EFFECTIVENESS OF INTERNAL AUDIT IN FOSTERING
FINANCIAL DISCIPLINE IN SOCIAL SECURITY FUNDS IN
TANZANIA:
A CASE OF PPF (PARASTATAL PENSION FUND) HEAD
OFFICE
EFFECTIVENESS OF INTERNAL AUDIT IN FOSTERING FINANCIAL DISCIPLINE IN SOCIAL SECURITY FUNDS IN TANZANIA: A CASE OF PPF (PARASTATAL PENSION FUND) HEAD OFFICE

By
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A Research Report Submitted in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration in Corporate Management (MBA-CM) to Mzumbe University.

2013
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a thesis entitled **Effectiveness of Internal Audit in Fostering Financial Discipline in Social Security Funds in Tanzania: A Case of PPF (Parastatal Pension Fund) Head Office-Samora**, in partial fulfillment of the requirements for award of the degree of Master of Business Administration in Corporate Management (MBA-CM) of Mzumbe University

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Internal Examiner

Accepted for the Board of .........................

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DEAN/DIRECTOR, FACULTY/DIRECTORATE/SCHOOL/ BOARD
ACKNOWLEDGEMENT

Special thanks goes to the Almighty God for giving me life, strength and guidance for the whole of my life especially in my report preparation time, and I believe He will be with me in my presentation.

My regard is also due to my supervisor Ms Mary Rutenge for his professional guidance, good supervision, constructive criticism, comments and suggestions on my report work.

I feel owing a debt of gratitude to the Management of the Mzumbe University Dar es salaam for granting me a chance of doing a research. I am also grateful to the community of PPF Staff and Management as a whole for their cooperation accorded to me during the course of the study.

Special thanks go to Mr. Martin Mmari (Director of Finance) Mr Julius Mganga (Director of Human Resource and Management), Mr Hosea Kashima (Director of Internal Audit) Mr Fredrick Maro, (Audit Manager) and Staff of Internal Audit Department and Staff of Finance Department for their guidance, assistance and cooperation they extended to me during my study time.

I also commend and say thanks to my Husband, my family, my baby Herieth, Winfrida Kelvin, Beatrice Linda and, Camilla, and friends for his supports and all friends who help me in one way or another, May God bless them all.
DEDICATION

The research report has been dedicated to my husband, family and friends my daughter especially Camilla, Beatrice and Gabriella for their love and support in completing my field work.
## ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>AA</td>
<td>Audit and Assurance</td>
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<tr>
<td>ACCA</td>
<td>Association of Chartered Certified Accountants</td>
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<tr>
<td>CA</td>
<td>Chief Accountant</td>
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<tr>
<td>CAG</td>
<td>Controller and Auditor General</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CIA</td>
<td>Chief Internal Auditor</td>
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<td>IA</td>
<td>Internal Audit</td>
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<tr>
<td>IASC</td>
<td>International Accounting Standards Committee</td>
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<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<tr>
<td>IPPF</td>
<td>International Professional Practice Framework</td>
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<tr>
<td>ISA</td>
<td>International Standards on Auditing</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<tr>
<td>PPF</td>
<td>Parastatal Pension Fund</td>
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ABSTRACT

The study focuses on assessment of the effectiveness of internal audit in fostering financial discipline in social security funds in Tanzania a case study of Parastatal Pension Fund.

The objectives were to determine the influence of internal audit in fostering financial discipline and its role in the organization, also determine the need for external auditors and suggests the area for improvement in PPF internal audit department. In the study the data was collected by questionnaires whereas 18 were administered in various department of PPF that regularly interact with internal audit department. Results were such that, it was unclear whether the functions of the internal audit department are clear or not with internal audit charter known to only 54.5% of respondents. Moreover it was observed in the study that the PPF management support the internal audit by provision of various facilities as well as implementing recommendations needed when department raises any queries and was agreed by 100% respondents.

The PPF had strong financial discipline as agreed by 88.9% of the respondents and achieved this by preventing the money embezzlement and misuse of finance sources of the institutions through continual audit of revenue and expenses of the institution regularly on weekly, monthly and annual bases and fosters the financial discipline as agreed by 94.4% of respondents.

The study recommends that management should keep up the support to internal audit department by giving it powers to make its own decisions, where possible to educate PPF workers on objectives of internal audit department.
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CHAPTER ONE

BACKGROUND INFORMATION

1.1 Introduction

In recent years, researchers and practitioners have widely discussed the need for internal auditors of adding more value to their companies operations, and contributing to the achievement of corporate objectives. 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) have raised the question “when can we talk about an effective IA function?” in his editorial 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”.

In our opinion, this is a key point. In fact, to improve risk management and internal control processes, the internal auditors have to convince the auditees about the quality of their work, persuading managers to implement their recommendations.
The internal auditors, in most of cases, do not act on the internal control-risk management system “directly”. They can identify a criticism or an area of potential improvement and provide managers, responsible of business processes, with an evaluation of the internal control–risk management system. Then, managers and officers have to decide whether and how enacting internal auditors’ recommendations. As highlighted by Mihret and Yismaw (2007), audit findings and recommendations would not serve much purpose unless management is committed to implement them. Implementation of audit recommendations is therefore highly relevant to audit effectiveness (Van Gansberghe, 2005; Sawyer, 1995). The effect that internal auditors have on the achievement of corporate objectives (i.e. their effectiveness) is influenced by the extent to which managers consider internal auditors’ work valuable and decide to exploit it. In such view, the effectiveness of IA depends on the quality perceived by the auditees.

Given the central role of auditees’ perceptions in relation to IA effectiveness, this paper aims at analysing which factors can influence the quality perceived by managers and can enhance auditees’ satisfaction over internal auditors’ contribution.

The Internal Auditing profession evolved steadily with the progress of management science after World War II. It is conceptually similar in many ways to financial auditing by public accounting firms, quality assurance and banking compliance activities (Sawyer, 2005). Recently the independence and scope of internal auditors has been improved by the introduction of Internal Professional Practice Statement (IPPF) and the introduction of a section in Public Finance Act, 2004 which requires the ministries, departments and agencies to have effective and strong internal audit debarments.

Ward and Robertson (1980) argue that external auditors are likely to rely more on internal auditors’ report before expressing an audit opinion. The enhancement in internal audit activities and processes while ensuring quality of service will most likely result in less time being spent by external auditors during statutory audit. This
study thus looks at the factors that contribute towards the effectiveness of internal audit in Tanzanian commercial banks for two reasons.

First, many of the African countries today strive to have open markets, creating investment friendly environment to attract more foreign investors and to develop industrialized economies together (Lwiza & Nwankwo, 2002). Tanzania being part of African countries has had implementations of reformation of the political and economic systems from early 1980’s which has observed a shift of the economy from socialist system to a more consumer driven system especially in bank industry. As a result, banks in Tanzania began transforming bank operations from cultural perspective to the customer-driven perspective. Secondly, Tanzanian banking sector has experienced a number of banking failures over time for example Meridian Biao Bank Limited, Tanzania Housing Bank and Delphi’s Bank. Empirical evidence (Chjoriga, 1997) also indicates that National Bank of Commerce failed due to an increase in non-performing assets although it did not go into liquidation.

The scope of internal auditing within an organization is broad and may involve topics such as an organization’s governance, risk management and management controls over efficiency, effectiveness of operations economic use of resources, the reliability of financial and management reporting, and compliance with laws and regulations. Internal auditing may also involve conducting proactive fraud audits to identify potentially fraudulent acts; participating in fraud investigations under the direction of fraud investigation professionals, and conducting post investigation fraud audits to identify control breakdowns and establish financial loss.

The auditors’ duties were established as support to the accounting staff and to audit the funds. They also performed other duties such as reconciliation of the payroll, checking accounts, to select but a few.
Beginning in about 2010, the institute of Internal Auditors (IIA) once again began advocating for the broader role internal auditing should play in the corporate arena, in keeping with the IPPF's philosophy.

The IPPF is already being administered in Tanzania, early this year local government, central government and parastatal in collaboration with the CAG office have frequently conducted seminars to advocate the required organizational independence from management which enables unrestricted evaluation of management activities and personnel and allows internal auditors to perform their role effectively. Although internal auditors are part of company management and paid by the company, the primary customer of internal audit activity is the entity charged with oversight of management's activities.

Department of Internal Audit also examined and evaluated the adequacy and effectiveness of the division’s system of internal control and the quality of performance in carrying out assigned responsibilities.

Management is responsible for internal control. Managers establish policies and processes to help the organization achieve specific objectives in each of these categories. Internal auditors perform audits to evaluate whether the policies and processes are designed and operating effectively and provide recommendations for improvement. Although internal auditors are part of company management and paid by the company, they require organizational independence from management, to enable unrestricted evaluation of management.

Therefore, this study will assess the effectiveness of internal audit in fostering financial discipline in social security funds in Tanzania; a case of Parastatal Pension Fund (PPF).
1.2 Statement of the Problem
Auditing in corporate governance entails an independent and objective review of the account of stewardship of an enterprise in order to express a neutral opinion as to the prudence and judicious management or otherwise of the statements so prepared (ACCA, 2011)

In recent years instances of fraudulent financial reporting have increased with such frequency and in such dramatic ways that stakeholders at all levels have been astounded (Myers, and Ziegenfuss, 2006). Globalization of business, technological advancements, increasing business failures, and widely publicized fraud, demand that entities place more emphasis on their internal control systems and internal audit functions (Zabihollah Rezaee, 1995).

