

**CONTRIBUTION OF INTERNAL AUDITOR IN EFFECTIVE
USE OF FINANCIAL RESOURCES IN STATE OWNED
ORGANIZATION
CASE STUDY TANZANIA COTTON BOARD**

By

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**A dissertation submitted in partial fulfillment of the requirements for Masters
of Science in Accounting and Finance (MSc. A&F) of Mzumbe University.**

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University a dissertation entitled: **Contribution of internal auditor in effectiveness use of financial resources in state owned organization; The Case study of Tanzania Cotton Board**, in partial/fulfillment of the requirement of the degree of Master of Masters of science in Accountancy and Finance (MSc. A&F) of Mzumbe University.

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I wish to state hereby that, all deficiencies or errors that may be contained in this document are absolutely my sole responsibility

ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
CIA	Certified Internal Auditor
CPA	Certified Public Accountant
CPA-PP	Certified Public Accountant in Public Practice
DSM	Dar-es-Salaam
ISA	International Standard Auditing
M.Sc. A & F	Master of Science in Accountancy and Finance
NBAA	National Board of Accountants and Auditors
TCB	Tanzania Cotton Board

ABSTRACT

The study assessed the contribution of internal auditor in effectiveness use of financial resources in state owned organization; the case study of Tanzania Cotton Board. The study investigated the factors influence the role of internal auditor to fraud prevention in the organization, the importance of the internal auditor in organization fraud prevention and the problems facing the work of internal auditor in organization fraud prevention. The study involved (61.1%) were males and (38.9%) females. Data collection methods were questionnaires and interview questions.

Findings revealed different opinions on factors influence the role of internal auditor to prevention of fraud in the organization such as; knowledge, attitudes, responsibility, ability to identify risks knowledgeable about professional standards relating to fraud, the best, mildly positive toward the idea of the internal audit department being a primary party in detecting fraud within their organizations. Different importance of internal auditor in fraud prevention within organization were revealed such as; to achieve accountability and integrity, enhance transparency and fairness, improve organizational performance, improve service delivery, control financial services and other importance such as; instill confidence among citizens and stakeholders and to reduce corruption. Factors limit the effectiveness of the role of internal auditor in organization fraud prevention discovered such as; lack of honesty, accountability, the operational experience, competence and other factors such as Strategic positioning, confidentiality and lack of objectivity.

The study findings concluded that internal auditors support management's efforts to establish a culture that embraces ethics, honesty, and integrity. They assist management with the evaluation of internal controls used to detect or mitigate fraud, evaluate the organization's assessment of fraud risk, and are involved in any fraud investigations. The findings of this study recommended that the external auditor should evaluate whether the Tanzania Cotton Board identified risks of material misstatement due to fraud that have been suitably designed and placed in operation.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE PROBLEM

1.1 Introduction and Overview of the Study

1.1.1 Introduction

Chapter one presented the background information of the study, problem statement, research objectives, research questions, study significance as well as limitations to the study and research methodology of the study.

1.1.2 Overview of the Study

Internal auditing is an element of an internal control system set up by the management of an organization to examine, evaluate, and report on accounting and other controls on operations. It exists either because of a management decision or in certain circumstances because of a statutory requirement. Internal audit are designed to evaluate the effectiveness of an internal controls by first gathering information about how a unit operates, identifying points at which errors or inefficiencies, are possible, and identifying system controls to assess how well they work. Managers ought to routinely evaluate controls in their daily operations process of the business. Internal auditors are personnel who are employed by organizations' management and they play an important role in evaluating the effectiveness of control systems and contribute to ongoing effectiveness. Because of organizational position and authority in an entity, an internal audit function often plays a significant monitoring role to effective use of economic resources.

The study concerned about the contribution of internal auditor on effectiveness use of financial resources in state owned organization. The study examined on whether maintenance of checks against frauds affects on effective use of financial resources. The case study design will be applied in this study and the study will be carried at TANZANIA COTTON BOARD. Research instruments such as interviews, observation, administration and documents comprised data collection methods. Judgmental, stratified and random samples of financial resources and leaders or organizers of the organization were selected to present the units of inquiry in this

particular study. Descriptive and tabular analytical methods applied to explain/discuss the findings.

The findings of the study presented in tables and relationships established. It discovers factors which influence the role of internal auditor to prevention of fraud in the organization are terms of reference, management responsibility and establishment and method of delivering the internal audit. The role of internal auditor is important to the organization because provides value and improve an organization's operations. Helps an organization accomplish its objectives, Play a key role in promoting, educating and coaching the organizations staff in key principles, procedures and controls relating to both financial performance and assurance, as well as to effective use of organizational financial resources.

1.2 Background of the Problem

The role of internal auditor is to assist directors in fulfilling their responsibilities and helping the organization to achieve its strategic organization objectives by bringing a systematic discipline approach to evaluate and improve the effectiveness of economic resources management, control and governance processes. (Sawyers 1973)

The executive directors wants to make sure that operations are reviewed at appropriate interval to determine whether they are efficient and operated in accordance with management instructions, state laws, policies and procedures, also they want to be certain that; resources are adequately protected, programs, plans and procedures are achieved and quality improvement are fostered in an organization. (Attwood.1986)

The role of the audit goes back many hundreds of years. There are records from ancient Egypt and Rome, showing that people were employed to review work done by tax collectors and estate managers. In medieval Britain, an independent auditor was employed by the feudal Barons to ensure that returns from tenant farmers accurately reflected revenues received from the estates.

The auditors read out their findings, hence the word 'auditor'. The emphasis was very much on the detection of fraud and other irregularities. Thus, although the emphasis has changed and the role of the auditors becomes much more sophisticated, the concept of auditing is by no means a modern one. (Kell and Ziegler 1921)

It was recognized many years ago that whenever a fiduciary relationship with financial implications existed there were a need for an outsider with sufficient independence and objectivity to review the accounts of stewardship and to express an opinion as to their honesty or otherwise. A fiduciary relationship is a relationship of 'good faith' such as that between a trustee and a beneficiary, between insurers and the insured and between directors and shareholders. (ACCA 2003)

The accounts of stewardship in the context of trustee and beneficiary would show how the trust's assets have been dealt with by trustee on behalf of the beneficiary. In the context of a company the financial statements show how directors have dealt with the assets of the company on behalf of the shareholders. (Ratliff and Reding 2002)

Increasingly very large organizations and small organization have found a need for internal auditor in addition to external auditor. Due to increase in organization economic resources the management required internal 'employee' personnel who is independent truly in mind and altitude to effectiveness use of economic resources. As service to the organization management requires that;

- ❖ Its policies are fulfilled.
- ❖ The information it requires to manage effectively is reliable and complete.
- ❖ This information is not only that provided by accounting system.
- ❖ The organization's economic resources are safeguarded.
- ❖ The internal control system is well designed.
- ❖ The internal control system works in practice.

The internal auditor activities will be directed to insuring that these requirements are met. Independence of internal personnel is a problem because internal auditor are

employee of the firm thus independence is not always easy to achieve. (Millchamp.2002)

Now days the phenomenon of internal auditor to the organization has become more popular and accepted to enable management to improve their performance and directs to improve performance in the use of economic resources.

According to (Chambers.1981) the developing scope of internal audit has led to number of problems, many of which have been completely resolved. Internal auditor should be proved independent and continuing appraising of an organization's internal control system and take action needed to provide accountable policies which will continue assuring that the organization internal control system to safeguard economic resources are adequate and effective. It is the responsibility of the management to make sure that internal control system in their own area exists for proper use of economic resources.

Internal auditor reviews the reliability and integrity of information, compliance with policies and regulations, the safeguarding of assets, the economical and efficient use of resources and established operational goals and objectives. Internal audits encompass financial activities and operations including systems, production, engineering, marketing and human resources. Internal auditor plays a crucial role in internal control assessments of economic resources in an organization. (The Institute of Chartered Accountants, Auditing and Reporting 1987/88)

The Institute of Internal Auditors (IIA) believes that an organization is best served by a fully resourced and professionally competent, independent internal auditing personnel that provide value added services that are critical to the efficient and effecting management and organization. As far as the role of internal audit is concerned Tanzania like the most developing countries do recognize that work of internal auditors since internal auditors are there as guidance to the management on the accounting system, weakness and strength where else the external auditors have to examine the work of internal auditors, internal control system so as to advice

shareholders, bankers, and public at large of the financial position, operation and performance of the organization. Head of internal audit department should have a right of direct access to the accountability of economic resources to the organization. (ACCA 2005)

1.3 Statement of the Problem

The need for an internal auditor arises from the division in many companies between ownership of resources devoted to companies and day to day running of the company. In many organizations particularly public and private organizations the owners of the organization, not normally be involved in running the organization. The organization be run by directors who are elected by shareholders. The owners of the organization expect a return from their resources to the organization. (Millchamp.2002)

For the directors to safeguard resources entrusted to them by owners by organizations they employ independent internal auditors who will ensure that such organizations achieves at minimum cost and that activities are in accordance with the laid down rules and regulations of the management, standard accounting practice and the laws of the country. (Wool, E 1998)

In compliance with general accepted auditing standards, the work of internal auditor encompasses the examination and evaluation of adequacy and effectiveness of the organizations system of internal control, the quality of performance in carrying out assigned responsibilities. (Jack Robertson 1996)

This is achieved through, performing the following procedures;

- i) Examination and constant scrutiny of all authorizations to ensure adequate control Activities.
- ii) Periodic examination of the system of internal checks and internal control to ensure the highest possible standards of efficiency.
- iii) Detailed examination of income and expenditure to ensure its correct recording,

- iv) Classification and allocation in accordance with the approved budget provisions.
- v) Verification of assets and liabilities and the means of safeguarding them against various types of losses such as those resulting from theft, fire, misappropriation or other illegal activities.
- vi) Maintenance of adequate checks against errors, frauds, misappropriations and misapplications.

Many researchers like The Institute of Chartered Accountants, Auditing and Reporting (1987/88) and Mgonja (2004/2005) have researched on effectiveness of internal audit department in public sector. They recommended that independence of internal auditor depends on the understanding of the management of a particular sector. However, this study was not been done on the specified organization. This research therefore bridges the gap by investigating the contribution of internal auditor and specifically on whether, maintenance of adequate checks was done against frauds.

1.4 Objectives of the Study:

The study aimed at evaluating the contribution of independence of internal auditors to effectiveness use of economic resources in development of the organization in addressing the following issues;

1.4.1 General Objective of the Study;

- i) To know the contribution of internal auditor in effectiveness use of financial resources in state owned organization.

1.4.2 Specific Objectives of the Study:

- i) To assess the factors influence the role of internal auditor to fraud prevention in the organization in effectiveness use of financial resources.
- ii) To know the importance of the internal auditor in organization fraud prevention for effective use of financial resources.

- iii) To know the problems facing the work of internal auditor in organization fraud prevention for financial resources.

