

THE PERFORMANCE OF INTERNAL AUDIT FUNCTIONS IN  
LOCAL GOVERNMENT AUTHORITIES IN TANZANIA:  
A CASE OF KOROGWE DISTRICT COUNCIL.

BY

CHACHA JOHN NYAMRIBA

A Dissertation Submitted to Mzumbe University-Dar ES Salaam  
Campus College in Partial Fulfillment of the Degree of Master 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 Thesis entitled Performance of Internal Audit Function in Local Government in Tanzania: The Case of Korogwe District Council, in partial fulfillment of the requirements for the Degree of Masters of Accounting and Finance (MSc. A&F) of Mzumbe University.

---

**Major Supervisor**

---

**Internal Examiner**

---

**External Examiner**

Accepted by the Board of.....

---

**CHAIRPERSON, FACULTY/DIRECTIRATE BOARD**

## **COPYRIGHT**

**© Copyright by Chacha John Nyamriba- 2013**

All rights reserved. No part of this work may be reproduced by any means in full or in part, except for short extracts in fair dealings, for research or private study, critical scholarly review or discourse with an acknowledgment, without the written permission of Mzumbe University, on behalf of the author

## **DECLARATION**

I, **CHACHA JOHN NYAMRIBA**, hereby declare that this dissertation is my own original work and that it has not been presented to any other university for a similar or any other degree award.

**STUDENT'S SIGNATURE:**

-----

**DATE** ----- **2013**

## **DEDICATION**

I dedicate this work to my entire family who encouraged me all the time to see that my life becomes successful apart from all difficulties they encountered, I really appreciate, and I wish them a good health and long life.

## **ACKNOWLEDGEMENT**

A number of people and institutions provided me with abundance support, morally, materially, encouragement, constructive ideas and criticisms during the period of my study in making this work a success. I wish to express my heartfelt thanks to them all. However, special thanks go to Dr. Falician Barongo for his tireless efforts in providing guidance, constructive advice and good cooperation throughout this study. He spent a lot of time reading my work, correct and advise me the way forward in writing the paper. In fact more has been learnt to widen my knowledge to a great extent as compared before this study, I real appreciate that.

I also wish to thank the management of Mzumbe University, Dar es Salaam College and my MSc. A & F colleagues for their contributions and cooperation that I enjoyed in the course of my studies. Special thanks also go to the Management of Korogwe District Council and the entire staff for their support, encouragement and understanding of the situation I was facing during my study.

I highly appreciate the assistance and contributions from Mwanjaa Said and Edith Maanga during my studies. I pray that may God bless them a lot.

I remain highly indebted to my lovely wife Lydia A. Sawere and my whole family for their encouragement and support during my entire course.

## **ABSTRACT**

A research on the problems facing internal auditors in local government authorities in Tanzania. Was done at Korogwe District Council. And Twenty five Respondents participated. The study was at the performance of Internal Audit functions in LGAs. The general objective was to investigate the performance of Internal Audit functions in Local Governments. Specific objectives were; to determine the extent Internal Auditors in Local Governments have required competences to carry out their duties as per contemporary profession practice, to investigate challenges facing Internal Auditors in performing their duties and how best the Internal Audit functions can be improved in Local Governments and also to determine the extent challenges facing Internal Auditors in performing their duties in Local Governments. Research design used was a case study design and research approach used were both Qualitative and quantitative.

The following data collection methods were used; interviews, documentary review and observations. Data collection instruments used were, Questionnaires, Documentary review guide and observation Schedule. Analysis of data was done based on research objectives.

Findings indicates that; With regard to competences required by internal auditors to carry out their duties, findings indicates that very few have required qualifications, while others have no. With regard to the challenges facing internal auditors in the performing their duties, findings indicated that issues such as shortage of funds, lack of independence, lack of Cooperation of internal audit unit with other departments are the main challenges which facing internal auditors .

Recommendations put forward are; The Korogwe DC should allocates funds to internal audit unit to facilitate training, allowances and acquisition of facilities needed by internal audit unit function. The same research to be done in other local governments in Tanzania. This will enabled different researchers on the same problems studied to emerge with convergent solutions plus recommendations.