Beginning in about 2010, the Institute of Internal Auditors (IIA) once again began advocating for the broader role the internal auditing function should play in the corporate arena, in keeping with the IPPF's philosophy. The IPPF is already being administered in Tanzania, early this year local government, central government and parastatal in collaboration with the CAG office frequently conducted seminars to advocate the required organizational independence of internal auditors from management which enables unrestricted evaluation of management activities and personnel and allows internal auditors to perform their role effectively.

1.3 Research Objectives
The study focused to achieve the following objectives

1.3.1 Main Objectives
The objective of the study was to assess the effectiveness of internal audit in fostering financial discipline in social security funds in Tanzania: a case of Parastatal Pension Fund.
1.3.2 Specific Objectives
To accomplish the above main objective, the specific objectives were
(i) To Find out how internal Audit foster financial discipline in organization
(ii) To investigate the role of internal Audit in organization
(iii) To identify why external auditor are needed even if there are internal auditors

1.3.3 Research Questions
(i) What are the factors fostering financial discipline in organization
(ii) What are the roles of internal Audit department at PPF?
(iii) Why external auditors are needed even if there are internal auditors?

1.4 Significance of the Study
The study reveals the information on factors to establishment of internal audit unit as well as internal audit functions at PPF and its compliance to laws and regulations. The study also portray several opinions by internal auditor regarding record keeping, preparation and interpretation of financial statements and effectiveness of internal controls as key indicators to fostering financial discipline.

The study also accumulated to what has already been done concerning Tanzania, and help other researchers to carry out their duties with respect to what was be put forward as well as using the research findings as reference material to other interested parties.

1.5 Organization of the Study
The study is organized in five chapters. Chapter One includes background information, statement of the problem, objectives, research questions, and significance of the study. Chapter Two presents literature review related to the study, definition of key terms, theoretical reflections, and empirical studies while research methodology is in chapter three. Research findings and discussion are in chapter four. Chapter five presents conclusion and recommendations
1.6 **Limitation of the Study**
Missing of some crucial information as anticipated because of Tanzanian tendency of not exposing details, also due to confidentiality purpose, anonymity as well as some respondents not being available at work place during the study.

1.7 **Scope of the Study**
The study focused on factors to establishment of internal audit unit as well as internal audit functions at PPF and its compliance to laws and regulations. Study also portrayed several opinions by internal auditor regarding record keeping, preparation and interpretation of financial statements and effectiveness of internal controls as key indicators to fostering financial discipline. The study analyzed the main issues in the theoretical and literature review including the empirical study.

1.8 **Summary**
This chapter introduced the key issues of this study, including the research problem, background to the research problem, the research objectives, statements of hypotheses and also gave some definitions and discussions of key concepts associated with this subject. In the second chapter, the key literatures that explain this subject matter are thoroughly and critically analyzed. These include the theoretical literature and the empirical studies done by other researchers on this subject.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction
This chapter presents the literature review of the study. It consists of theoretical review, empirical review and conceptual framework. The theoretical review provides the meaning of concepts and variables used in the study while the empirical part presents a thorough review of studies related to this one conducted by other scholars and researchers.

2.2 Definition of Terms
This involves activities of identifying and going through various literatures related to problem that was investigated, therefore a research summaries and presents all the relevant finding already existing on the topic.

The researcher tried to collect relevant materials by conducting long and critical literature review. The reason was to familiarize her with theories and concepts in the area of the study. Also literature review helped a researcher to know where other researchers in the same study have reached. Also it was for the purpose of familiarizing the researcher with research techniques normally used in the study of which she used to undertake.

2.3 Theoretical Literature Review
Meaning of Internal Control:
In various literatures, the phrase internal control system has also been used to bear the different implications;

According to Meigs (1985) “A system of internal control consists of measures employed by the business for the purpose of;

(i) Safeguard of its resources against fraud and inefficiency
(ii) Promote accuracy and reliability in accounting and operating data
(iii) Encourage and measure the compliance with company’s policy
(iv) And judging the efficiency of operation in all division of the business”

Saleemi, 2010 Defines internal control as the whole system of controls, financial and otherwise established/employed by the management in the conduct of the business in an orderly and efficient manner, safeguard assets and secure as far as possible the completeness and accuracy of the record. It includes internal check, internal audit and other forms of controls. Its efficient working in practical aspect is helpful not only for the management but also for the external auditors. Saleemi, 2010 elaborates further that internal control has achieved great importance in recent years. Internal controls comprises of
(i) Controls on purchases and creditors
(ii) Controls on stocks and work in progress
(iii) Controls on cash receipts and payments
(iv) Controls on wages payments
(v) Controls on sales and debtors

Business risk is the risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity’s ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies (IFAC, 2010)

Internal control means the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with a applicable laws and regulations.

According to (Millichamp 1996) Internal control system is the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the
completeness and accuracy of the records. The individual components of an internal control system are known as “controls” or “internal controls”

The details of the definitions are as follows;

**The whole system;** Internal controls can be seen as single procedures (eg Clerk A checks the calculations performed by Clark B) OR as the whole system. The whole system should be more than the sum of the parts.

**Financial and otherwise;** The distinction is not important. Perhaps financial would include the use of control accounts and otherwise may include physical access restrictions to computer terminals.

**Established by the management;** Internal control systems are established by the management, either directly or by means of external consultants, internal audit, or accounting personnel. External auditors may be asked to advice on the setting up of system.

**Carry on…efficient manner.** Clearly the converse is unacceptable in any business.

**Ensure adherence to management policies.** Not all management have expressed policies. But as an example a budget is an expression of management policy and adherence to the budget can be achieved by procedures such as variance analysis. Another example might be the selling price of the enterprises products being laid down by the management and controls existing to ensure that these prices are adhered to.

**Safeguard the assets.** Obviously allowing assets to be broken, lost or stolen, is unacceptable and procedures are always devised to safeguard them. Examples are locks and keys, the keeping of plant register, regular reviews of debtor balances etc. An aspect of this which is often overlooked is that payment where no benefits have been received , as payment for piece work not done, or setting up of liabilities where
benefit has been received as in fraudulent purchase and subsequent embezzlement of good by employees are both examples of failure to safeguard assets.

**Secure completeness.** It is especially important that all transactions are recorded and processed. Procedures which do this include checks that no goods leave the factory without a delivery note followed by regular comparison of invoices with delivery notes to see that goods sold (always evidenced by a delivery note) have failed to result in an invoice.

**And accuracy of the records;** Again, the converse is unacceptable. Example of the procedures to achieve this include checking of the work of one clerk by another or, the use of controls accounts, independent comparison of two sets of records eg stock records and stock, or piecework payments and good work put into store.

The term “control” refers to any aspects of one or more of the components of internal control (IFAC, 2010)

Internal control comprises the following components:

(i) Control environment
(ii) Entity’s risk assessment process
(iii) Information system, including the related business processes, relevant to financial reporting and communication
(iv) Control activities relevant to the audit
(v) Monitoring controls

**Risk assessment procedures** are procedures performed to obtain an understanding of the entity and its environment, including the entity’s internal control, to identify and assess the risks of material misstatements, whether due to fraud or error, at the financial statements and assertion levels(IFAC, 2010)
**External Auditor:** means is an auditor bear’s full responsibility for the audit opinion expressed and for determining the nature, timing and extent of external audit procedure, although certain areas of audit by the internal auditor may be useful to external auditor. The external auditor responsible for the comment gives on the reports issued by him regarding the performance of the client business as seen from a bird’s eye view (Hayes et al 2005)

**External auditors** are independent because they are not employees of the entity being audited. External auditors audit financial statements for publicly traded and private company’s partnership, municipalities, individuals and other types of entities by www.accountingconcern.com

**Internal auditing** is an independent, objective assurance and consulting activity, designed to add value and improve an organization’s operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process (IPPF, 2011)

Internal auditing is conducted in diverse legal and cultural environments, within organizations that vary in purpose, size and complexity and structure; and by persons within or outside the organization.

While differences may affect the practice of internal auditing in each environment, conformance with *IIA’s International Standards for the Professional Practice of Internal.*

*Auditing (Standards)* is essential in meeting the responsibility of internal auditors and the internal audit activity.

Auditing has been regarded as the activity carried on by the auditor when he verifies accounting data, determines the accuracy and reliability of accounting statements and reports, and then reports his efforts. It is essentially an activity carried on by an
independent person with the aim of reporting on the truth and fairness of financial statement

If internal auditors or internal audit activity is prohibited by law or regulations from conformance with certain parts of the Standards, conformance with all other parts of the Standards and appropriate disclosures are needed.

Internal auditors (Millichamp 1996) are employees of the organization and work exclusively for the organization. Their functions partly overlap those of the external auditors and part are quite different. The precise functions of external auditors are either laid down by statute or embodied in letter of engagement. The functions (which are rarely precisely laid down) of internal auditor are determined by management and vary greatly from organization to organization.

Internal auditors are employees of the firm and thus independence is not always easy to achieve. However it can be assisted by:

(i) Having the scope to arrange its own priorities and activities
(ii) Having unrestricted access to records, assets and personnel
(iii) Freedom to report to higher management and where it exists to an audit committee
(iv) IA personnel with an objective frame of mind
(v) IA personnel who have no conflict of interest or any restrictions placed upon their work by management
(vi) IA personnel having no responsibility for line work or for new systems. A person cannot be objective about something he/she has taken responsibility for. On the other hand the IA should be consulted on new or revised systems.
(vii) IA personnel who have no non audit work

Since internal auditors are employees it is difficult to insure that they are truly independent in mind and attitude. The internal auditor’s job is to appraise the activities of others, not to perform a specific part of data processing. For example, a person who spent his time checking employee expense claims is not performing an
internal audit function. But an employee who spent some time reviewing the system for checking employee expenses claims may well be performing an internal audit function.