1.5 Research Questions:

The research was set forth to answer the following research questions below during the study;

- i) What factors influence the role of internal auditor to prevention of fraud in the organization?
- ii) Why is internal auditor important in organization fraud prevention?
- iii) What factors limit the effectiveness of the role of internal auditor in organization fraud prevention?

1.6 Significance of the Study:

The following are expected to be the significances of the study;

Being an empirical work, the study encouraged other researchers to further study on this topic.

- i) The study to address different practical problems in organizations.
- ii) The study enabled organizations to implement code of conduct covering four principles of integrity, objectivity, competence, and confidentiality and a process to provide assurance that the code is being followed by all internal audit staff to effectiveness use of economic resources to the organization.
- iii) The research enabled internal auditors to carry out a quality assurance program and communicates the results to the management and external auditor if she/he asks for it.
- iv) The study enabled organizations to improve documentation of the department policies and procedures and its audit methodology including the approach to identifying and testing information technology based controls.
- v) The study enabled organizations to improve on timelessness of detection of fraud, delivery of audit report and findings to top management and external auditor.

1.7 The Scope of the Study

The research was limited at TANZANIA COTTON BOARD covering effectiveness use of financial resources in development of an organization. The data collected from audit unit, finance department and administration department.

1.8 The Limitation of the Study

The researcher expected to face the following limitations during his study;

- i) Problems in source of data. The researcher was expected to find it difficult to get the some of the desired information. The management officials were reluctant to provide some information which may be necessary in fear of revealing their weaknesses
- ii) Some of the respondents were incorporative to give out some information.
- iii) Budget constraints, the fund available for researcher provided by financier was not enough for since the research needs a lot of money in order to accomplish the research objectives.
- iv) Time limitation, the time given for the conducting research was very limited. Therefore the researcher tried to narrow the case study to the specified organization and used extra time; weekends so as to be able to collect, analyze and interpret the collected data.

1.9 Organization of Dissertation

The study was organized as chapter one cover the introduction of the study , the introduction serves to discuss the background to the problem , define which the proposal attempting to address, provides objectives of the study, research questions ,scope of the study, significance of the study and the organization of the research proposal. Chapter two covers the literature review of the study, the work consulted in order to understand and investigate the research problem, sections which fall under this chapter are theoretical part of literature review, the empirical part of literature review, the conceptual frame work and research model which are going to be applied in this study. Chapter three covers methodology, this is description of the methods which used in carrying out the research study ,sections which are included at this chapter are type of study , study area, study population, unit analysis. Chapter

four of this research report comprise data presentation and discussion, this is the description of collected data from the field and wide discussion on their relevance to the problem. Chapter five is comprised by summary, conclusion, recommendation and policy discussed in chapter four.

1.10 Chapter Summary

The research comprised five chapters of which chapter one cover the introduction of the study which discuss the background to the problem , define which the proposal attempting to address, provides objectives of the study, research questions ,scope of the study, significance of the study and the organization of the research, Chapter two covers the literature review of the study, the work consulted in order to understand and investigate the research problem, sections which fall under this chapter are theoretical part of literature review, the empirical part of literature review, the conceptual frame work and research model which are going to be applied in this study. Chapter three covers methodology, this is description of the methods which used in carrying out the research study ,sections which are included at this chapter are type of study , study area, study population, unit analysis. Chapter four of this research report comprise data presentation and discussion, this is the description of collected data from the field and wide discussion on their relevance to the problem.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is about concepts and theories from other researchers and authors on the contribution of internal auditor to effectiveness use of financial resources. The study used various literature works to get different ideas of the problem in hand. Sometimes study consulted books; journals/periodicals, newspaper and to found out how or what others tried to depict the problem in hand.

2.2 Theoretical Literature Review

Andrew.D.Chambers et el (1987) defined Internal auditor as follows; Is an individual who takes responsibility for carrying out an internal audit work within the organization whether as an employee or as an external agency. Arora M.L (2000) has defined an internal auditor as an independent person, professionally competent and eligible and possesses a high degree of integrity. Andrew Chambers (1992) pointed out that, the independence of an auditor contributes to the effectiveness of the internal audit service by improving both the inherent objectivity of audit reports and perception of the clients and others as to their reliability. While audit independence is not therefore an end itself, it is an essential precondition for audit success. William C.Boynton and Walter G.Kell (1972) have defined internal auditors that are employees of the companies they audit. This type of auditor is involved in an independent appraisal activity, called internal auditing, with an organization as a service to the organization. The objective of the auditing is to assist the management of the organization in the effective discharge of its responsibility.

The scope of the internal audit function extends to all phases of organization's activities. Internal auditors are primarily involved with compliance and operational audits. However it is explained that the work of internal auditors may supplement the work of independent auditors in financial statement audit. Many internal auditors are certified (CIA's) and some are also CPAs.

Economic has been defined by Paulo's N.L (1975) As the study of how man and society end up choosing with or without use of money to employ scarce production of resources which could have alternative uses to produce various commodities overtime and distribute them for consumption now and in the future among various people and group within the society. Economic also has been defined by Joyce M.Hawkins and Robert Allen (1991) as maintained for profit on a business footing. Joyce M.Hawkins and Robert Allen (1991) have defined Resources as; the means of available to achieve and end fulfill a function.

NBAA (2002) has defined; organization as body for which an internal auditor is providing internal audit. Audit committee as a committee of board of directors charged with the responsibility of considering both the internal and external audit plans and activity with specific brief to review internal control management.

System as a series of interrelated procedures, composed of processes and controls designed to operate together to achieve a planned objective. Internal control as the regulation of activities in an organization through system designed and implemented to facilitate the achievement of management objectives. Internal control system as the whole system of controls, financial and otherwise established by management in order to carry on the business of an organization in orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible the completeness and accuracy of records. Control as the individual components of an internal control are known as "controls" or "internal controls" The following reasons lead to evolution that has been increase in the size of the business which has made of audit:

- i) There has been increase in costs of audit which has forced audit to become more efficient.
- ii) There has been increased separation of ownership and control which has switched emphasis from fraud of employees to validation of directors produced financial statements.

- iii) There have been changes in company Law and professional board requirements towards audit work which has all called for changes in audit objectives.
- iv) There have been increased in inventory awareness which has called for the change in audit objectives.
- v) There have been more sophisticated accounting and control system all of which have called for changes in audit approach. (ACCA 2002)

Since a company carries out its activities as a separate entity a system which involves various checks and procedures to control the recording of business transaction is needed. This is where audit comes in. Audit acts as system of internal control for the Management as well as a system of external control for shareholders and other stakeholders. This system assists to insure that the possibility of fraud or errors in records is reduced.

According to its nature audit has been categorized into;

Statutory audit :This is the audit which has to be undertaken following the requirement of the law or existing legislation, for example; The Companies Act 2002, The Cooperative Society Act No.1991, The Public Finance Act etc.

Non-statutory (Private) audit: This is the audit undertaken at the wishes of the owners of the entity without being pressured by legal obligations. The scope of this type of audit is determined by the owner.

Internal audit: this an element of the internal control system set up by the organizations Management to review entity's financial, operations and positions at regular and frequent intervals. This type of audit is conducted by an employee of the organization. It involves the examination and evaluation of the adequacy and effectiveness of the organization system of internal control and quality performance in carrying out responsibilities.

External audit: It is an independent examination of, and expression of opinion of financial statement of an entity by an appointed auditor. Its objectives are to enable the auditor to give his opinion on the truth and fairness of the financial statement.

Operational/Management/Performance audit: this is an inquiry in the effectiveness of Management. It reviews a party of an organization's operating procedures for the purpose of evaluating its efficiency and effectiveness, therefore giving recommendation for improvement of the operations.

Financial statement audit: it is an audit conducted to determine whether the overall financial statement of an audited organization present fairly the financial position and results of operation in accordance with Generally Acceptable Accounting Principles.(Sylvia Shayo Temu and Judica King'ori 2000).

The responsibility for safeguarding a company's assets, maintaining proper records and preventing errors and fraud rests with directors and they are not entitled to rely upon the auditor to protect them from failure to discharge this responsibility. However internal auditor is employed to bring material irregularities to light accordingly. (Mill champ A.H 1986)

The auditor should therefore plan his audit so that he has a reasonable expectation of auditor's suspicions are aroused, he must inquire into all circumstances until he is satisfied. If material irregularities are discovered he must report accordingly either to the directors or to the members as appropriate. (Graham W .Parker (1995)

Advantages of internal auditor

He/she ensures accounting system is efficiency and providing management with accurate and material information for proper economic, efficient and effective use of resources.

- i) He/she ensures compliance with statutory and regulatory requirements.
- ii) He/she helps in safeguarding the assets and limit liabilities of the organization.
- iii) He/she ensures effective system of internal control.
- iv) He/she prevents and detects fraud and error.
- v) He/she simplifies the work of internal audit.(Andrew D .Chambers et el 1987)

Objectives and scope of internal audit

Internal audit is an independent appraisal function established by the management of an organization for the review of internal control system as a service to the management (Tanzania Auditing Standards number 9 and Emile Woolf (1987)

It objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources. Internal audit should provide an independent and objective function but there are increasing pressure to add value within the organization and therefore the function cannot but truly independent of the organization that it operates in internal audit is part of the overall control framework of the organization.

Internal auditor provides management with valuable information for decision making and effective operation of its business. The scope and objectives of the internal auditor may vary depending on assigned responsibilities, size and structure of an entity and the skills and experience of the internal auditor. (Mill champ A.H 1986)

Reviewing of accounting systems and related internal control

Arora M.L (2000) provided the following special investigations including fraud investigations:

- i) Examination of financial operating information for management, including detailed testing of transactions and balances.
- ii) Review of economy, efficiency and effectiveness of the operations and of the functioning of non-financial controls.
- iii) Review of the implementation of corporate policies, plans and procedures.

Essential elements of internal audit

Independence-usually internal auditors are employees of the organization and thus independence of an internal auditor is not always easy to achieve. However, it can be assisted by;

- i) Having the scope to plan its own activities.
- ii) Having unrestricted access to records, assets and personnel.

- iii) Having internal audit personnel with an objective frame of mind.
- iv) Having internal audit staffs that have no conflict of interest.
- v) Having internal audit staffs that have no non-audit work. . (Mill champ A.H 1986)

Staffing-Internal audit department must be adequately staffed in terms of number, qualifications and experience. Due care-Internal auditors should be up to date technically and have personal standards of knowledge, honest, probity and integrity. Planning-According to Coopers and Lybrand (1971)

Reliance of internal audit works

IAS 610 Considering the work of internal auditor's states, the external auditors must consider the activities of internal auditing and their effect, if any, on external audit procedures .An external auditor may be able to place reliance on the internal audit function as a means of reducing the work he/she performs in such areas as; evidence collection on accounting systems and internal controls and compliance and substantive testing.