## **ABBREVIATIONS**

ACCA	-	Associated Charter Certified Accountant
ARV	-	Annual Rate on Valuation
CAG	-	Controller and Auditor General
CIMA	-	Certified Internal---Auditor
CPA	-	Certified Public Auditor
DC	-	District Council
DED	-	District Executive Director
DIA	-	District Internal Auditor
DMO	-	District Medical Officer
FS	-	Financial Statements
HODs	-	Head of Departments
I A	-	Internal Auditor
IAG	-	Internal Auditor General
IPSAS	-	International Public Sector Accounting Standards
KDC	-	Korogwe District Council
LAAM	-	Local Authority Accounting Manual
LAFM	-	Local Authority Financial Memorandum
LGAs	-	Local Government Authorities
LGR	-	Local Government Reform
MSc.A & F	-	Masters of Accounting and Finance
MTF	-	Medium Term Framework
MU	-	Mzumbe University
NAO	-	National Audit Office
NBAA	-	National Board of Accountants and Auditors
PPC	-	Preventive, Protective and Curative
PMO-RALG	-	Prime Minister's Office- Regional Admin and Local Gvts.
RAS	-	Regional Administrative Secretary
VFM	-	Value for Money



## TABLE OF CONTENTS

<b>COPYWRIGHT .....</b>	<b>ii</b>
<b>DECLARATION.....</b>	<b>iii</b>
<b>DEDICATION.....</b>	<b>iv</b>
<b>ACKNOWLEDGEMENT .....</b>	<b>v</b>
<b>ABSTRACT.....</b>	<b>vi</b>
<b>ABBREVIATIONS .....</b>	<b>Error! Bookmark not defined.</b>
<b>LIST OF TABLES .....</b>	<b>xi</b>
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>1.0. INTRODUCTION AND BACKGROUND TO THE PROBLEM. ....</b>	<b>1</b>
<b>1.1 Introduction .....</b>	<b>1</b>
<b>1.2 Back ground to the Problem.....</b>	<b>1</b>
<b>1.3 Statement of the Problem .....</b>	<b>4</b>
<b>1.4 Research Objectives .....</b>	<b>5</b>
<b>1.4.1 General Objective.....</b>	<b>5</b>
<b>1.4.2 Specific objectives.....</b>	<b>5</b>
<b>1.5 Research Questions .....</b>	<b>6</b>
<b>1.6. Significance of the Study .....</b>	<b>6</b>
<b>1.7 Limitations of the Study .....</b>	<b>7</b>
<b>1.8 Delimitations of the Study .....</b>	<b>8</b>
<b>CHAPTER TWO .....</b>	<b>9</b>
<b>2.0 LITERATURE REVIEW.....</b>	<b>9</b>
<b>2.1 Introduction.....</b>	<b>9</b>
<b>2.2 Theoretical Literature .....</b>	<b>9</b>
<b>2.2.1The need for training and competence among Auditors. ....</b>	<b>9</b>
<b>2.2.2 Challenges facing Internal Auditors in performing their duties .....</b>	<b>10</b>
<b>2.2.3 Local Government in Broad Context .....</b>	<b>12</b>

2.2.4	<b>LGAs. Revenues which are Essential for Internal Auditing .....</b>	<b>13</b>
2.2.5	<b>Division of Resources (Revenues) between Central and Local Government</b>	<b>14</b>
2.2.6	<b>Functions of Local Government councils.....</b>	<b>17</b>
2.2.7	<b>Sources of revenue Collections in Local governments .....</b>	<b>20</b>
2.2.8	<b>Local Government Finance .....</b>	<b>21</b>
2.2.9	<b>Audit of Local Authorities .....</b>	<b>25</b>
2.2.11	<b>Formalizing the closed-list structure of local government revenues .....</b>	<b>27</b>
2.2.12	<b>Standardizing the Regulatory Framework for Local Government Revenues</b>	<b>27</b>
2.2.13	<b>Impact of the Problems of effective Utilization of revenue .....</b>	<b>29</b>
2.2.14	<b>Solutions to the Problems of Effective Revenue Utilization .....</b>	<b>29</b>
2.4	<b>Research Gap.....</b>	<b>35</b>
2.5	<b>Conceptual Framework.....</b>	<b>36</b>
<b>CHAPTER THREE .....</b>		<b>37</b>
3.0	<b>RESEARCH METHODOLOGY .....</b>	<b>37</b>
3.1	<b>Introduction.....</b>	<b>37</b>
3.2	<b>Study Area .....</b>	<b>37</b>
3.3	<b>Research Design .....</b>	<b>39</b>
3.4	<b>Research Approaches.....</b>	<b>39</b>
3.5	<b>Population .....</b>	<b>40</b>
3.6	<b>Sample Size and Sampling Procedures .....</b>	<b>40</b>
3.7	<b>Sampling technique.....</b>	<b>41</b>
3.8	<b>Data Collection Methods and Instruments .....</b>	<b>42</b>
3.9	<b>Data Processing .....</b>	<b>42</b>
3.10	<b>Specific Analytical Techniques .....</b>	<b>43</b>
3.11	<b>Data Analysis Procedure.....</b>	<b>43</b>