**Independence** is freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of internal audit activity, the chief audit executive has a direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organizational levels (IFAC, 2009)

There are three main ways in which the auditor’s independence can manifest itself.

(i) Programming independence
(ii) Investigative independence
(iii) Reporting independence

**Programming independence** essentially protects the auditor’s ability to select the most appropriate strategy when conducting an audit. Auditors must be free to approach a piece of work in whatever manner they consider best. As a client company grows and conducts new activities, the auditor’s approach will likely have to adapt to account for these. In addition, the auditing profession is a dynamic one, with new techniques constantly being developed and upgraded which the auditor may decide to use. The strategy/proposed methods which the auditors intend to implement cannot be inhibited in any way.

While programming independence protects auditors’ ability to select appropriate strategies, **investigative independence** protects the auditor’s ability to implement the strategies in whatever manner they consider necessary. Basically, auditors must have unlimited access to all company information. Any queries regarding a company’s business and accounting treatment must be answered by the company. The collection
of audit evidence is an essential process, and cannot be restricted in any way by the client company.

**Reporting independence** protects the auditors’ ability to choose to reveal to the public any information they believe should be disclosed. If company directors have been misleading shareholders by falsifying accounting information, they will strive to prevent the auditors from reporting this. It is in situations like this when auditor independence is most likely to be compromised (Dunn, 1996)

**Organizational independence**
The chief internal audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

(i) Approving the internal audit charter,
(ii) Approving the risk-based internal audit plan,
(iii) Receiving communications from the chief audit executive on the internal audit activity’s performance relative to its plans and other matters,
(iv) Approving decisions regarding the appointment and approval of the chief audit executive on the internal audit executive, and
(v) Making appropriate enquiries of management and chief audit executive to determine whether there is inappropriate scope or resource limitations (Maultz, et al, 1961)

**Objectivity** is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be
managed at the individual auditor, engagement, functional and organizational levels (IPPF, 2013)

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest (IAA Guidance, 2013)

Mhilu (2002) differentiates between external auditor and internal auditor
(i) Internal Audit engagement is not statutory requirement while external audit engagement is statutory requirement.
(ii) Internal audit recommends efficient and economic use of resources of the organization while external is a complete independent service.
(iii) Internal audit is a part of the internal control system working as control tool, but with a sense of the future operating environment of the entity while external carried with a view to give opinion on the accounts present a true and fair view.

**Internal Auditor:** Dassen (2005), States that many large companies and organization maintain an internal auditing staff. Internal auditors are employed by individual companies to investigate and appraise the effectiveness of company operations for management.

Much of their attention is often given to the appraisal of internal controls. A large part of their work consist of operational audits in addition they may conduct compliance audits. In many countries internal auditors are heavily involved in financial audits. In these circumstances the external auditors should review the work performed by the internal auditors. The Internal audit department reports directly to the president of board of directors. An internal auditor must be independent of the department heads or other executives whose work he reviews. Internal auditors, however, can never be independent in the same sense as the independent auditors because they are employees of the company they are examining.
Internal Auditors have two primary effects on financial statement audit:

(i) Their Existence and work may affect the nature, timing and extent of audit procedures.

(ii) External auditors may use internal auditors to provide direct assistance in performing the audit.

An Audit committee: Mhilu (2002), defined an audit committee as committee established by a listed company which normally consist of non-executive directors and in some cases, representatives of management of the client company.

According to the Institute of Internal Auditors (IIA, 2012), the audit committee refers to the governance body that is charged with the oversight of the organization’s audit and control functions. Although, those fiduciary duties are often delegated to an audit committee of the board of directors, the advice is also intended to apply to other oversight groups with the equivalent authority and responsibility, such as trustees, legislative bodies, and owners of owner-managed entity, internal control committees or full boards of directors (IIA Practice Advisory 2060-2 of 2004)

INTOSAI’s Internal Control Standards define audit committee as a committee of board of directors whose role typically focuses on aspects of financial reporting and on the entity’s process to manage business and financial risks, and compliance with significant applicable legal, ethical and regulatory requirements.

The audit committee typically assists the board with oversight of (a) integrity of the entity’s financial statements, (b) the entity’s compliance with legal and regulatory requirements,(c) the independent auditors qualifications and independence, (d) the performance of the entity’s internal audit functions and that of independent auditors, and (e) compensation of executives (in the absence of remuneration committee) “ (Standard INTOSAI GOV 9100), “Internal Control Standards for the Public Sector” annex) (http:/www.wikipedia.org/wiki Audit _committee retrieved on 21/8/2012)
Organization

Organization is a social arrangement which pursues collective goals, controls its own performance, and has a boundary separating it from its environment. There are a variety of legal types of organizations, including: corporations, governments, non-governmental organizations, international organizations, armed forces, charities, not-for-profit corporations, partnerships, cooperatives, and universities (Prasad, 2007).

Governance

Governance is the system by which organizations are directed and controlled. It includes the rules and procedures for making decisions on corporate affairs to ensure success while maintaining the right balance with the stakeholders’ interest. The way in which companies are run and controlled has been a matter of concern to government, the stock exchange, the investing community, lawyers and auditors for many years. The Combined Code of the Committee on Corporate Governance was issued. It is now part of listing agreement of the Stock Exchange and listed companies are required to conform to the Code (OECD Principles of Corporate Governance, 2006).

Good governance generally refers to the process by which the organizations are directed, controlled and held to account and is underpinned by the principles of openness, integrity and accountability. It involves a set of relationships between an organization’s management, its board, shareholders and other stakeholders and provides the structure through which objectives of the company are set and the means of attaining those objectives and monitoring performances are determined.

The structures of governance vary from country to country reflecting cultural and legal backgrounds. For example, in some countries, the supervision functions and the management functions are legally separated into different bodies such as a supervisory (wholly or mainly non-executive board) and management (executive)
board. In other countries, both functions are the legal responsibilities of a single, unitary board, although there may be an audit committee that assists that board in its governance responsibilities with respect to financial reporting, risk management, internal control, just to mention a few.

The auditor’s report
At the end of his audit when he has examined the organization, its records and its financial statements, the auditor will produce the report addressed to the owners, in which he expresses opinion of the truth and fairness, and sometimes other aspects, of the financial statements. The auditor’s report is the end product of the audit. It has been traditionally very short but has been expanded considerably in statement of Auditing Standards 600. Most auditor’s reports are positive and end with the statement expressing the auditors opinion that the financial statement show a true and fair view and comply with statutory requirements. Some, however, express this opinion with reservations or express a contrary opinion. These are qualified reports.

Accountability
Accountability means that individuals and institutions are answerable for their actions and the consequences that follow from them hence; accountability ensures that a decision maker is answerable to the public for meeting needs with the least possible harm.

Researchers have identified numerous approaches to accountability. The conventional view of accountability was that of relationship involving ‘the giving and demanding of reasons for conduct’ (Roberts and Scarpens, 1985). The view assumes that one party has certain ‘ rights’ to make demands over the conduct of another, also involves varied social practices as way of reminding each other of our reciprocal dependence (Roberts, 1991). The last view argues that accountability is both universal and historical (Willmott, 1996).

Financial Statement
Keith, Alfred et al (2005), defines financial statement as a formal record of the financial activities of a business, person, or other entity. For a business enterprise, all the relevant financial information, presented in a structured manner and in a form easy to understand, are called the financial statements. They typically include four basic financial statements as follows:-

(i) **Balance sheet/Statement of financial position**: also referred to as statement of financial position or condition, reports on a company's assets, liabilities, and Ownership equity at a given point in time. Pandey (2005) defined balance sheet as a statement of a firm’s assets, liabilities and equity on a specific date. Assets are economic resources that help generating revenues while liabilities are the firm’s obligation to creditors. Equity is the investment made by the owners in the firm.

(ii) **Income statement**: also referred to as Profit and Loss statement (or a "P&L"), reports on a company's income, expenses, and profits over a period of time. Profit & Loss account provide information on the operation of the enterprise. These include sale and the various expenses incurred during the processing state. The profit and loss account is the “score board “ of the firms performance during a period of time. The generally accepted convention is to show one years events in the profit and loss account. Since the profit and loss account reflects the results of operations for a period of time, it is a flow statement. Profit and loss account presents the summary of revenues, expenses and net income (or net loss) of a firm. It serves as measure of the firms profitability (Pandey, 2005)
**Statement of retained earnings:** explains the changes in a company's retained earnings over the reporting period. The amount of net income which is left in a business after the distribution dividends or withdrawals by owner is called retained earnings. It is calculated as shown in the following formula:

\[
\text{Retained Earnings} = \text{Beginning Retained Earnings} + \text{Net Income} - \text{Withdrawals by Owners}
\]

The financial statement which calculates the balance of retained earnings at the end of the period is called the statement of retained earnings. It is very similar to the statement of changes in equity however it only shows how retained earnings changed during the period. As obvious from the above formula, the basic elements of a statement of retained earnings are:

- **(a)** Beginning balance of retained earnings
- **(b)** Corrections for prior errors along with the related tax effect
- **(c)** Net income
- **(d)** Dividends or withdrawals by the owner(s) if any

When dividends are declared in a period, they must be deducted in the statement of retained earnings of that period. It does not matter whether the payment of dividend has been made or not.

(iii) **Statement of cash flows:** reports on a company's cash flow activities, particularly its operating, investing and financing activities.

For large corporations, these statements are often complex and may include an extensive set of notes to the financial statements and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. A statement of cash flows is a financial statement which summarizes cash transactions of a business during a given accounting period and classifies them under three heads, namely, cash flows from
operating, investing and financing activities. It shows how cash moved during the period by indicating whether a particular line item is a cash in-flow or a cash out-flow. The term cash as used in the statement of cash flows refers to both cash and cash equivalents. Cash flow statement provides relevant information in assessing a company's liquidity, quality of earnings and solvency.