Before placing reliance on internal audit work, the external auditor should assess the effectiveness of internal audit. (Arens and Loebbecke 1997)

Assessment of effectiveness of internal audit

Organizational status (independence)-The specific status of the internal audit department in the organization and the effect it has on the internal audit's ability to be objective. Internal audit should report to the highest level of management and be free from any other operating responsibility. Internal auditors need also to free to communicate with external auditors.

The scope and objectives-the nature and extent of internal auditing assignments performed. The external auditors need to consider whether management acts on the internal audit recommendations and how this is evidenced.

Due professional care-whether internal auditing is properly planned, supervised, reviewed and documented. The existence of adequate audit manuals, work in programs and working papers would be considered.

Technical competence-Whether internal auditing is performed by personal having adequate technical training and proficiency as internal auditors.

Internal auditor reports-The quality of reports issued by internal auditors should be considered. This includes management responses and actions taken as a result of recommendations made by the external auditor. (Mill champ A.H 1986)

The ethical code base of an auditor

Internal auditors have the same obligations to comply with relevant codes of conduct. The Institute of Internal Auditors (IIA) has its own codes. The key requirements are as follows;

- i) Members should exercise honesty, objectivity and diligence in the performance of their duties and responsibilities.
- ii) Members should exhibit loyalty in all matters pertaining to the affairs of their organization. However; members should not knowingly be a part to any illegal or improper activity.
- iii) Members should not knowingly engage in acts or activities that are discreditable to the professional of internal auditing or to their organization.
- iv) Members should refrain from entering into any activity which may be in conflict with the interest of their organization or which may prejudice their ability to carry out their duties and responsibilities.
- v) Members should not accept anything of value from an employee, client, customer, supplier or business associate of their organization that would impair or be assumed to impair their professional judgments.
- vi) Members should undertake only those services, which they can reasonably expect to complete with professional competence.
- vii) Members should adopt suitable means to comply with the standards for the professional practice of internal auditing.

- viii) Members should be prudent in the use of information acquired in the course of their duties and should not use confidential information for any person again.
- ix) Members when reporting on the results of their work should reveal all material facts known to them which, if not revealed, could either distort reports of operations under review or conceal unlawful practices.
- x) Members should continually strive for improvement in the proficiency, effectiveness and quality of their services.
- xi) Members in practice of their professional should be ever mindful of their obligation to maintain the high standards of competence, morality and dignity. Members must abide by articles and uphold the objectives of the Institute.

Extent of reliance of internal auditor's work

The extent of reliance depends on factors such as;

- i) The materiality of the areas or items to be tested.
- ii) The level of audit risk inherent in the areas or items.
- iii) The sufficiency of complementary audit evidence.
- iv) Specialist skills possessed by the internal audit staff.(NBAA 2002)

The role of internal auditor on fraud prevention in the organization

Wilcox mentions in the CPA Handbook, an auditor must fulfill his obligations even when it means opposing or denying the wishes of those who have employed him, and who he knows may cease to do so. It is a requirement unparalleled in any other field. Independence is an attitude in mind. Not only should a professional accountant maintain independence but he should also appear to be independent to all reasonable persons. Thus independence must be real as well as evident.

Holmes and Burns (1939: 123-124) argues that “from an independent auditor stand point phenomenon, the crucial function of internal control is to protect the financial records of the audited financial statement from material misstatements resulting from undetected errors and other irregularities. In an independent auditor's view, the

adequacy of a client's internal control system depends directly on the extent to which the system accomplishes this important function (quality of internal control)"

Chambers A.D (1981: 322) argues that, "Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits. It is achieved through organization status and objectivity". Organization status should be sufficient to assure a broad range of audit coverage and adequate consideration of and effective action findings and recommendations. Objectivity requires that internal auditors have an independent mental attitude, and an honest belief in their work product. Drafting procedures, designing installing, and operating systems are not audit functions performing such activities is presumed to impair audit objectivity.

The institute of chartered Accounts (1987/88) said "internal audit is an element of internal control system set up by the management. The extent to which the external auditor is able to take account of the work of the internal auditor will depend on his assessment of the effectiveness of the internal audit function.

On top of that Howard (1977:82) argued that "internal auditing is an independent appraisal activity within the organization for the review of operation of services to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other control"

Also internal auditing is an independent appraisal function established by the management of an organization for the review of internal control systems as a service to the organization. It objectively examines, evaluates, and reports on adequacy of internal control as a contribution to proper economic, effective and effective use of resources". (Mill Champ A. H.)

Again if we come to the scope and objective of internal auditing you will find that "the objective of internal auditing is to assist all members of management in the

effective discharge of their responsibilities, by furnishing them with analysis, appraising, recommendations and pertinent comments concerned activities reviewed.”

Limitations of the internal audit function

According to Spencer K.H (2003); independence, internal auditor should be independent and be seen to be independent toward the objective function. However this independence can be compromised, particularly where reporting lines are through to operate areas, which they are required to review and report on. It becomes difficult to stand back at a later stage and audit the same system. Where internal audit is over familiar with client may view its work as potentially biased by the relationship.

Conflict of interest can arise where the auditor cannot stand back from the system. This can happen where the auditor has developed close relationship with the manager of the operation under review. The practicability of the situation may make it difficult to preserve independence. Where internal audit report to finance directors, careful approach has to be negotiated to secure the degree of independence that promote good audit work.

Relationship between internal auditor and external audit

Internal and external audit should work closely together with reliance by external audit on the work of the internal audit. This is dependent on the two functions having a common understanding of the organization’s needs and not always effective.

Variation of standards

Approaches to internal audit vary significantly across the industry. Whilst some are moving to a more consultancy type approach, others continue to perform a tick and check approach.

Relatively new profession

Internal audit is still a relatively a new profession, which has been changing significantly over the years. Wide varieties of backgrounds are attracted into internal audit.

Expectation gap

There is a balance to be achieved between added value work and ‘checking’ work and a potential skills and expectations gap between consultancy and compliance. Organizations are increasingly subject to change in objectives, systems and procedures, which affect the company risk profile. Internal auditors may not be geared up for such constant change, which both the scope of work carried out and the skills required.

Understanding of internal audit

There is a general poor understanding of the function of internal audit. It is still seen as negative ‘policing’ activity and checking for compliance. There is therefore a significant education exercise for internal auditors with an organization to aid understanding of risks, control and internal auditing. To achieve effectiveness and efficiency, the scope of internal audit function should provide an unrestricted range of coverage of the organization’s operation and the internal audit should have sufficient authority to allow his access to such records, assets and personal as are necessary for proper fulfillment of his responsibilities.

According to ACCA (2003) it has pointed out the potential objectives as;

- i) To recommend and influence change.
- ii) To provide an understanding and overview of control issues.
- iii) To ensure action is taken on audit findings and recommendations.
- iv) To document the work carried out on the audit and any limitations of scope.
- v) To provide assurance to management.
- vi) To provide information’s to management.
- vii) As market tool for internal audit and review.

According to Gupta K. (1976), the following are types of reports provided by internal auditor for different purposes.

- i) Report ratings.
- ii) Formal reports.
- iii) Discussion papers and reports.
- iv) Project reports.
- v) Presentations.
- vi) Memorandum reports.
- vii) Compliance reports.
- viii) Follow-up reports.
- ix) Risk reports.
- x) Reports from risk and control workshops.
- xi) Monthly and annual reporting.

There are number of customers of audit report. For each report it is important to be aware of who customers are and what their objectives are likely to be. The report need to be targeted at the appropriate audience. The usual customers of reports are;

- i) Operational management.
- ii) Audit committees.
- iii) Board.
- iv) Organization as a whole.
- v) Risk committees.
- vi) Finance directors.
- vii) Chief executives.
- viii) External auditors and Regulatory bodies.

2.3 Empirical Literature Review

The purpose of this chapter was to present what other scholars had discovered on the subject matter. The review was concentrated on the relevant literatures for the topic so as to discover uncovered areas which need to be studied;

2.3.1 Studies in done abroad.

According to Benet White papers (2005) .The researcher has pointed out that; much of what auditors do is unobservable. Indeed, what goes on in an audit has been described as? Audits in this context are of financial reports and those financial reports are the representations of the management of those companies, not the auditors. The internal audits reports depend much on the accuracy, completeness and independence of internal auditors. According to Barret et el (1986), Explored the concept of control and how the internal audit function can help an organization to achieve a positive control result through assessments of the control culture. They describe the control culture as flowing from the following four interrelated components: The network of business fundamentals establishes the elements and linkages needed to inform individuals about how to perform their work. This network includes policy statements, operating procedures, performance standards, budgets, and performance monitoring systems. The attitudes and behavior of the board of directors and executive management set the tone of the organization and signal to all parties the way that business affairs will be conducted.

Controlling activates the network of business fundamentals through board, management, employee, customer, supplier, and regulator activities such as supervising, comparing, reconciling, monitoring, confirming, and reporting. The business plan, formulated by the board of directors and executive management, states what the company desires to be, identifies and ranks the business exposures expected to be encountered, and specifies the network of business fundamentals needed to address the business exposures identified. They conclude as follows: A relevant concept of control incorporates the activities and actions of the board of directors and executive management. The single most important control component is the attitude and behavior of the chief executive officer, followed closely by that of the audit committee. Although achieving a positive control result begins with the chief executive officer and the board of directors, responsibility for its accomplishment rests with every employee as well as with entities closely related to the company such as suppliers, customers, and regulators. Meaningful evaluation of control should extend to every level affected in the organization and to closely relate external

entities. A positive control result can be achieved at one or more levels in a company (e.g., headquarters, divisions, subsidiaries, departments) while a negative result is achieved at other levels.

2.3.2 Studies done in African context.

According to Williams'(2003) "How must the internal auditing profession change so that it will be recognized as one of the cornerstones on which effective corporate governance must be built, and how can internal auditing measure its progress toward achieving this goal?"

According to Senkoro (1991), Fraud is perhaps old as man himself. It is defined as "criminal deception: use of false representations" and embezzlement as "fraudulent diversions to one's own use" used interchangeably. There are several causes of fraud but the three major are,

- i) Fraud is variably committed to satisfy a human need. A.S Maslow's hierarchy of needs theory is perhaps as valid today as it was first propounded. At the bottom level of the needs, a human being is craving for food, shelter and clothing, the so called physiological needs. These are basic needs which a human being has to square up in one way or another to uphold his dignity in the community; to avoid starvation and in extreme cases; death
- ii) An environment is tempting if within a company there are no internal controls to counter fraud or if they exist, they are not adhered to. It is equally tempting, if management and the board are lax at supervision. If there is no elaborated disciplinary code which cuts across the company, the temptation to defraud is high since the fraudster may go unscathed.
- iii) At the apex of the hierarchy of needs, Maslow propounds the need for self-actualization, accomplishment. Aspirants for these needs are often trying to compare themselves with their contemporaries, their colleagues. They are often trying to outdo their rivals so that they can be seen to be at the top.

