No. [   ].

C-7. Does the working condition conducive for working?
   - Yes [   ] No. [   ].

C-8. Does IAU prepare monthly reports for the Management?
   - Yes [   ] No. [   ].

**Part D:** The questions about the challenges, performance and line of reporting for the internal audit unit. Please tick (√) beside the appropriate answer

D.1. To whom internal audit reports?
   - a) Audit committee (   )
   - b) Accounting officer (   )
   - c) Head of departments (   )
D.2. State the benefits of the IAU to the organization:

D.3. Comment on the Improvements required to make Internal Audit Unit and audit committee in Public sector Effective?

D.4. What do you consider to be limiting factors for Internal Audit Unit in performance of their statutory functions?

D.5. What is your opinion on the performance of IAUs in your organization?

D.6. Which challenges do your department is facing concerning effectiveness of internal auditing?

D.7. What action taken by your organization upon the challenges mentioned in question D.6 mention,

Optional

Name of department………………………………………………………………………..

Questionnaire completed by: ……………………………………………………………

Position:…………………………………………………………………………………..

Thank you in advance again, for the time and effort I appreciate it and if you have any comments on the questions please do not hesitate to do so.

With thanks,

Richard Boniphace Dittu.
# TENTATIVE BURGET FOR THE STUDY

<table>
<thead>
<tr>
<th>S/N</th>
<th>Activities description</th>
<th>Units</th>
<th>Qty</th>
<th>Prime per unity</th>
<th>Total cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Proposal preparation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Printing</td>
<td>Pages</td>
<td>50</td>
<td>100</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td>Photocopy</td>
<td>Pages</td>
<td>30</td>
<td>50</td>
<td>1500</td>
</tr>
<tr>
<td></td>
<td>Stationeries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Internet services</td>
<td>Hrs.</td>
<td>20</td>
<td>2000</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td><strong>Sub total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>111,500/=</strong></td>
</tr>
<tr>
<td>2</td>
<td>Questionnaire/ interview Schedule preparation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Printing questionnaire</td>
<td>Page</td>
<td>100</td>
<td>100</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>Photocopy</td>
<td>Pages</td>
<td>30</td>
<td>50</td>
<td>1500</td>
</tr>
<tr>
<td></td>
<td><strong>Sub total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>11,500</strong></td>
</tr>
<tr>
<td>3</td>
<td>Data collection</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Allowance to research assistance</td>
<td></td>
<td>5</td>
<td>100,000</td>
<td>500,000</td>
</tr>
<tr>
<td></td>
<td>Research allowance</td>
<td>Person</td>
<td>1</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transportation</td>
<td>Fuel</td>
<td>200</td>
<td>2500</td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td>Stationeries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Sub total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>1,035,000</strong></td>
</tr>
<tr>
<td>4</td>
<td>Data processing, report writing and binding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Data processing</td>
<td></td>
<td>1</td>
<td>1,500,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td></td>
<td>Report production</td>
<td>Pc</td>
<td>3</td>
<td>40,000</td>
<td>120,000</td>
</tr>
<tr>
<td></td>
<td>Binding</td>
<td></td>
<td>2</td>
<td>150,000</td>
<td>300,000</td>
</tr>
<tr>
<td></td>
<td><strong>Sub total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>1,920,000</strong></td>
</tr>
<tr>
<td>5</td>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>3,078,000</strong></td>
</tr>
</tbody>
</table>