As stated above, a statement of cash flows comprises of three sections:

(i) **Cash Flows from Operating Activities**
   This section includes cash flows from the principal revenue generation activities such as sale and purchase of goods and services. Cash flows from operating activities can be computed using two methods. One is the Direct Method and the other Indirect Method.

(ii) **Cash Flows from Investing Activities**
   Cash flows from investing activities are cash in-flows and out-flows related to activities that are intended to generate income and cash flows in future. This includes cash in-flows and out-flows from sale and purchase of long-term assets.

(iii) **Cash Flows from Financing Activities**
   Cash flows from financing activities are the cash flows related to transactions with stockholders and creditors such as issuance of share capital, purchase of treasury stock, dividend payments.

**Public Sector:**
In a mixed economies, the parts of economic life that are under government control. This includes government departments and nationalized corporation, and most countries it is subjected to auditing. The **public sector** refers to the part of the economy concerned with providing basic government services. The composition of
the public sector varies by country, but in most countries the public sector includes such services as the police, military, public roads, public transit, primary education and healthcare for the poor. The public sector might provide services that non-payer cannot be excluded from (such as street lighting), services which benefit all of society rather than just the individual who uses the service (such as public education), and services that encourage equal opportunity.

The organization of the public sector (public ownership) can take several forms, including:

(i) Direct administration funded through taxation, the delivering organization generally has no specific requirement to meet commercial success criteria, and production decisions are determined by government.

(ii) Publicly owned corporations (in some contexts, especially manufacturing, "state-owned enterprises"); which differ from direct administration in that they have greater commercial freedoms and are expected to operate according to commercial criteria, and production decisions are not generally taken by government (although goals may be set for them by government).

(iii) Partial outsourcing (of the scale many businesses do, e.g. for IT services), is considered a public sector model.

A borderline form is as follows:

Complete outsourcing or contracting out, with a privately owned corporation delivering the entire service on behalf of government. This may be considered a mixture of private sector operations with public ownership of assets, although in some forms the private sector's control and/or risk is so great that the service may no longer be considered part of the public sector (Barlow et al., 2010).

Risk management: Internal Audit has learnt through much experience that an audit approach must be flexible. The methodology used should take into consideration the
needs of the individual client, environment and culture. Within this context Internal Audit expanded its risk management approach to auditing.

Risk management allows a consultative approach that can focus on the higher risk areas thus giving maximum value (Mhilu, 2000).

Risk arises out of uncertainty, from either internal or external sources. As a result of pursuing or not pursuing a particular course of action, there is the possibility of economic/financial loss or gain, physical damage, injury or delay.

"Risk" is defined as the chance of something happening that will have an adverse impact upon the achievement of objectives. There will always be some risk involved in anything we chose to do. The choice is between the actions we dare to take, given the level of risk we will accept and the level we will attempt to treat.

**Risk has two key elements:**

(i) The **likelihood** of something happening; and

(ii) The **consequences** if it happens.

The level of risk is the relationship between the likelihood of something happening and the consequences if it does. Action taken to address the level of risk must address the likelihood of the event occurring, or the consequences if it does occur, or both.

**Main Elements of Risk Management**

(i) Establish the Context

(ii) Risk Identification

What are the risks associated with:

(i) Key services?

(ii) Impact of legislation?

(iii) Critical success factors?
Risk Analysis/Assessment

(i) Is the combination of likelihood and consequences (will range from minor to major)
(ii) What are the existing controls? Are they adequate?
(iii) Likelihood and consequences with existing controls in place. (Level of risk is mitigated by internal controls and systems).
(iv) Use experience, judgment and intuition for the qualitative review

Risk Treatment
Where identified high risks are not mitigated by good internal controls and systems these areas will be the major focus of the audit review and subsequent recommendations.

Monitoring and Review
All audit recommendations are monitored and are subject to follow up audits. Progress reports must be submitted to audit as recommendations are implemented.

Control risk
Control risk is defined as the risk that a misstatement that could occur in an account balance or class of transactions and that could be material, either individually or when aggregated with misstatements in other balances or classes, would not be prevented, or detected and corrected on a timely basis, by the accounting and internal control systems.

Tests of control
Are tests to obtain audit evidence about the effective operation of the accounting and internal control systems that is, that properly designed controls identified in the preliminary assessment of control risk exist in fact and have and have operated effectively throughout the relevant period. Such test are also called compliance
2.4 Theoretical Reflections

2.4.1 The need for internal Audit

The ACCA, Audit and Assurance complete text, 2010, provides that corporate governance is about ensuring that companies are run well in the interest of all stakeholders. In order to achieve this, companies must create a strong board of directors, structured according to the principles and clearly defined responsibilities for risk management. Having an internal audit is generally considered to be the best practice, rather than being required by law. This allows the flexibility in way internal audit is established to suit the needs of a business. In small, or owner managed business there is unlikely to be a need for internal audit because the owners are able to exercise more direct control over operations, and are accountable to fewer stakeholders.

The need for internal audit, therefore depends on
(i) Scale, diversity and complexity of activities
(ii) Number of employees
(iii) Cost/benefit considerations and
(iv) The desire of senior management to have assurance and advice on risk and controls

2.4.2 Internal Audit Services under the new Legislation in Tanzania

The internal audit service under the new legislation is aimed at enhancing the capacity of Accounting Officers in the Management and control of Public funds and public property at the relevant ministry, department or government agency (Public Finance Act, 2001 rev 2004). Section 37 to section 39 of the act elaborates its work which includes the review of accounting, financial and other operations of the entity and reporting thereupon the effectiveness of the operating system and internal control so as to
(i) Safeguard the ministry/department/agency asset
(ii) Ensure reliability of records
(iii) Promote operation efficiency and
(iv) Monitor adherence to policies
Also the companies Act cap 212 of 2002 stipulate that where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board. Where there is no internal audit function the reason for the absence of such a function should be explained in the relevant section of the annual report.

Section 404 of the Act requires companies to document, evaluate, test and monitor their internal controls over financial reporting. This requires the senior management of the company to assess the design, operating, effectiveness and adequacy of internal control over financial reporting. Management often turns to internal audit to support compliance with these requirements.

Management is required to issue an annual report that addresses any material deficiencies in the company’s internal controls. Section 404 of the act also requires that the external auditor attests to assertions made by management about the effectiveness of the systems and controls.

**Risk and Risk Management**
Risk is a chance of something happening that will have an impact on the achievement of the Ministry, Department, Agency and Region’s objectives. Risk is measured in terms of consequences and likelihood. Risk management involves cultures, processes and structures that are directed towards the effective management of the potential opportunities and adverse effects with the public sector environment (University of South Africa, 2006). The Internal audit with the oversight of audit committee should assist in mitigating business risk and improving good governance.

**The origin of the Audit committee**
Audit committees emerged with the emergence of good governance. In 1992, the Committee on Corporate Governance was formed in South Africa and in line with international thinking considered corporate governance in South African perspective.
The result was King I Report (1994), which marked the Institutionalization of Corporate Governance in South Africa.

It aimed to promote corporate governance in South Africa and established recommended standards of conduct for boards and directors of listed companies, banks and certain state-owned enterprises, with an emphasis on the need for the companies to become a responsible part of the societies in which they operate. King I advocated an integrated approach to good governance taking into account stakeholders interests and encouraging the practice of good financial, social, ethical and environmental practices.

Good governance generally refers to the process by which the organizations are directed, controlled and held to account and is underpinned by the principles of openness, integrity and accountability. It involves a set of relationships between an organization’s management, its board, shareholders and other stakeholders and provides the structure through which objectives of the company are set and the means of attaining those objectives and monitoring performances are determined.

The structures of governance vary from country to country reflecting cultural and legal backgrounds. For example, in some countries, the supervision functions and the management functions are legally separated into different bodies such as a supervisory (wholly or mainly non-executive board) and management (executive) board. In other countries, both functions are the legal responsibilities of a single, unitary board, although there may be an audit committee that assists that board in its governance responsibilities with respect to financial reporting, risk management, internal control, just to mention a few.

This diversity makes it difficult to establish a universal identification of the persons who are charged with governance.

Audit committees are broad levels of committees composed of at least majority of non-executive directors. They are committee drawn preferably from non-executive
directors, which provides an invaluable independent liaison between the board and auditors, thus strengthening auditors’ position and improve communications.

Audit committees are vested with the following functions: first, to oversee and coordinate the auditing functions both internal and external, and thus to improve the quality and strengthen the independence of audit function. Second, to monitor all externally directed financial statements and/or share issue documents, and thus proved enhanced credibility in financial reporting. Third, to provide a high level checks on integrity of executives and operational management of their legal and ethical responsibilities. Fourth, review of audit findings providing an effective accounting and internal controls systems by reviewing the findings of areas of accounting for example, electronic data processing. Fifth, recommendations of the appointments and remunerations of external auditors, thus strengthening the independence of external auditors. Six, through their experience and scrutiny of the accounts also form recommendations to external auditors. Audit Committee may also play a significant role in the oversight of the company’s risk management policies and programs to ensure their efficiency and effectiveness.

Efficiency shows the relationship between goods and services produced (the output) and the resources used to produce them (the inputs). An efficient entity produces the maximum output from any given set of inputs. In summary, efficiency means ensuring that maximum output of goods and service has been gained from the resources used in their production i.e. spending well.