According to Bishop et el (1984), the research study provides a comprehensive analysis of how the internal auditor can play an effective role in the deterrence,

detection and reporting of fraudulent financial reporting. They give out observations as:

Internal auditors administratively report most frequently to the chief financial officer who also may have responsibility for financial statement preparation. There is a need for improved auditing coordination between internal auditors and independent public accountants. Internal auditing is viewed by many as a transient profession rather than a long-term career. There is a trend toward increased reliance by independent public accountants on the work of the internal auditor particularly in the areas of control evaluation and computer systems. In most cases internal auditors have a well-defined formal reporting responsibility to the audit committee or the board direct. The audit committee has the potential for playing the most critical role in assuring that mechanisms are in place to detect and report fraudulent financial reporting. Internal audit coverage focuses primarily on the evaluation of controls at the division, subsidiary, or other operating unit level and allocates much less effort to auditing the financial reporting process and its controls at the corporate or senior most level of consolidation. Organizational status and independence are essential in insulating internal auditors from compromising organizational influence and pressure. When the code of corporate conduct receives top management's support it is instrumental in establishing a positive ethical environment and is an important control.

Detection of fraud presupposes a fair knowledge of how frauds are committed in the first place. Most frauds are committed through manipulation of accounts and/or misappropriation of cash or goods.

The success of internal audit in an organization depends on the caliber of staff in unit and the independence with which the staff discharge their responsibilities. In some organizations internal audits either do not exist or if they do are poorly staffed, viewed with suspicion and not given the motivation to probe into irregularities.

Accounts should be closed and audited within the statutory deadlines. This requirement would ensure irregularities and in particular fraud are exposed in time for corrective action.

New recruits in an organization especially for sensitive positions should not be taken for granted. References from previous employers should be analyzed carefully.

2.3.3 Studies in Tanzanian context.

According to Mgonja I.R, (2004/2005), the researcher explained that, Independence is achieved through the organizational status of internal audit and the objectivity of the internal auditors, the status of internal audit should enable it to function effectively. The researcher further argues that, to achieve full effectiveness the scope of internal audit function should provide an unrestricted operations and the internal auditor should have sufficient authority to allow his access to such records, assets and personnel as a necessary for his proper fulfillment of his responsibilities.

Mgonja also explained that, the effectiveness of internal audit depends substantially on the quality, training and experience of its staff. The aim should be to appoint staff with the appropriate background, personal qualities and potential. Thereafter steps should be taken to provide the necessary experience, training a continuing professional education.

According to Kassim (1990), The practice of modern internal auditing may not be complete without due recognition of the problem of fraud and dishonesty, its nature and trend in Tanzania at present. Factors contributing to fraud are

i) Verification of Accountabilities,

If the organizations do not allow or provide extended validation by internal auditors or external persons, it provides a situation for fraud. An example is the periodic verification of the petty cash upon replenishment of cash or verification of consigned goods.

ii) Creation of honesty,

In considering fraud defense, the internal auditor should advice management to adopt standards that are honest and fair. These should be defined and practiced by top

management first and then followed by the rest of the organizations employees. “If senior managers engage in unethical conduct, accept sloppy controls, wastes of assets and talents that the organization is subjected to fraudulent then practices in all levels within its structure” (The use of the audit committee may be adopted to evaluate, should the internal fear being pawned).

iii) Bonding

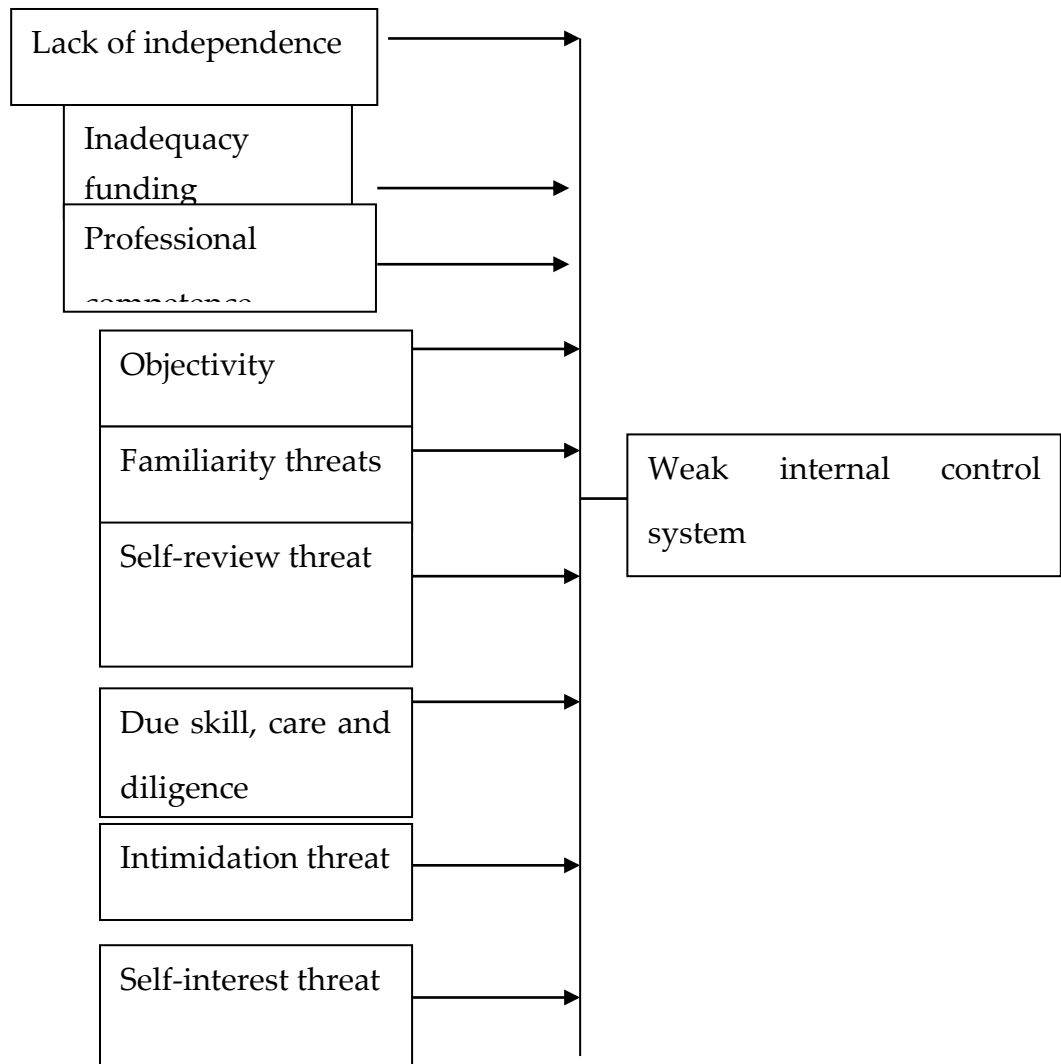
Modern internal auditing practice advocates that employees participating in any part of cash process be bonded. Bonding provides two benefits. One is that a corporation gets protection in case of defalcation or any fraudulent practice. Two motivates individual employee to exercise a higher standard of care and integrity since there is risk of being prosecuted by a bonding company.

The author concludes that fraud has grown alarmingly and poses a danger both in numbers and magnitude. Internal auditors should take interest in this development with a view of enhancing internal control. To do so they should first be aware of the reasons that make people commit fraud, factors that facilitates fraudulent practices with an organization and at the banks. Since many of the frauds involve cash transactions particularly through the use of the cheques, internal auditors should be aware of provisions of cheque act 1969, bill of exchange ordinance and accounting controls pertaining to vulnerable areas specifically cash. Defensive attitude be developed on evaluating internal control and enhance adherence to internal control procedures, observing division of responsibilities, job rotation, taking of leave, disciplinary actions, and instituting regular checks.

2.4 Conceptual Framework

The study was guided by the framework shown in figure 2 .1 below. The Framework helped the researcher to make critical analyses and interpretations of the following variables in relationship to the contribution of internal auditors in effectiveness use of financial resources in the organization.

Figure 2.1: Challenges to the contribution of internal auditors in effectiveness use of financial resources: Problem Modeling



Source: The Research's model, 2013

From the conceptual frame work in figure 2.4, it shows that the internal audit unit fails to contribute in effectiveness use of financial resources in state owned organization due to weak internal control system within the organization which are composed by factors as intimidation threat, self-interest, Objectivity and lack of professional competence.

2.4.1 Definition of the Variables

2.4.1.2 Funding

The term 'fund' has been defined by different authors in the literature of social Shirima (1973) defined fund as an independent fiscal and accounting entity with a self-balance set of accounts, recording cash or other resources together with all related liabilities, obligations, reserves and equities which are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Meigs (1978) defines it as a sum of money or other resources segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

For the purpose of this study, the term fund meant any financial resources received and used by the board to carry out its activities. That means the amount used by the cotton board to cover its direct and indirect cost is inadequacy.

2.4.1.3 Professional competence

An auditor should offer competent professional service based on current developments in practice, legislation and techniques. An auditor should not accept work for which has no competence unless he /she obtains such advice and assistance as will enable him / her to competently carry out work. Professional competence is dealt with under sections 5(1) – (4), 22 and 37 of the NBAA (Code of Ethics) by laws, 1999

2.4.1.4 Objectivity

Is the state of mind which has regard to all considerations relevant to the task in hand but no other. It presupposes intellectual honesty. Members should not allow bias, conflict of interests or undue influence of others to override professional judgment.

2.4.1.5 Familiarity threat

Familiarity threat may occur when auditor is too sympathetic or trusting of the client because of a close relationship with them. This can happen especially, where the

auditor has been auditing the same client for several times and, as the result she/he establishes relationships

2.4.1.6 Self review threat

Self-review threat can occur, where the auditor reevaluates work completed by him such as financial statements prepared or a financial reporting system established by him.

2.4.1.7 Due skill, care, diligence and expeditious

An auditor should carry out his / her work with due skill, care, diligence and expedition and with proper regard for the technical and professional standards expected of him / her as an auditor.

2.4.1.8 Intimidation threat

Intimidation threat occurs where the client harasses or bullies the auditor into giving an unqualified opinion is appropriate.

2.4.1.9 Self-interest threat

Self-interest will lead to conflict of interest .The term ‘conflict of interest is means that opinion given by auditor influenced by the benefit obtains from the client.

2.5 Research Hypothesis

The following is the research hypothesis:

H₀: Contribution of internal auditors in effective use of financial resources is affected by lack of independence

H₁: Contribution of internal auditors in effective use of financial resources is not due to lack of independence.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This is the way of systematically solving the research problem. The research studied various steps that generally adapted in studying the research problem along with the logic behind them. This chapter presents the methods of data collection sampling method and data analysis.

3.2 Research Design

Case study of descriptive nature was used. The design has been recommended because it was comparatively less expensive and data collection is more manageable more than in other research designs and enabled research to be more flexible in using different tools of data collection. This design was useful because the study based on a specific area for in-depth study of the problem.

3.3 Area of the Study

The study undertaken at Tanzania Cotton Board at its head office situated in Dar es Salaam. All its functional departments are located at head office; for the research topic becomes easy for data collection since did not involve movement from one place to another.

3.4 Population of the Study

Population is comprised from employees of the organization. The researcher was expected to use proportional or disproportional stratified random sampling technique to ensure a balance of at least respondents from each department. In this method the researcher divided the population into strata (groups) according to the number of specific group of population to be included in the sample. Then from each stratum a sample was randomly drawn either proportionally or disproportional.

3.5 Sampling Frame.

Sample frame refers to the origination of items selected from a population to form the sample. Researcher used interview respective personnel from accounts

department, audit unit and administration department; all are employee of the organization.

3.6 Sample Size

Sample size refers to the number of items selected from a population to form the sample. Researcher used interview respective personnel from various sections in the specified organization. Sixty percentages of total items from each section targeted and were drawn for interview to form total of eighteen respondents.

3.7 Sampling Techniques

These provide a range of methods that enable the researcher to reduce the amount of data that needed to be collected by considering only data from sub-groups rather than all possible cases or elements. The researcher applied both probability and non – probability techniques as following sampling techniques

3.7.1 Random Sampling

This is probability sampling procedure that used to select staff of the TCB. In random sampling, each item or element of the population has an equal chance of being chosen. Random sampling technique ensured that bias not introduced regarding whom to be included in the study.

3.7.2 Purposive Sampling

This is non-probability sampling procedure that subjectively considers the purpose of the activities carried out by staff in the TCB and purpose of the study. This technique will provide the researcher an ability of obtaining information from the organization.

3.8 Types and Sources of Data

The research collected, analyzed and used both primary and secondary data. These types of data were distinguished as follows:

3.8.1 Primary Data

The primary data were collected for the first time from the field. These data were collected from various sources during the study. The basic tools the researcher employed in collecting primary data are questionnaire, observation and interviews.

3.8.2 Secondary Data

These data are already written and analyzed. The researcher collected secondary data through documentation method, Different publication from finance department and audit unit specifically that of auditing and accounting consulted during the course of research from research papers and audited account. These extracted through reviewing various documents for example debtor account, textbooks, journals, contract purchase orders, sales invoices, purchase invoices, receipt notes, payment vouchers, minutes of management meetings, library literature, periodically, credit management report and other published information that was available.

3.9 Data Collection Techniques

In order to obtain relevant information, a researcher collected data by using the following data collection instruments and used depending to the availability and accessibility of their sources. Different instruments applied to come up with the data required. The following instruments applied: Observation, questionnaire, interview, and documentary review but data collection techniques will use both primary and secondary data collection methods.

3.9.1 Questionnaire Administration

The research used questionnaire as a major research instrument. Both open ended and close-ended questionnaire used to generate information. The closed ended questionnaire prepared in form of the multiple choices, whereby respondent was asked to put a tick against the answer that was correct. With open ended question respondent requested to read and provide appropriate answers to the questions in the questionnaire or write the correct answer.

3.9.2 Interview

This method employed to find information necessary from the group more quickly just to allow individual self-expression. The financial management experts e.g. Auditors, Accountants and other staffs researched for interview. The researcher visited the members of staff in their respective places of work and asks them respective questions.

3.9.3 Documentation

Documentation method used to collect secondary data. By reading different available documents in the organization such as company financial regulations, audited financial annual reports, accounting manual procedures. Reviewing books of accounts, studying computer programs as well as search the library literature and other documentary sources the researcher abled to collect data from the organization records.

3.9.4 Observation

Observation used on this study since the researcher involved in the daily activities of the organization just like other staffs of the organization. This method gave an opportunity to the researcher to observe important issues as far as the study was concern. This helped the researcher in collecting primary data.

3.10 Data Analysis Techniques

Both qualitative and quantitative methods used to analyze data of the research findings. It was the researcher expectation that these methods revealed the correct picture and meaning of the findings.

3.10.1 Quantitative Method

Quantitative method based on analyzing meanings derived from numbers collected from numerical and standardized data. Using this method the numerical data were analyzed through statistical methods such as standard deviation, pie charts and bar charts.

3.10.2 Qualitative Method

Qualitative methods used for non-standardized data. The interpretation and meanings expressed through words. The data analysis in these methods gave the quality of data such as good, true and many other qualities. This method deals with non-quantitative data only.

CHAPTER FOUR

DATA PRESENTATION AND DISCUSSION

4:1. Introduction

This chapter presents the findings of the study in line with the specific objectives. It contains description of the respondents' profile. The chapter contains information on the factors influence the role of internal auditor to fraud prevention in the organization, the importance of the internal auditor in organization fraud prevention and the problems facing the work of internal auditor in organization fraud prevention.

4:2 The Profile of Respondents

4:2.1 Genders of Respondents

Respondents were asked to indicate their gender. Researcher was interested to collect information on gender issue in order to know gender balance in Tanzania cotton board. Results were presented in Figure 4.1

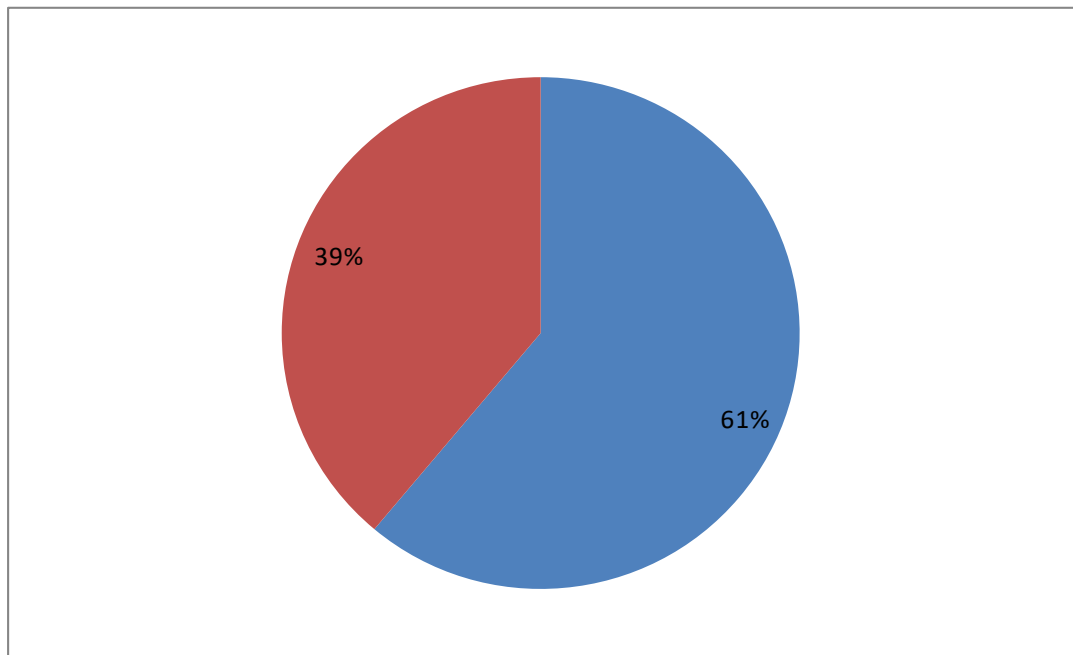


Figure 4.1: Gender of Respondents

Source: Field Data, 2013

Findings in Figure 4.1 revealed that the study involved all gender. The findings shows that out of 18 Respondents (61.1%) were Males and (38.9%) Females. This findings show that the more than (60%) of Employees in Tanzania cotton board were Males dominated. The higher of number of Males in Tanzania Cotton Board were probably due to the facts that Women were not interested to work in organization related to agricultural activities.

4.2.2 Respondent's age

Respondents were asked to state their ages in the nearest years. The reason for looking for the age of the respondents was based on the fact that a researcher was interested to know the current database of the respondents' of the Tanzania Cotton Board. The results were presented on the Table 4.1.

Table 4.1: Distribution of respondent's ages (N=18)

Interval of ages	Number of the respondents	Percentages (%)
18 – 25	4	22.2
26 – 36	2	11.1
37 – 47	7	38.9
Above 48	5	27.8
Total	18	100

Source: Field Data, 2013

Results in Table 4.1 revealed that Respondent's ages differ. Results revealed that out of 18 Respondents; (22.2%) were between 18-25 years old, (11.1%) were between 26-36 years also, (38.9%) were between 37-47 years old and (27.8%) were above 48 years. The highest numbers of Respondents were observed to be those of the age between 37-47 years old followed by above 48 years. However, the lowest numbers of Respondents were observed to be those below 26-36 years old. These findings show that Tanzania Cotton Board recruits the aged Employees perhaps because always young Employees tend to quite jobs looking for green pasture. Hence recruits young people in organization may affects human resource planning because of turnover costs which will be associated with employee's turnover.

4.2.3 Level of Education

Respondents were asked to state the highest level of education they had attained. Particularly they were to mention the level of education as per the Tanzanian education system. A researcher was interested to know the number of Respondents in relation to their education level. The results were presented in Table 4.2.

Table 4.2: Distribution of respondents by level of education (N=18)

Category	Frequency	Percentage
Certificate in any training	1	5.5
Diploma holder	7	38.9
Degree	2	11.1
Masters	5	27.8
PhD	3	16.7
Total	18	100

Source: Field Data, 2013

Results in Table 4.2 revealed that Respondents differ in education qualifications. The findings noted that out of 18 Respondents; (5.5%) had certificate in any training, (38.9%) had Diploma, (11.1%) first degree, (27.8%) Masters and (16.7%) had PhD. The highest numbers of Respondents were observed to be those with Diploma followed by masters. However, the lowest numbers of Respondents were observed to be those with certificated in any training. These findings show that Tanzania Cotton Board recruits all people with different level of education and skill. Organization which have people with different level of education and skills increase efficiency and effectiveness of the services.

4.2.4 Working experience in Tanzania Cotton Board

Respondents were asked to state their experiences on working in Tanzania Cotton Board. They were asked to choose from the range of experiences in years such as; less than a year; 2 - 5 years; 6 to 10 years and above 11 years. Results were presented in Figure 4.2 where by Y axis represent percentages of Respondents and X axis represent experiences in years.