Effectiveness is concerned with achieving predetermined objectives (specific planned achievements) or goals and with the actual impact (the output achieved) compared with the intended impact (the objectives). Using a range of performance measures, and indicators, it is possible to assess an entity’s effectiveness. In summary, effectiveness means ensuring that the desired results, objectives, targets or policies have been successfully achieved i.e. spending wisely.
In Tanzania a project on adoption of corporate governance codes and guidelines was funded by International Finance Corporation (IFC) in consultation with the Nordic Consulting Group (NCG) and Carl Bro. Management (CBM) from early 2000s. The reasons which emanated to this project development and implementation were private sector increasingly becoming a key partner in development as governments in developing countries realizing the importance of creating private sector friendly environments. The other reason was to attract foreign investors, in which private sector entities are required to accept and adopt corporate governance principles and practices.

Audit Committees in Tanzanian public sector have their origins in 2001 when the Government enacted Public Finance Act No.6 which states, in Section 30(1) that “there shall be in each Ministry, Department, Agency or Region a Committee to be known as the Audit Committee. The Act in addition to setting the mandate for establishing audit committees goes further by establishing the composition and the functions of these committees.

The Audit Committee Functions as per Section 32 of PFA No.6 of 2001, among others include the following: first, be responsible for approval of internal annual strategic audit plans of the Ministry, Agency, Department and Region. Second, review all internal and external audit reports involving matters of concern to senior management of ministry, department, agency or region, including identification and dissemination of good practices. Third, provide advice to the accounting officer for action to be taken on matters of concern raised in the report of the internal auditor or in the report of CAG concerning ministry, agency, department or region. Fourth, as far as practicable coordinate audit programmes conducted by internal auditors and the programmes conducted by CAG. Fifth, Provide advice to accounting officers on preparation and review of financial statements of the ministry, agency, departments and regions.
Furthermore, the Treasury in 2003 issued Treasury Circular No.9 of 2003/2004 which insisted that the ministries, departments, agencies and regions should establish audit committees.

All these efforts were done by the Government to ensure there are transparency, accountability, risk management and control in the public finance.

Therefore, the aim of this research is to determine whether the audit committees established in the public sector have managed to fulfill the purpose for their establishment and maintenance. Where, these committees have failed the research will establish the reasons

2.4.3 The internal Audit Functions
The ACCA, Audit and Assurance complete text, 2010, provides that the role of internal audit can be much varied, depending on the requirements of the business. However the internal audit function may also provide assurance. They would provide this assurance to internal management on issues such as
  (i) The effectiveness of the systems /financial. Legal, and operation/
  (ii) The effectiveness of internal controls
  (iii) Whether the company procedures/ manuals are being followed
  (iv) Whether internally produced information is reliable and
  (v) Whether the company is compliant with the OECD

In addition to the above, internal audit will carry out ad hoc assignments, as required by the management like internal fraud investigations.
If the internal audit department is to provide assurance it needs to be
  (i) Sufficiently resourced, both financially and in terms of qualified experience staff
  (ii) Well organized, so that it has well developed work practices and
  (iii) Independent and objective
Because internal auditors are employees of the company, it is therefore difficult for internal audit to remain truly objective. However acceptable levels of independence can achieve through one, or more of the following:

(i) Reporting channels separate from management of the main financial reporting function

(ii) Review of internal audit work by managers independent of the function under scrutiny and

(iii) Outsourcing the internal audit function to a professional third party.

**ISA 610, also lists the main activities of the internal audit functions as**

(i) Monitoring of internal controls

(ii) Examination of financial and operating information

(iii) Review of the operating activities

(iv) Review of compliance with laws and regulations

(v) Risk management and

(vi) Governance

**2.4.4 The Internal Audit Assignments**

The ACCA, Audit and Assurance complete text, 2010, and Hayes et al, 2005, provides that the internal audit assignment could be.

(i) **Operational audit:** This covers the examination and review of the whole, or part of, a business operation, the effectiveness of operational controls and the identification of areas for improvement in efficiency and performance. Operational audit is a review of how an organization management and its operating procedures are functioning with respect to their effectiveness and efficiency in meeting stated objectives. For example a business might perform an operational audit if its senior management has become convinced that operational improvements can be made and need to be identified.

An operational audit is a formal evaluation of the internal systems and procedures a company uses to produce goods or services. Made of at least four major steps, it tests how efficient and effective production operations are,
which ultimately boosts revenue and profits. It also can reveal ethical issues in the business. External or internal accountants may perform the review, based on the needs of the business. This process has some disadvantages, such as potentially high cost, but it also offers advantages, such as new perspectives and increased risk awareness.

In general, the tools and processes a business uses to get a product or service to the public have to work as intended and be efficient. When they aren't, the company usually can't make as much money and can't be as competitive. Businesses, therefore, use these types of audits to streamline what they're doing, with the ultimate goals being to decrease waste and boost revenue and profits.

Similar to other reviews, looking at how the company is functioning overall can uncover ethical problems, such as employees using company property for personal reasons. The results of the audit let managers identify who is involved in dishonest practices, which often leads to greater accountability on the job. Companies' disciplinary and general policies often connect closely to the review for this reason.

(ii) **Value for money assignments:** This is concerned with obtaining the best possible combination of services for the least resources. It is often referred to as a review of the three E’s.

- **Economy** - obtaining the best quality of resources for the minimum cost.
- **Efficiency** – obtaining the maximum departmental/organizational output with the minimum use of resources; and
- **Effectiveness** – achievement of goals and targets

Comparison of value for money achieved by different organization are often made using performance indicators that provide a measure of economy, efficiency or effectiveness
(iii) **The IT audit**: The external auditors considers IT systems from the perspective of whether they provide a reliable basis for the preparation of financial statement, and whether there are internal controls which are effective in reducing the risk of misstatement. Internal audit will also consider this. However, their role is much wide in scope and will also consider whether the company is getting value for money, whether the procurement process was effective, whether the ongoing management of the system is appropriate.

(iv) **Financial audit**: The main aim of financial reporting system, from a business perspective is to create accurate, complete and timely information to be used as a basis for internal decision making and planning. This information is also needed to satisfy the requirement of actual and potential investors and trading partners. Typical examples of financial information include annual financial statements, interim financial statements, monthly management accounts, forecasts and projections. The other aim of financial audit is to assess the financial health of the business. In both cases the focus of internal audit will be on the processes and controls that underpin the creation of various financial reports to ensure that they are effective as possible for assisting the various decisions and risk management processes of the company.

To look at the current role of internal audit, it is worth looking at the definitions of internal audit by the audit practice board and the institute of internal auditors. It is therefore importance to objectively examines, evaluates and reports on the adequacy on internal control as a contribution to the proper economic, efficient and effective use of resources.

It is therefore importance to look into the following element of definitions.

(i) Independence, objectivity assurance, consulting activity.
(ii) Designed to add value and improve organization operations.
(iii) Helps an organization accomplish its objectives.
(iv) Brings a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It is therefore importance to look at the mains roles of internal audit. (Turnbull, 1999) says that it is normally to evaluate risk and monitor the effectiveness of the system of internal control.

The objectives of internal auditor

(i) Review and appraise soundness, adequacy and application of accounting and other control

(ii) Ascertain extent of compliance with policies, plan and operating procedure

Management responsibility: It is the responsibility of the management of the operating department to determine the extent of internal control in the entity’s operating systems. The responsibility should not depend upon internal audit operating as a substitute for effective controls. Internal audit contributes to internal control by examining, evaluating and reporting to management on the adequate and effectiveness of that control.

Auditor’s responsibilities

They are responsible to test and give opinion on whether the financial statements are fairly presented in accordance with those accounting standards. If these responsibilities are not met, accounting standards regardless of their quality may not be properly applied, resulting in a lack of transparent comparable and consistence financial information

Audit records and Documentation:

In order to be able to properly manage the audit several records are necessary. These include audit manuals, audit files; audit programs, audit notes and notebooks, internal control questionnaires, flowcharts and audit staff sheets. Adequate records are always essential for the efficient conduct of the auditor’s work, especially where there is increased complexity of the audit. Audit file comprise current file and permanent files. The current files contain the current accounts or statement under
audit internal control questionnaires, audit programs schedules for each balance sheet and profit and loss, items showing how existence, ownership and value have been verified, other content include checklist concerning compliance with statutory requirement, and other regulatory requirement, records of audit queries raised how they are disposed, schedule of important statistic and working ratio and comparative figures; extracts of relevant minute of director and shareholders meeting; and letters of representation by the client.

2.4.5 Different between Internal Auditor and External Auditor

Internal Auditor:

(i) Engagement is not a statutory requirement while External auditor engagement is statutory requirement.

(ii) Recommends efficient and economic use of resources of the organization while external auditor is a complete service

(iii) Is part of the internal control system working as a control tool, but with a sense of the future operating environment of the entity while external carried with a view to give opinion of on the accounts whether the accounts present true and fair view.

2.4.6 Challenges Facing Internal Audit in Fostering Financial Discipline

The ACCA, Audit and Assurance complete text, 2010, and Hayes et al, 2005, provides that the internal audit encounters many challenge but major ones are as listed below:

Reporting system

The chief internal auditor reports to the finance director. This limits the effectiveness of the internal audit reports as a finance director will also be responsible for some of the financial systems that the internal auditor is reporting on. Similarly, the chief internal auditor may soften or limit criticism in reporting to avoid confrontation with the finance director. To ensure independence, the internal audit should report to an audit committee.
**Scope of work**
The scope of work of internal audit is decided by the finance director in discussion with the chief internal auditor. This means that the finance director may try and influence the chief internal auditor regarding the areas that the internal audit department is auditing, possibly directing attention away from any contentious areas that the director does not want auditing. To ensure independence, the scope of work of the internal audit department should be decided by chief internal auditor, perhaps with the assistance of an audit committee.

**Audit work**
The chief internal auditor may audit their own work. This limits independence as the auditor is effectively auditing their own work, and may not therefore identify any mistakes. This is known as self review threat. To ensure independence, the chief internal auditor should not establish internal control system in the company. However, where the controls have already been established, another member of internal audit should carry out the audit of that system to provide some limited independence.

**Length of service of internal Audit staff**
Internal audit staff may be employed for long period of time. This may limit their effectiveness as they will be very familiar with the systems being reviewed and therefore may not be sufficiently objective to identify errors in those systems. To ensure independence, the existing staff should be rotated into different areas of internal audit work and the chief internal auditor should independently review the work carried out.

**Appointment of chief internal auditor**
The chief internal auditor is appointed by the CEO. Given that the CEO is responsible for the running of the company, it is possible that there will be bias in the appointment of the chief internal auditor; the CEO may appoint someone who he knows will not criticize his work or the company. To ensure independence, the chief
internal auditor should be appointed by an audit committee or at least the appointment agreed by the whole board.

**Variation of standards**
Standards of audit are not uniform across the profession. This could lead to inconstance in the way internal audit is performed/ both on a year–to- year basis and amongst different companies/ and it can lead to manipulation of internal audit aims and measurement criteria.

2.5 **Empirical Studies**
According to Shirima (1989) in the topic Internal Control to prevent fraud and errors “Internal control is popularly defined as not only internal check and internal audit, but the wide system of controls, financial and otherwise, establishment by the mgt in order to carry on the business of enterprises in an orderly and efficient manner. Ensure adherence of to management policies, safeguard the Assets and secure as far as possible the completeness and accuracy of the records.

Internal audit is an essential aspect of internal control. Then functions vary enormously but they may take part in proof measures pre view and post review function. Thus an internal auditor can be a great assistance in preserving and strengthening of internal control.

**Figure 2.1: Conceptual Framework of the Study**
2.6 Summary

This chapter looked at several literature and studies, which are directly or indirectly related to the subject of the study as was done by other researchers. Those literature and studies were critically studied and analyzed so as to establish the areas of similarities, academic lessons and knowledge gap that need to be supplemented through this study.

On the other hand the next chapter gives the methodology that is used in carrying out this research. This include the research design, the population of the study, the sample, data collection techniques, employed statistical techniques, formulas used and the tests for reliability and validity of the study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
This chapter presents the design and methodology used in the study. It also describes the study area, the rationale for selecting the study area, study population, research design, sampling design, methods of data collection as well as processing, analysis and procedures for presentation of study findings.

3.2 The Study Area
The study was conducted at PPF Headquarter in Ilala District, Dar es Salaam region. The study area was selected because it has many operations as compared to other PPF offices situated in other regions of Tanzania. Again, the area was selected because of easy of accessibility by the researcher as she is placed in Dar es Salaam. Therefore, this helped to capture the real picture on the topic under study.

3.3 Research Design
The descriptive survey research design was employed in collecting data. The survey design enables to collect data at particular point in time with the intention of describing the nature of existing conditions, identifying the standards against which existing conditions can be compared and determining the relationship that exist between the specified events (Ary, et al, 2002). In addition, it was also preferred because of its ability to manage collection of data from a large sample of people relatively quickly and in-expensively.

3.4 Target Population
Population is defined as all the existing members of the group from which sample is drawn and for which conclusion is made. The population of study consisted of respondents from the PPF head office including directors, managers and other
members of senior management and the staffs from all sorts of the operations within PPF such as cashiers, internal auditors, to select but a few. This population provided useful information on the assessment of the effectiveness of internal audit in fostering financial discipline in social security funds in Tanzania a case study being PPF.

3.5 Sampling Design
Kothari (1990) defines sampling as the process of selecting or drawing a sample of individuals from the total population to be studied. Sample on the other hand, is that part of the universe population which is selected for the purpose of investigating and making generalization about the population characteristics.

He further defines sampling frame as a list containing sampling units and sample size as number of items to be selected from the universe which constitutes the sample. Random, purposive and stratified sampling techniques were employed in this study. Random sampling technique was used to obtain one social security fund in Tanzania particularly in Dar es Salaam. The names of all social security funds in Tanzania were written on separate piece of paper and were selected randomly.

The procedure was done by blindly picking up pieces of papers labeled with names of institution from the basket. A purposive sampling technique was used with regard that respondents were directors, managers of other operational workers. Stratified sampling technique was used to capture respondents who have certificates, diplomas, first degree, master degrees and doctorates. Again, Kothari (1990) argues that for a sample to be representative, it is recommended that at least 10% of the entire population be taken as a sample. For this study, a total of 30 respondents were involved, chosen from different cadres within PPF

3.6 Sources and Types of Data
The data for this study was obtained from both primary and secondary sources. Again, the study collected both primary and secondary data.
3.6.1 Primary Sources
Primary sources provided data through interviews and questionnaires which were administered to selected respondents; including directors, managers and other operational workers from all departments within the PPF headquarters. Demographic data such as sex and education of respondents were collected.

3.6.2 Secondary Sources
A wide variety of secondary data sources were collected. These comprised data obtained from books, journals, reports especially external audit reports, files, publications, brochures, and unpublished materials and through the internet. The assessment of the effectiveness of internal audit in fostering financial discipline in the social security funds in Tanzania the case of PPF was extracted from available documents. The secondary data was collected from documentation centers such as the Library, especially from PPF documentation center.

3.7 Methods of Data Collection
Two approaches were used to collect data. These were questionnaires and interviews both structured and unstructured.

3.7.1 Questionnaire Schedules
The questionnaires which were used comprised a mixture of both open – and closed-ended questions which the researcher administered to the selected respondents. Kothari (1990) comments that a researcher can easily administer questionnaires plus the fact that the method is economical enough to collect a considerable amount of information at a relatively low cost in terms of money, time and materials. The technique was intended to collect information from directors, managers and operational workers from all the departments and directorates within the PPF headquarters. Each questionnaire was assigned to respondents and identification number to monitor the response, return rates and follow ups.
The advantage of self-administered questionnaires is that they encourage openness in answering questions and minimizes interview biases and subjectivity (Kothari, 1990). Questionnaires were used to capture background information on the assessment of the effectiveness of internal audit in fostering financial discipline in social security funds in Tanzania the case of PPF. The questions under this technique aimed to extract information such as finding out how internal audit foster financial discipline in organization, investigation of the role of internal audit in organization, identification of why external auditors are needed even if there are internal auditors and making of recommendations to improve on weakness and short-coming of the internal auditing department

3.7.2 Face to Face Interview

Interview is the technique in which information is collected through verbal communication, face-to-face interaction between the researcher and the interviewee. The method allows the subject to provide their interpretation of the world in which they live with the flexibility enough to allow researcher’s clarification of ambiguities or difficulty structures (Ary, et al, 2002). The interview schedule was used to explore data from PPF, management and workers. The interview schedule supplemented the main data gathered through questionnaire.

The interview was essential not only as a supplement to the questionnaire in obtaining data and information, but also to offset the disadvantage associated with the use of questionnaire as the only data gathering method. The interview was also important because people tend to delegate the task of completing the questionnaire to junior members who are not capable of supplying needed data and information. Again, interview was advantageous because it helped to clarify ambiguous responses and fill in missing gaps (Kothari, 1990). An interview guide was used to solicit answers from the respondents in which the researcher read the question to the respondents and recorded their responses.
3.8 Methods of Data Analysis and Presentation
The data collected was recorded, entered in the computer and cleaned. The data was then processed, analyzed and presented by using frequency tables, charts and graphs. Data entry was done by using the Statistical Packages for Social Scientists (SPSS) software to make descriptive analysis of the data for interpretation. These packages allow the analysis of data by using graphs, tables, charts and cross-tabulation which can be run in order to establish relationship between the variables as well as multivariate analysis. The qualitative information was categorized and coded within the specific themes of interest in relation to the study objectives. A systematic comparison of statements or findings from interviews was made in attaining triangulation (Kothari, 1990).

3.9 Data Cleaning
A total of 30 questionnaires were administered in the study. Out of these, 25 questionnaires were returned giving a response rate of 83.3%. Each questionnaire was inspected and corrected for the purpose of detecting errors as well as cleaning data before being coded in the computer. The inspection and correction was done in two ways; firstly, in the field and secondly, during the process of coding the data. In the field, the data were inspected to detect the most obtrusive omissions and inaccuracies in the data. Before coding the data, questionnaires were dropped because of being improperly filled and contained incomplete answers, obvious wrong answers and contained answers which reflected lack of interest. Thus, 18 useable questionnaires remained giving a response rate of 72% which were considered satisfactory for subsequent analysis. These were following Churchill and Brown (1996)’s view that they could provide proper quality of research information.

3.10 Validity and Reliability of the Data

3.10.1 Validity of the Data
Validity is the ability of the research study to measure what it claims to measure. Validity is thus a measure of any kind that measure all of that which is supposed to
measure (Alreck and Settle, 1995). To ensure validity of the data to be collected, ten questionnaires were distributed to the respondents for pre-testing in order to test understandability of the questions and correct misconceptions which have appeared.

3.10.2 Reliability of the Data

Reliability is the ability to obtain similar results by measuring an object, trait or construct with an independent but comparable measurers (Churchill and Brown, 2006). In this study, the internal consistency of the scale used to design tools was obtained by computing the Cronbach Alpha coefficient of reliability.