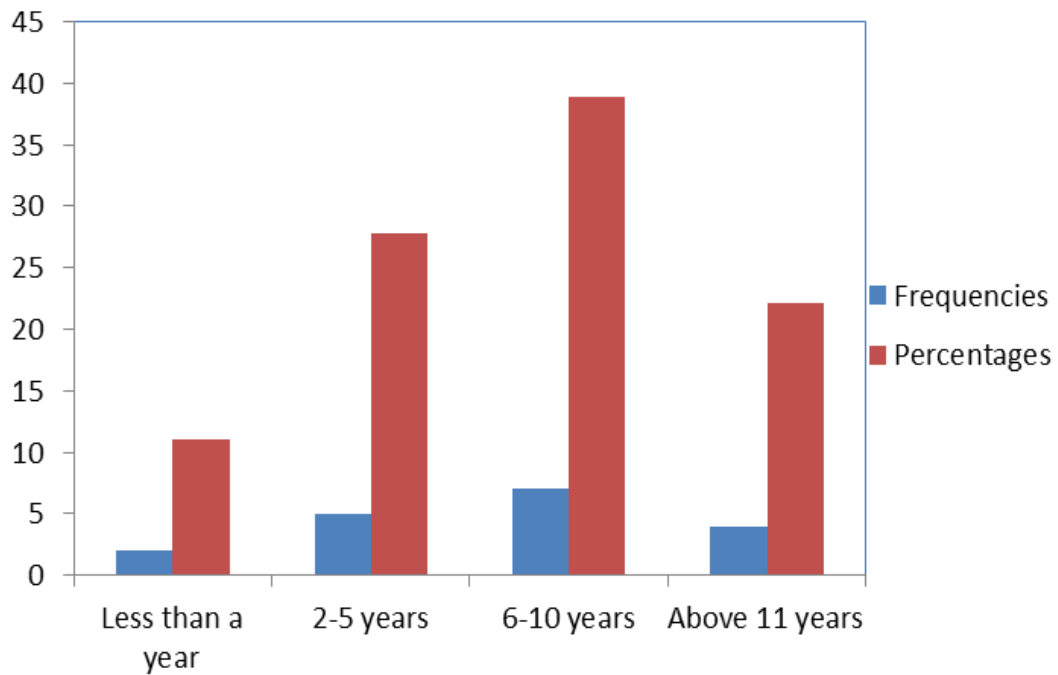


Figure 4.2: Respondent's ages

Source: Field Data, 2013

Table 4.4 Respondents age

Experience	Frequencies	Percentages
Less than a year	2	11.1
2-5 years	5	27.8
6-10 years	7	38.9
Above 11 years	4	22.2
Total		

Source: Field Data, 2013

Results in Figure 4.2 revealed that out of 18 Respondents; (11.1%) had experience of less than a year, (27.8%) had experience between 2-5 years, (38.9%) had experience between 6-10 years and (22.2%) had experience above 11 years. The highest numbers of Respondents were observed be those with experience between 6-10 years followed by those between 2-5 years. However, the lowest number of Respondents were observed to be those with less that a years. These findings show that there were

different experiences of Employees. However, organizations which have Employees with long experiences perform.

2.3 Factors which influence the role of internal auditor to prevention of fraud in the organization

Under objective one, study sought to investigate the factors influence the role of internal auditor to prevention of fraud in the organization. Therefore, Respondents were asked to indicate their feelings on factors influence the role of internal auditor to prevention of fraud in the organization. Results were clustered, summarized and presented in Figure 4.3 where by Y axis represent percentages of Respondents and X axis represent different factors

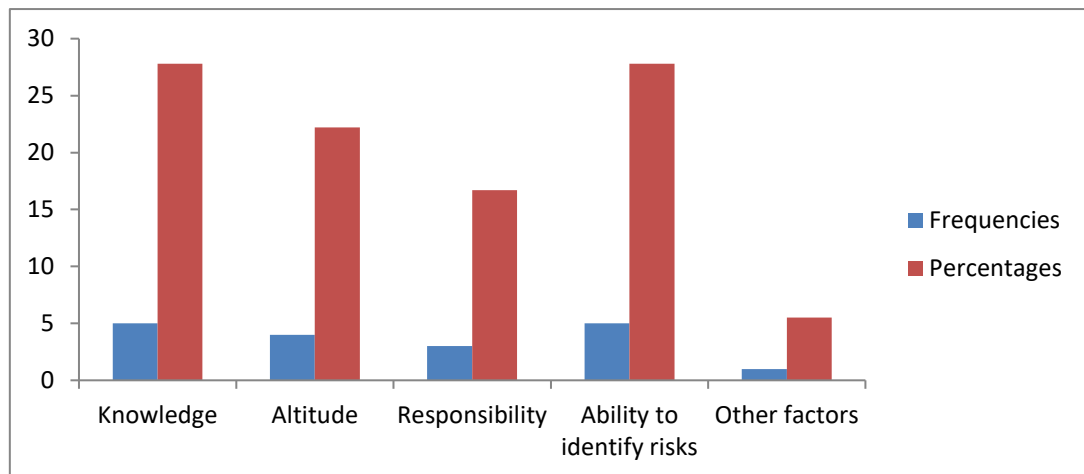


Figure 4.3: Factors influence the role of internal auditor

Source: Field Data, 2013

Table 4.5 Factors influence the role of internal auditor

Factors	Frequencies	Percentages
Knowledge	5	27.8
Altitude	4	22.2
Responsibility	3	16.7
Ability to identify risks	5	27.8
Other factors	1	5.5
Total	18	100

Source: Field Data, 2013

Results in Figure 4.3 revealed that Respondents had different opinions on factors influence the role of internal auditor to prevention of fraud in the organization. Out of 18 Respondents, (27.8%) indicated that knowledge, (22.2%) indicated attitudes, (16.7%) indicated responsibility, (27.8%) ability to identify risks and (5.5%) indicated other factors such as knowledgeable about professional standards relating to fraud, their attitudes are, at best, mildly positive toward the idea of the internal audit department being a primary party in detecting fraud within their organizations.

Under Standards for the Professional Practice of Internal Auditing, internal auditors are required to have sufficient knowledge to identify the indicators of fraud but are not expected to have the expertise of persons whose primary responsibilities are detecting and investigating fraud. These findings were supported (Arena and Azzone 2009) on identifying organizational drivers of internal audit effectiveness. Their study showed that internal auditors are able to identify risks associated with fraudulent financial reporting. Results suggest that this ability to identify the risks does not necessarily result in a change in the auditing procedures performed. Additionally, the attitude of internal auditor on fraud is essential. Attitudes are slightly more positive toward responsibilities for fraud prevention than fraud detection. These findings as well were supported by the study done by (Bedard and Gendron 2010) on strengthening the financial reporting system: can the audit committees deliver. The findings of their study revealed that altitude of internal auditors has effect of his performances. Additionally, internal auditors tend to be more positive about responsibilities for fraud to the detriment of the organization for example employee fraud than fraud for the benefit of the organization for example fraudulent financial reporting. These findings were supported by the study done by (Bierstaker, Brody and Pacini 2006) on Accountants perceptions regarding fraud detection and prevention methods. The findings of their study revealed that positive perception of auditors towards fraud increases responsibility.

Moreover, overall, internal auditors require feeling it is primary responsibility to detect or prevent fraud. Furthermore, it is reasonable to assume that if auditors accept responsibility for prevention of fraud to the detriment of the organization, and if the

most common factors affecting the audit work relate to fraud to the detriment of the organization, then the policies and procedures for prevention of fraud should relate to this type of fraud. Internal auditors are also more inclined to agree that their primary responsibilities are for fraud to the detriment of the organization rather than fraud for the benefit of the organization. Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. Evaluating the work of the internal auditor is to examine how well they detect or prevent actual errors within an organization and there has been limited research on this topic. The number and magnitude of errors requiring adjustment by the external auditor have been found to be substantially lower for entities that had an internal audit department compared to those that did not have an internal audit department (James, 2003). This finding highlights the important role internal auditor's play in error detection.

2.4 Importance of Internal auditor in Fraud Prevention within Organization

Under objective two, study sought to investigate the importance of internal auditor in fraud prevention within organization. Respondents were asked to indicate their feelings on important of internal auditor in fraud prevention within organization. Results were clustered, summarized and presented in Figure 4.4 where by Y axis represent percentages of Respondents and X axis represent different importance

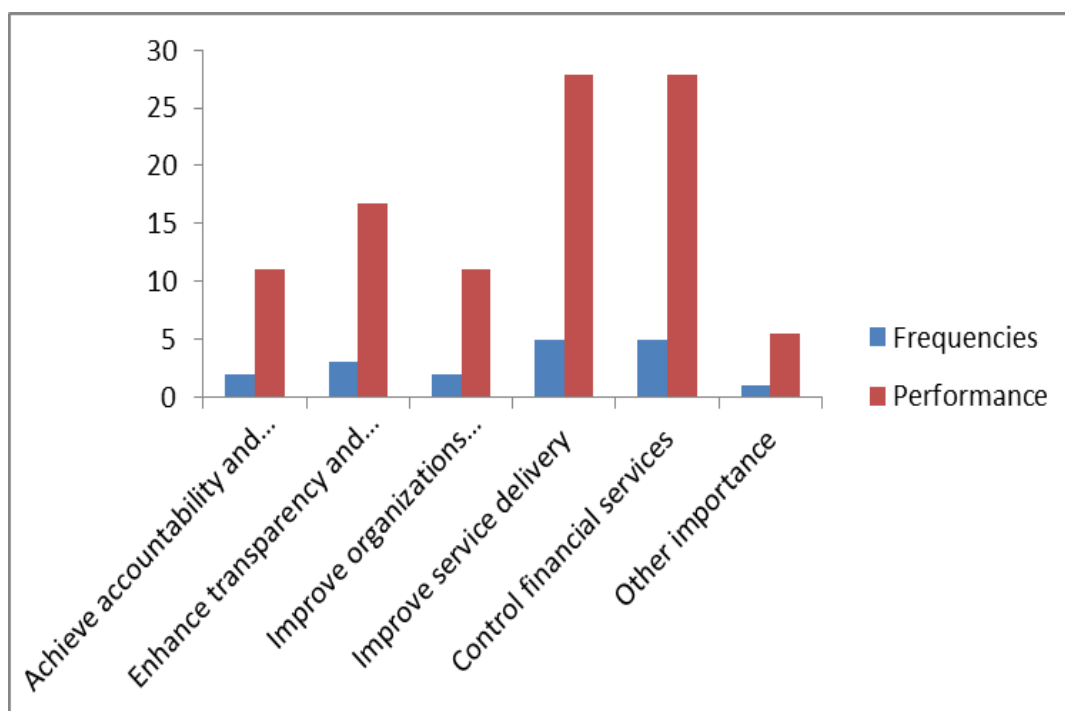


Figure 4.3: Importance of internal auditor Tanzania Cotton Board

Source: Field Data, 2013

Table 4.6 Importance of internal auditor Tanzania Cotton Board

Importance	Frequencies	Performance
Achieve accountability and integrity	2	11.1
Enhance transparency and fairness	3	16.7
Improve organizations performance	2	11.1
Improve service delivery	5	27.8
Control financial services	5	27.8
Other importance	1	5.5
Total	18	100

Source: Field Data, 2013

Results in Figure 4.4 revealed that Respondents differ on opinions regarding the importance of internal auditor in fraud prevention within organization. Results show that out of 18 Respondents, (11.1%) indicated to achieve accountability and integrity, (16.7%) indicated to enhance transparency and fairness, (11.1%) indicated to improve organizational performance, (27.8%) indicated to improve service delivery, (27.8%) indicated to control financial services and (5.5%) indicated other importance such as; instill confidence among citizens and stakeholders and to reduce corruption.

These findings show that there are different importance's of internal auditor in fraud prevention within organization which include; to achieve accountability and integrity, enhance transparency and fairness, improve organizational performance, improve service delivery, to control financial services, instill confidence among citizens and stakeholders and to reduce corruption. These findings were supported by the study done by (Bou-Raad, 2000) on Internal Auditors and a value-added approach. The findings of his study revealed that internal auditors are importance on accountability, transparency and improves service delivery. The findings also were supported by Flesher and Zanzig 2000) on management accountants express a desire for change in the functioning of internal auditing. The findings of their study revealed the importance of internal auditors such as control financial services, instill confidence among citizens and to reduce corruption.

Additionally, Internal auditors of Tanzania Cotton Board is a cornerstone of good governance as it provides unbiased, objective assessments of whether Tanzania Cotton Board resources are responsibly and effectively managed to achieve intended results and also by promoting the appropriate ethics and values within the Tanzania Cotton Board. Internal auditors help government organizations achieve accountability and integrity, improve organizational performance management and instill confidence among citizens and stakeholders. The findings also revealed that the Tanzania Cotton Board auditor's role supports the governance responsibilities of oversight, insight and foresight. Oversight addresses whether Tanzania Cotton Board is doing what are supposed to do and serves to detect and deter public corruption. Insight assists decision-makers by providing an independent assessment of government programs, policies, operations and results. Foresight identifies trends and emerging challenges. Internal audit activity has become an essential internal assurance mechanism in Tanzania Cotton Board financial controls and a tool for monitoring and evaluating managerial activities prior to external evaluation by external auditors.

It was further revealed that the internal auditors of Tanzania Cotton Board are responsible for reviewing and reporting on the adequacy of their Board's control environment, including the arrangements for achieving value for money. Through the annual internal audit opinion and other reports the internal auditor gives assurance to the Leadership Team and others, and makes recommendations for improvement. The internal auditor's role is a unique one, providing objective challenge and support and acting as a catalyst for positive change and continual improvement in governance in all its aspects. The role is particularly important when Board is facing uncertain or challenging times. Fulfilling the role requires a range of personal qualities. The internal auditor has to win the support and trust of others, so that Board is listened to, and the internal auditor's role as a critical friend means that sometimes difficult messages must be given and acted.

Furthermore, the findings as well revealed that the internal auditors of Tanzania Cotton Board enhance transparency, fairness, reduce corruption and ensure value for money in Tanzania Cotton Board. An internal audit function is an essential part of any public expenditure management system and should ensure that public spending is within budgetary provisions; disbursements comply with specified procedures, provides for the timely reconciliation of accounts and effective systems for managing and accounting for physical and financial assets. They also work with management to improve service delivery and ensure compliance with applicable laws, provide independent and objective assurance to an organization's management that its risks are being mitigated to an acceptable level and reports where they are not. Internal auditors are an integral part of government financial management and an instrument for improving performance and performance management in the public sector. Internal auditors could also play an instrumental role in performing value-for money (VFM) audits. Performance audits are concerned with the audit of economy, efficiency and effectiveness of government expenditures or spending plans. In practice, performance auditing is focused on assessing whether organizations are doing the right things, in the smartest way. Countries just beginning to make the change to value-added internal auditing may benefit from studying the experiences of those that have recently made the transition.

However, results revealed that internal auditors are responsible for assisting the Tanzania Cotton Board to prevent fraud by examining and evaluating the adequacy and effectiveness of their internal controls' system, commensurate with the extent of a potential exposure within the Boards. It was further exposed that when meeting their responsibilities, internal auditors should consider the following elements:

Control environment; it was noted that assess aspects of the control environment, conduct proactive fraud audits and investigations, communicate results of fraud audits and provide support for remediation efforts. In some cases, internal auditors also may own the whistleblower hotline.

Fraud risk assessment; evaluate management's fraud risk assessment, in particular, their processes for identifying , assessing, and testing potential fraud and misconduct schemes and scenarios, including those that could involve suppliers, contractors and other parties.

Control activities; assess the design and operating effectiveness of fraud related controls; ensure that audit plans and programs address residual risk and incorporate fraud audits; evaluate the design of facilities from a fraud or theft perspectives and review proposed changes to laws, regulations or systems and their impacts on controls.

Information and communication; assess the operating effectiveness of information and communication systems and practices, as well as provide support to fraud related training initiatives.

Monitoring; assess monitoring activities and related computer software, conduct investigations, support the audit committee's oversight related to control and fraud matters support the development of fraud indicators and hire and train employees so they can have the appropriate fraud audit or investigative experience. However, internal audit can play a role in assisting management with investigating such reported instances. More importantly internal audit can assist management and audit

committee in implementing processes and controls to prevent fraud in the form of education and orientation programs, enhanced internal controls and more robust fraud monitoring systems.

The organizations with an internal audit function are more likely than those without such a function to detect fraud within their organizations. Further, organizations that rely solely on outsourcing for their internal audit function are less likely to detect fraud than those that undertake at least part of their internal audit function themselves. This provides evidence that internal audit adds value through improving the control and monitoring environment within organizations to detect fraud. These results also suggest that keeping the internal audit function within the organization is more effective than completely outsourcing that function. Despite the increasing importance of internal audit, there has been little research on the value of the internal audit function. Studies have used an agency cost framework to illustrate the value relevance of the internal audit function (Carey, Craswell and Simnett 2000; Goodwin and Kent 2004; Carcello et al. 2005). While the common agency variables of size, debt or agency are not associated with the presence of an internal audit function in small organizations, internal and external audit are used as monitoring substitutes by these companies (Carey et al. 2000). In another study, Goodwin and Kent (2004) found the existence of internal auditing to be positively associated with firm size, asset composition, the presence of an independent board chair, and presence of an audit committee. This study provides some evidence that firms with good corporate governance are more likely to have an internal audit function.

2.5 Factors which limit the effectiveness of the role of internal auditor in organization fraud prevention

Under objective three, study sought to investigate the factors limit the effectiveness of the role of internal auditor in organization fraud prevention. Respondents were asked to indicate their feelings on factors limit the effectiveness of the role of internal auditor in organization fraud prevention. Results were clustered, summarized

and presented in Figure 4.5 where by Y axis represent percentages of Respondents and X axis represent different factors.

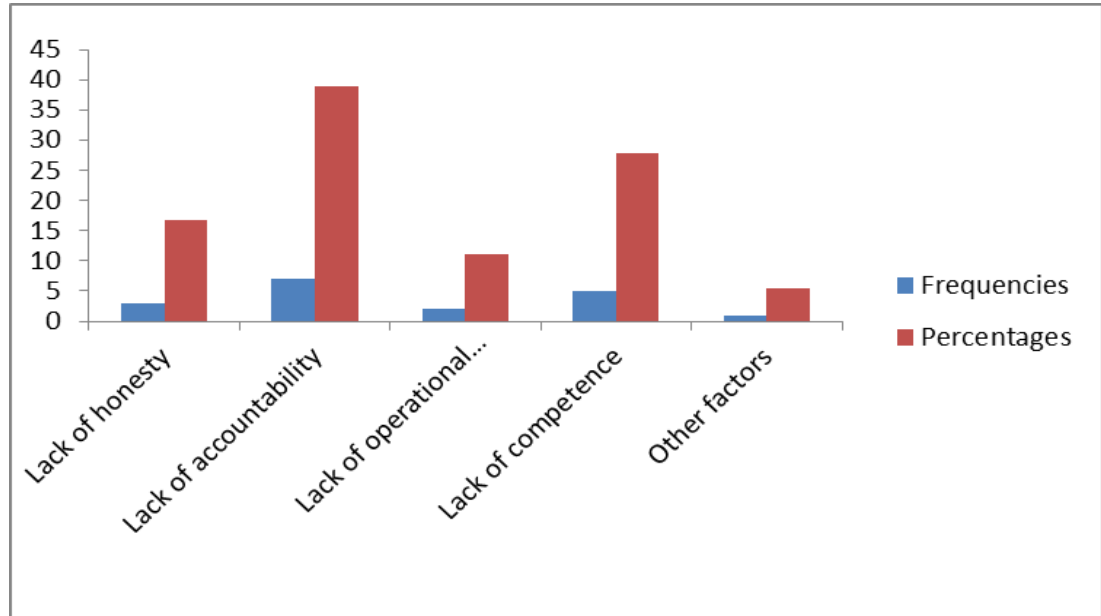


Figure 4.4: Factors limit the effectiveness of the role of internal auditor

Source: Field Data, 2013

Table 4.7: Factors limit the effectiveness of the role of internal auditor

Factors limit the effectiveness	Frequencies	Percentages
Lack of honesty	3	16.7
Lack of accountability	7	38.9
Lack of operational experience	2	11.1
Lack of competence	5	27.8
Other factors	1	5.5
Total	18	100

Source: Field Data, 2013

Results in Figure 4.5 revealed that Respondents differ on their opinions regarding the factors limit the effectiveness of the role of internal auditor in organization fraud prevention. The findings noted that out of 18 Respondents; (16.7%) indicated lack of honesty, (38.9%) indicated lack of accountability, (11.1%) indicated lack the operational experience, (27.8%) indicated lack of competence and (5.5%) indicated other factors such as Strategic positioning confidentiality and lack of objectivity.

4.3 Discussion of the Findings

Under objective one the findings revealed that there are different opinions on factors influence the role of internal auditor to prevention of fraud in the organization such as knowledge, altitudes, responsibility, ability to identify risks and other factors such as knowledgeable about professional standards relating to fraud, their attitudes are, at best, mildly positive toward the idea of the internal audit department being a primary party in detecting fraud within their organizations.