Table 3.1: Reliability Statistics

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>Number of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.755</td>
<td>0.754</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: Field data, (2013)

3.10.3 Summary

This chapter looked at several methodologies that is used in carrying out this research. This include the research design, the population of the study, the sample, data collection techniques, employed statistical techniques, formulas used and the tests for reliability and validity of the study, which are directly or indirectly related to the subject of the study as was done by other researchers.
CHAPTER FOUR

DATA ANALYSIS, FINDINGS, AND DISCUSSIONS

4.1 Introduction

This chapter focuses on the data analysis, findings and discussion which all together answer objectives of the study in assessing the effectiveness of internal audit in fostering financial discipline in social security funds in Tanzania: Case of Parastatal Pensions Fund. In the study about 18 questionnaires were administered to and all were retrieved although there was delay due to an unavailability of the some key respondents who were occupied by a tight schedule at their workplace.

4.2 Demographic Characteristics

This part describes the general characteristic of respondents involved in the study. It explains characteristics like gender, age and their highest academic qualifications.

4.2.1 Gender

The study involved both males and female respondents. 72.3% of all respondents were males and remaining 27.8% were females as shown in a table 4.1. The higher percentage of male is explained by the higher number of males employed in the financial sector and accounts department

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>13</td>
<td>72.2</td>
</tr>
<tr>
<td>Female</td>
<td>5</td>
<td>27.8</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher, 2013
4.2.2 Age

The age distribution among the respondents was such that majority were aged between 25-35 years which were equal to 55.6% of the respondents and other aged between 36-55 years old which includes 33.4%. The higher percentage for the first case was explained by the individuals acting as the department’s officers which most of them are youth within this age period. While for the second case with individuals aged between 36-55 years is these are departmental managers who most of them
have been working with the PPF for quite sometimes compared to the former group. For one individual was below 35 years old and above 55 as shown in a Table 4.2.

**Table 4.2: Age of Respondents**

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 25</td>
<td>1</td>
<td>5.6</td>
</tr>
<tr>
<td>25-35</td>
<td>10</td>
<td>55.6</td>
</tr>
<tr>
<td>36-55</td>
<td>6</td>
<td>33.4</td>
</tr>
<tr>
<td>Above 55</td>
<td>1</td>
<td>5.6</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source:** Researcher, 2013

**Figure 4.2: Age of respondents**

**Source:** Researcher, 2013

### 4.2.3 Academic Qualification

Academic qualifications of respondents involved in the study ranged from advanced diploma to Postgraduate degree and the results were such that majority about 44.5% of the respondents were having undergraduate degree while 33.3% of the respondents were having the postgraduate degree. The slightly narrow gap between undergraduate and postgraduate is explained by the tendency of majority of PPF
workers especially those having undergraduate qualifications to be working while studying especially for the evening classes given the fact that most of academic institutions are providing chances for the citizens and non-citizens to develop their qualifications and carriers while continuing with the work. This reduces the percentage between of educated class rank of workers within the PPF. Only 22.2% of respondents were having advanced diploma as their higher academic qualifications.

Table 4.3: Academic Qualifications of the Respondents

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post graduate degree</td>
<td>6</td>
<td>33.3</td>
</tr>
<tr>
<td>Undergraduate degree</td>
<td>8</td>
<td>44.5</td>
</tr>
<tr>
<td>Advanced diploma</td>
<td>4</td>
<td>22.2</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher, 2013

Figure 4.3: Academic Qualifications of Respondents

Source: Researcher, 2013

4.3 Internal Audit and Financial Discipline

The presence of internal audit department in any institution/company or firm is to ensure the financial discipline in a correct and transparency manner; however this is
mostly common in corporate level where as there is a complex chain of activities to which financial aspects are integrated within.

In the study about 55.6% of respondents agreed that their institution undertakes the internal audit period. The data was collected from finance, accounts and management department of the PPF administration to which normally the auditors visit regularly during their internal audit activities and it is because of this that explains the higher percent of respondents.

Only 38.9% of respondents disagreed that internal audit was conducted which was explained by either new comers to the offices or even when it is conducted they don’t know if it is audit in the first place as it conducted by individuals who are normally working within the office premises. Moreover these individuals were not in the top positions in their departments.

The results are shown in a Table 4.4.

Table 4.4: Respondents Awareness on Internal Audit Undertaken.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>10</td>
<td>55.6</td>
</tr>
<tr>
<td>No</td>
<td>7</td>
<td>38.9</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>94.4</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1</td>
<td>5.6</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher, 2013
4.4 Role of Internal Audit within PPF

One of the study objectives was to investigate the role of internal audit within the PPF. To accomplish this, the roles of internal audit department should be known to workers within the institution whereby the individuals being able to adapt to the code of conduct which is in line with the objectives of internal audit department. In the study it was revealed that about 50% of respondents agree that the role of internal department is clear while another 50% do not agree as shown in a Table 4.5.

With this tie in respondent’s results it is unclear on whether the functions of the internal audit department are clear or not which is explained by the differences in work exposure among working group within the PPF. This was explained by the top management such as the finance, administration and accounts which advocated
knowing the role and objectives of internal audit department. This is because they usually interact timely with the internal auditors in the course of executing their work while on the other hand the individuals assisting the top executives don’t know exactly the objectives of the internal audit as they perceive auditors as other workers executing regular tasks within PPF. Other workers, especially in the lower ranks perceive internal auditors as polices of the management who were employed to deal with wrongdoings rather than improving efficiency and performance of the situation.

**Table 4.5: Respondents Results on the Clarity of Internal Audit Functions**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very clear</td>
<td>9</td>
<td>50.0</td>
</tr>
<tr>
<td>Sufficiently clear</td>
<td>9</td>
<td>50.0</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Researcher, 2013*

### 4.5 Management Support to Internal Audit Functions

With regards to the question as to whether the management supports the internal audit functions, only respondents 9 that is (50%) responded by answering ‘Yes” and 9 respondents that is 50% of the respondents do not agree that PPF management provides support to the internal audit by provision of various facilities as well providing the improvements needed when the internal audit member’s recommends. The managerial implications of this response is that half of the management understands the significance of the presence of the strong and effective internal audit department that aims at fostering financial discipline and hence good warfare of the organization. Effective internal audit department need to ensures that business risk is identified and minimized, good governance is enhanced, compliance with applicable laws is adhered to and operations are carried on effectively.

**Table 4.6: Management Support to Internal Audit Department**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, they do</td>
<td>9</td>
<td>50</td>
</tr>
</tbody>
</table>
4.6 Internal Audit Charter?

With regards to the question as to whether PPF has internal audit charter, 54.5% of respondents agreed that the PPF do have the internal audit charter while 37.8% disagreed. Moreover, about 18.1% of respondents did not know whether the charter exists or not. The observation about those respondents who answered “No” and who purported not to know as to whether PPF possess internal audit charter, it seemed that they did not understand what internal audit charter.

The managerial implication of this response is that the management should carry out training to all staffs of the PPF about the presence and importance of the internal audit charter as this document provides the details of the responsibilities, rights and the scope of the internal audit functions within the organization. This should be carried out regularly within PPF. Table 4.7 below indicates how the respondents replied about whether the presence of internal audit charter within the organization.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>9</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
</tr>
<tr>
<td>I don't know</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
</tr>
</tbody>
</table>

Source: Researcher, 2013

4.7 Financial Discipline in the Organization

To assess the efficiency of the financial discipline within the PPF which provides the evidence of whether the internal audit department performs its functions properly or
not was one of the study objectives. Financial discipline is important to any institution as it helps the company grow and reduce the risk of collapsing.

In the study it was investigated as the respondents were required to rate it based on the expectations and how they oversee its working trend. The result was such that about a total of 88.9% (including 61.1% strong and 27.8% very strong) of respondents rated the financial discipline as strong. This in turns that the internal audit department within PPF performs its duties which ensure the financial discipline is adhered according to expectation in relation to institutions financial policy and objectives. Only 5.6% of respondents rate the financial discipline as moderate while same percent rate it as very low.

Table 4.8 shows how the respondents responded in relation to the question as to whether there is a financial discipline at PPF and this is caused by the presence of effective and strong internal audit department

**Table 4.8: Respondents Rating PPF on Financial Discipline**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low</td>
<td>1</td>
<td>5.6</td>
</tr>
<tr>
<td>Moderate</td>
<td>1</td>
<td>5.6</td>
</tr>
<tr>
<td>Strong</td>
<td>11</td>
<td>61.1</td>
</tr>
<tr>
<td>Very strong</td>
<td>5</td>
<td>27.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**Source:** Researcher, 2013
In the same token in the question asked that does ‘the presence of internal audit fosters financial discipline in your organization” about 94.4% of respondents agreed. This means that the internal audit within institutions plays a key role in accelerating and promoting institutional development by fostering the financial development and hence general development as whole. Table 4.9 below shows how respondents replied to the question as to whether the results on influences of internal audit in fostering the financial discipline within PPF.

To prove the work done by internal auditor, the researcher looked on the external audit report for years ending 2011 and 2012 and all these indicated that financial discipline at PPF is fostered due to effective internal control system as the result of proper monitoring of the internal audit department.
Table 4.9: Respondents Results on Influences of Internal Audit in Fostering the Financial Discipline

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>17</td>
<td>94.4</td>
</tr>
<tr>
<td>I don't know</td>
<td>1</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Researcher, 2013

4.8 Internal Audit Improvement

Although the internal audit contributes to financial wellbeing of the institution as observed in this chapter, however in the study it was revealed that there is a need to improve the quality of internal audit services within the PPF. This is because in the question asked “is there a need to improve the quality of internal audit services in your organization” about 93.8% of respondents agree that there is a need to do so. This higher percent indicates majority of individuals within PPF requires improvement in the internal audit to be in line with changes in technology which are taking place in all aspects of economy and society. Also the auditing process still relies on the payment vouchers and not performance of the institutions in general. In the study about 11.1% of respondents didn’t know if the internal audits don’t need improvement while 5.6% agreed.

Table 4.10 below indicates how the respondents replied on the results of internal audit improvements.

Table 4.10: Respondents Results on the Internal Audit Improvements

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>15</td>
<td>83.3</td>
</tr>
<tr>
<td>No</td>
<td>1</td>
<td>5.6</td>
</tr>
<tr>
<td>Don’t know</td>
<td>2</td>
<td>11.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Researcher, 2013
**Requirement for Financial Discipline in Organization**

The basic requirements for issuing audit reports are derived from the four GAAS for reporting. The last standard is especially important because it requires an expression of opinion about the overall financial statements or a specific statement that an overall opinion is not possible, along with the reasons for not expressing one.

**Standard Unqualified Report**

Your textbook and AU section 508.08 contain the standard unqualified report. I suggest that you become intimately familiar with or memorize it for your final exam. You also need to know it for the CPA exam.

**Criteria of effectiveness financial discipline in organization**

i) All statements are included in the financial statements

ii) The 3 general standards have been followed in all respects on the engagement

iii) Sufficient evidence has been accumulated and the auditor has conducted the engagement in a manner that enables him to conclude that the 3 standards of field work have been met

iv) The financial statements are presented in accordance with GAAP

v) There are no circumstances requiring the addition of an explanatory paragraph or modification of the wording of the report

The audit report has seven parts:

i) report title

ii) audit report address

iii) introductory paragraph—this paragraph does 3 things

   a) it states that the CPA firm has done an audit

   b) it lists the financial statements that were audited

   c) it states that the statements are the responsibility of management and that the auditor’s responsibility is to express an opinion
SAS 69 indicates that it means, according to the auditor’s professional judgment, that the financial statements conform to GAAP with due regard for:

i) the accounting principles selected and applied by the client
ii) the accounting principles are appropriate for the circumstances
iii) the financial statements are informative of matters that may affect their use and interpretation
iv) the information presented in the statements is summarized and presented in a reasonable manner

Conditions Requiring
There are two broad categories of reports that are not standard unqualified:
1) a report that departs from an unqualified report
2) an unqualified report with an explanatory paragraph or modified wording

There are three conditions that require a departure from an unqualified report:
1–the scope of the auditor’s exam has been restricted
2–the financial statements have not been prepared in accordance with GAAP
3–the auditor is not independent

4.9 Summary
This chapter looked at data analysis, discussion and interpretation of the research findings in this research. This includes the demographic characteristic, age, academic qualification, internal audit and financial discipline role of internal audit, which are directly or indirectly related to the subject of the study. And also criteria of effectiveness of financial discipline in organization.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

5.1 Introduction
This chapter gives an overview and summary of study findings in attempt to answer research objectives also suggests recommendations based on the findings established in the prior chapter. The study aimed at assessing the effectiveness of internal audit in fostering financial discipline in social security funds in Tanzania with the PPF Tanzania used as a case study.

5.2 Summary
The study focuses on assessment of the effectiveness of internal audit in fostering financial discipline in social security funds in Tanzania a case study of Parastatal Pension Fund. The objectives were to determine the influence of internal audit in fostering financial discipline and its role in the organization, also determine the need for external auditors and suggests the area for improvement in PPF internal audit department. In the study the data was collected by questionnaires where as 18 were administered in various department of PPF that regularly interact with internal audit department.

Results were such that, it was unclear whether the functions of the internal audit department are clear or not with internal audit charter known to only 54.5% of respondents. Moreover it was observed in the study that the PPF management support the internal audit by provision of various facilities as well as implementing recommendations needed when department raises any queries and was agreed by 100% respondents. The PPF had strong financial discipline as agreed by 88.9% of the respondents and achieved this by preventing the money embezzlement and misuse of finance sources of the institutions through continual audit of revenue and expenses of the institution regularly on weekly, monthly and annual bases and fosters the financial discipline as agreed by 94.4% of respondents.
5.3 Conclusion

In the study it was revealed that the internal audit operations are executed by the internal audit department as agreed by 55.6% of respondents which was due to the data collected from finance, accounts and management department of the PPF administration to which normally the auditors visit regularly during their internal audit activities. However, the individuals who disagreed are not the key players in the decision making.

In the study it was unclear whether the functions of the internal audit department are clear or not which is explained by the differences in work exposure among workers group within the PPF. This was because of 50% agreed and same percent disagreed. The 50% who agreed are the members of management and the 50% of the members who disagreed are the operational staffs. The implication of this is that there is a division among the members of management and operational staff and this needs addressing.

Moreover it was observed in the study that the PPF management support the internal audit by provision of various facilities as well making follow up needed when the internal audit member’s recommends.

This enables the internal department to accomplish its objectives in a transparency manner and was agreed by all 100% respondents in the study. On the other hand the internal audit within PPF has an audit charter which guides and provides a roadmap in attaining the PPF financial transparency objectives and it was agreed by 54.5% of respondents.

The financial discipline of PPF in the study was found to be strong which based on the expectations and working trend of internal audit workers. This is because was agreed by the majority of respondents (total of 88.9%) which means that internal audit department within PPF performs its duties in a manner which ensure the
financial disciplines is adhered according to expectation in relation to institutions financial policy and objectives.

Furthermore, the external audit reports for the past three years have indicated that PPF got unqualified opinion reports the fact which implies that the financial statements were prepared in accordance to applicable financial reporting framework and this has been enhanced by good accounting policy which was caused by effective internal audit

This means that the internal audit within institutions plays a key role to accelerate and promote institution development by fostering the financial development and hence general development as whole. The internal audit achieve this by preventing the money embezzlement and misuse of finance sources of the institutions through continual audit of revenue and expenses of the institution on weekly, monthly and annual basis and fosters the financial discipline as agreed by 94.4% of respondents.

Eventually, the study concludes that that internal audit performs the vital task in regulating and guiding the PPF towards the financial discipline there was needs for quality improvements as agreed by about 93.8% of respondents agree that there is a need to do so.

The area which requires improvement in the internal audit are such that the department it is still attached to line management hence still depends on top management decisions on some of the issues which are crucial to audit process. Also the auditing process still relies on the payment vouchers and not performance of the institutions in general.

5.4 Recommendation

(i) The PPF management should keep up support to internal audit department but give it power to make it is own decisions as long as it is within the institution codes and work ethics. This will improve performance of the internal audit department as will be free to make healthy choices which are not tied to management influences.
(ii) The internal audit within PPF should give the public awareness by disseminating the knowledge, objectives, and information to general public on the code of conduct and expectations for the work of internal audit in fostering the financial discipline of the institution. This can be by providing information on role of internal audit in prevent money embezzlement which ultimately promotes financial discipline and hence welfare of the institution. It is important that every worker within PPF understands the work done by the internal auditors in improving accountability, efficiency and finally mitigate business risks and improve the governance.

(iii) Management should keep up the support it provides to internal audit department in such a way that give it a mandate to make it is own decision so long as working within institutions codes and ethics and not like the current situations where are decisions are made by top management staffs. This also means that the recommendations made by internal auditors based on improving and promoting institutional financial welfare should be implemented independently so as to promote unbiased opinion.

(iv) The study recommends that the external auditors should also be employed to check the financial trends, performance and discipline of the whole institution as well as evaluating the efficiency of the internal audit department within the institution.

(v) Social security fund should find the balance between risk, cost and value and the internal audit department should not be aligned with the business risk.
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APPENDICES

Appendix 1: Questionnaire
A case of PPF (Parastatal Pension Fund) Head Office-Samora

This study is aimed at eliciting information on the effectiveness of internal audit in fostering financial disciplines in the social security funds in Tanzania

Section I: Personal Information

1. Sex
   (i) Male ( )
   (ii) Female ( )

2. Age
   (i) Below 25 Years ( )
   (ii) 25-35 Years ( )
   (iii) 36-55 Years ( )
   (iv) Above 55 years ( )

3. Highest Academic Qualification
   (i) Doctor of Philosophy ( )
   (ii) Postgraduate Degree ( )
   (iii) Ordinary Diploma ( )
   (iv) Undergraduate Degree ( )
   (v) Certificate ( )
   (vi) Advanced Diploma ( )
   (vii) Others – Specify ________________________________

4. Does your organization undertake internal audit?
   (i) Yes ( )
   (ii) No ( )
Section II: The extent to which internal audit services foster financial discipline in the organization:

1. Is the role of internal audit function in your organization clear?
   (i) Very Clear ( )
   (ii) Sufficiently clear ( )
   (iii) Less clear ( )
   (iv) Not clear ( )

2. Does the management support internal audit functions in your organization?
   (i) Yes, the do ( )
   (ii) No, they don’t ( )
   (iii) I don’t know ( )

3. Does your organization have internal audit charter?
   (i) Yes ( )
   (ii) No ( )
   (iii) I don’t know ( )

4. What is the extent of financial discipline in your organization?
   (i) Very low ( )
   (ii) Moderate ( )
   (iii) Strong ( )
   (iv) Very strong ( )

5. Does the presence of internal audit function foster financial discipline in your organization?
   (i) Yes ( )
   (ii) No ( )
   (iii) I don’t know ( )
6. Is there any need to improve the quality of internal audit services in your organization
   (i) Yes (          )
   (ii) No (          )

7. If the answer is No provide the reasons
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________

8. What should be done to improve the performance of internal audit functions within the social security funds in Tanzania?
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________

9. Please use the space below to share any thoughts on the effectiveness of internal audit functions in fostering financial disciplines in the social security funds in Tanzania
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________