Under Standards for the Professional Practice of Internal Auditing, internal auditors are required to have sufficient knowledge to identify the indicators of fraud but are not expected to have the expertise of persons whose primary responsibilities are detecting and investigating fraud. These findings were supported (Arena and Azzone 2009) on identifying organizational drivers of internal audit effectiveness. Their study showed that internal auditors are able to identify risks associated with fraudulent financial reporting. Results suggest that this ability to identify the risks does not necessarily result in a change in the auditing procedures performed. Additionally, the attitude of internal auditor on fraud is essential. Attitudes are slightly more positive toward responsibilities for fraud prevention than fraud detection. These findings as well were supported by the study done by (Bedard and Gendron 2010) on strengthening the financial reporting system: can the audit committees deliver. The findings of their study revealed that altitude of internal auditors has effect of his performances. Additionally, internal auditors tend to be more positive about responsibilities for fraud to the detriment of the organization for example employee fraud than fraud for the benefit of the organization for example fraudulent financial reporting. These findings were supported by the study done by (Bierstaker, Brody and Pacini 2006) on Accountants perceptions regarding fraud detection and prevention methods. The findings of their study revealed that positive perception of auditors towards fraud increases responsibility.

Moreover, overall, internal auditors require feeling it is primary responsibility to detect or prevent fraud. Furthermore, it is reasonable to assume that if auditors accept responsibility for prevention of fraud to the detriment of the organization, and if the

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Under objective two, results revealed different opinions on the importance of internal auditor in fraud prevention within organization such as; to achieve accountability and integrity, to enhance transparency and fairness, to improve organizational performance, improve service delivery, to control financial services and other importance such as; instill confidence among citizens and stakeholders and to reduce corruption.

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Fraud risk assessment; evaluate management's fraud risk assessment, in particular, their processes for identifying , assessing, and testing potential fraud and misconduct schemes and scenarios, including those that could involve suppliers, contractors and other parties.

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Monitoring; assess monitoring activities and related computer software, conduct investigations, support the audit committee's oversight related to control and fraud matters support the development of fraud indicators and hire and train employees so they can have the appropriate fraud audit or investigative experience. However, internal audit can play a role in assisting management with investigating such reported instances. More importantly internal audit can assist management and audit committee in implementing processes and controls to prevent fraud in the form of education and orientation programs, enhanced internal controls and more robust fraud monitoring systems.

The organizations with an internal audit function are more likely than those without such a function to detect fraud within their organizations. Further, organizations that rely solely on outsourcing for their internal audit function are less likely to detect fraud than those that undertake at least part of their internal audit function themselves. This provides evidence that internal audit adds value through improving the control and monitoring environment within organizations to detect fraud. These results also suggest that keeping the internal audit function within the organization is more effective than completely outsourcing that function. Despite the increasing

importance of internal audit, there has been little research on the value of the internal audit function. Studies have used an agency cost framework to illustrate the value relevance of the internal audit function (Carey, Craswell and Simnett 2000; Goodwin and Kent 2004; Carcello et al. 2005). While the common agency variables of size, debt or agency are not associated with the presence of an internal audit function in small organizations, internal and external audit are used as monitoring substitutes by these companies (Carey et al. 2000). In another study, Goodwin and Kent (2004) found the existence of internal auditing to be positively associated with firm size, asset composition, the presence of an independent board chair, and presence of an audit committee. This study provides some evidence that firms with good corporate governance are more likely to have an internal audit function.

Under objective three, results revealed different opinions on the factors limit the effectiveness of the role of internal auditor in organization fraud prevention, lack of honesty, lack of accountability, lack the operational experience, lack of competence and other factors such as Strategic positioning, confidentiality and lack of objectivity.

The highest numbers of Respondents were observed to be those with lack of accountability followed by those with lack of competence. These findings show that there were different factors limits the effectiveness of the role of internal auditor in organization fraud prevention such as; lack of honesty, accountability, operational experience, competence and strategic positioning, confidentiality and lack of objectivity. These factors inhibit the major function role of internal auditors and lead to ineffectiveness of internal auditors jobs. These findings were supported by (Flesher et al, 2000, Bierstaker, et al, 2006).

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment. However, lack of integrity lowers the performance of the role of the internal auditors. Lack of accountability is a problem for internal auditors. Lack of accountability increases corruption and errors or omissions in operations of the internal auditors. Effective internal control systems reduce the probability of errors or omissions in agency operations. However, there can be limitations in the

effectiveness of internal controls. These limitations may result from system omissions, human factors, resource constraints or lack of system flexibility. Lack of competence is among the factors hinders the roles of internal auditors. Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services. Therefore unavailability of knowledge, skills, and experience lowers the competence of internal auditors.

Lack the operational experience is a factors hinders internal auditors in performing their duties. Respondents noted that internal auditors have significant finance and accounting experience but sometimes lack the operational experience to fully understand business strategies and challenges and provide insight. Internal audit should focus more on helping improve the Board of cotton than catching mistakes. The internal audit's positioning alongside risk management is a challenge. There is a need to reassess the alignment of structure, approach, methodology and output of assurance activity between the risk management and internal audit functions. Integrated assurance in a holistic sense is difficult to achieve. However, a more explicit and robust risk management framework within the Board across the industry provides a basis for internal audit to take practical steps to align. Failure to grasp this nettle represents a strategic threat to the effectiveness of any internal audit function. Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments. Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

CHAPTER FIVE
SUMMARY, CONCLUSIONS, RECOMMENDATIONS AND POLICY
IMPLICATIONS

5.1 Introduction

This chapter is organized into five major sections. Section 5.1 provides introduction to the chapter, section 5.2 highlights the summary of study findings and section 5.3 provides the overall conclusion to the study. Section 5.4 highlights the recommendations and last section 5.5 points out suggestions of areas for further studies.

5.2 Summary of the Study Findings

Findings revealed that the study involved (61.1%) were Males and (38.9%) Females. The findings show that the more than 60% of Employees in Tanzania cotton board were Males dominated. The higher of number of Males in Tanzania Cotton Board were probably due to the facts that Women were not interested to work in organization related to agricultural activities. However, the findings revealed that Tanzania Cotton Board recruits the aged Employees perhaps because always young Employees tend to quite jobs looking for green pasture. Hence recruits young people in organization may affects human resource planning because of turnover costs which associated with employee's turnover. It was also revealed that Tanzania Cotton Board recruits all people with different level of education and skill. Organization which have people with different level of education and skills increase efficiency and effectiveness of the services. However, the findings show Tanzania Cotton Board recruits Employees with different experiences.

Under objective one, findings revealed different opinions on factors influence the role of internal auditor to prevention of fraud in the organization. The factors revealed include; knowledge, altitudes, responsibility, ability to identify risks knowledgeable about professional standards relating to fraud, their attitudes are, at best, mildly positive toward the idea of the internal audit department being a primary party in detecting fraud within their organizations.

Under objective two, results revealed that the importance of internal auditor in fraud prevention within organization such as; achieve accountability and integrity, to enhance transparency and fairness, to improve organizational performance, to improve service delivery, to control financial services and other importance such as; instill confidence among citizens and stakeholders and to reduce corruption.

Under objective three results revealed different factors limit the effectiveness of the role of internal auditor in organization fraud prevention which include; lack of honesty, accountability, the operational experience, competence and other factors such as Strategic positioning, confidentiality and lack of objectivity. The highest numbers of Respondents were observed to be those with lack of accountability followed by those with lack of competence

5.3 Conclusions

Results provide evidence that internal auditors are moderately knowledgeable about standards for fraud. However, they are, at best, neutral with regard to acknowledging fraud detection and prevention as primary roles for themselves in the organization. In general, internal auditors appear to be more agreeable to accepting an active role in prevention than in detection of fraud. They also appear to be willing to take a more active role in fraud perpetrated to the detriment of the organization (usually employee fraud) than in fraud perpetrated for the benefit of the organization (usually involving management). However, internal auditors support management's efforts to establish a culture that embraces ethics, honesty, and integrity. They assist management with the evaluation of internal controls used to detect or mitigate fraud, evaluate the organization's assessment of fraud risk, and are involved in any fraud investigations.

Although it is management's responsibility to design internal controls to prevent, detect, and mitigate fraud, the internal auditors are the appropriate resource for assessing the effectiveness of what management has implemented. Therefore, depending on directives from management, the board, audit committee, or other governing body, the internal auditors might play a variety of consulting, assurance,

collaborative, advisory, oversight, and investigative roles in an organization's fraud management process. Internal auditors, given their objectivity and role within the organization, can be of substantial assistance to management and the audit committee in meeting their responsibilities in matters related to fraud.

5.4 Recommendations

The findings of this study recommended that the external auditor should evaluate whether the Tanzania Cotton Board identified risks of material misstatement due to fraud that have been suitably designed and placed in operation. The Tanzania Cotton Board and its management should be involved in or complete the following activities related to fraud:

- (i) Determine key fraud risks in Tanzania Cotton Board
- (ii) Identify programs and controls to prevent and detect fraud
- (iii) Determine the effectiveness of such programs and controls to detect and prevent fraud
- (iv) Investigate and resolve any reported instances of fraud.

5.5 Policy Implications

5.5.1 Policy should be made in Tanzania Cotton Board to improve knowledge of all internal auditors to match with international accounting requirements.

5.6 Suggestion for Further Study

The study was on the contribution of internal auditor in effectiveness use of financial resources in state owned organization; case study: Tanzania cotton board. Another study could be studied on the same topic but for other Public sectors or Boards.

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QUESTIONNAIRES

APPENDIX 1: DATA GATHERING QUESTIONNAIRE:

Research Title: The contribution of internal auditor to effectiveness use of financial resources in state owned organization.

Dear Respondent,

I am a student of the Mzumbe University currently undertaking the study on the above research topic. The objective of this questionnaire is to provide assistance in data collection that aimed at evaluating the contribution of internal auditor to the effectiveness use of financial resources in state owned organization. The data collected will not be shared with any individual or institution. Only aggregate data and summaries will be published, otherwise the University will be liable for any complain. I humbly request you to respond positively to the questions below by providing appropriate, clear and complete answers. I wish to thank you in advance for your assistance.

Yours truly,

Emmanuel Bulolelo

A. PERSONAL PARTICULARS

1. Gender:

- (i) Male
- (ii) Female

2. Age (years)

- (i) 18-25
- (ii) 26-36
- (iii) 37-47
- (iv) Above 48

3. Education Level

- (i) Less or equal to standard seven
- (ii) Secondary Education
- (v) Certificate in any training
- (vi) Diploma
- (vii) First degree
- (viii) Master degree
- (ix) PhD

4. For how long have you been working in Tanzania Cotton Board?

- a) Less than 5 year
- b) 6-10 years
- c) 11-15 years
- d) More than 16 years

5. Mention the factors influence the role of internal auditor to fraud prevention in the organization

- (i)
- (ii)
- (iii).....
- (iv).....
- (v).....

6. Mention the importance of the internal auditor in organization fraud prevention.

- (i)
- (ii)
- (iii).....
- (iv).....
- (v).....

7. Mention the problems facing the work of internal auditor in organization fraud prevention.

- (i)
- (ii)
- (iii).....
- (iv).....
- (v).....

APPENDIX II

INTERVIEW QUESTION FOR THE MANAGEMENT OF TANZANIA COTTON BOARD

What are factors to ensure and promote effective performance on the role of internal auditor on fraud prevention in the organization?