<b>CHAPTER FOUR.....</b>	<b>44</b>
<b>4.0 PRESENTATION, ANALYSIS AND DISCUSSION ON FINDINGS .....</b>	<b>44</b>
<b>4.1 Introduction.....</b>	<b>44</b>
<b>4.2 The Extent Internal Auditors in LGAs have required Competences .....</b>	<b>44</b>
<b>4.3 Challenges facing Internal Auditors in performing their Duties.....</b>	<b>48</b>
<b>4.4 The Extent the Internal Audit Functions Have Been improved in LGAs .....</b>	<b>52</b>
<b>CHAPTER FIVE.....</b>	<b>56</b>
<b>5.0 SUMMARY OF THE STUDY, CONCLUSION AND RECOMMENDATIONS</b>	<b>56</b>
<b>5.1 Introduction.....</b>	<b>56</b>
<b>5.2 Summary of the Study .....</b>	<b>56</b>
<b>5.3 Conclusion.....</b>	<b>62</b>
<b>REFERENCES.....</b>	<b>64</b>
<b>Cohen, A. (2000) <i>Research Methods in Education</i>, London: Routledge.</b>	<b>Error! Bookmark not defined.</b>
<b>APPENDINCIES.....</b>	<b>67</b>

## LIST OF TABLES

Table 3.1: Summary of Population Distribution in Korogwe DC. Wards.....	36
Table3. 2: Sample Distrbutions.....	39
Table 4.1: Responses on internal auditors qualifications.....	42
Table 4.2: Responses on challenges facing the internal auditors.....	46
Table 4.3: Internal audit budget for the five years.....	47
Table 5: Responses on Training budget.....	49

## **CHAPTER ONE**

### **INTRODUCTION AND BACKGROUND TO THE PROBLEM.**

#### **1.1 Introduction**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal Auditors' roles include monitoring, assessing, and analyzing organizational risk and controls; and reviewing and confirming information and compliance with policies, procedures, and laws.

Working in partnership with management, internal auditors provide the board, the audit committee, and executive management assurance that risks are mitigated and that the organization's corporate governance is strong and effective. And, when there is room for improvement, internal auditors make recommendations for enhancing processes, policies, and procedures. Internal auditors are not responsible for the execution of company activities; they advise management and the Board of Directors (or similar oversight body) regarding how to better execute their responsibilities. As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds.

#### **1.2 Back ground to the Problem**

Internal Audit is empirically explained as a tool of control to measure and evaluate the effectiveness of the working of an organization primarily with accounting, financial and operational matters (Jack, 2001). The job of internal audit is to ensure that the work of the organization is going on smoothly, efficiently and economically and that all the laws,

rules and regulations governing the operations of the organization are adhered to, besides ensuring that an effective internal control system exists to prevent errors, frauds and misappropriations.

Across the world, a number of organizations are reported to collapse due to misappropriation of finance and loss accrued from the business process/activity. In the United States of America, 14% of companies collapsed between years 2000 and 2010 (US-News Letter, 2011). In Africa, 45.1% of companies collapsed under the same reasons. It is argued that the outcomes (collapsing) were a result of the organizations' managements to under rate functions of internal audit at work. Incorporate the new technology.

This has been motivating the adoption of auditing in modern concept to incorporate the new technology. Auditing in its modern concept is a systematic, intelligent, scientific, critical and thorough examination of books of accounts of the organization by an independent person or body of persons with the help of vouchers entered with proper authority. Its job is also to find out whether they are arithmetically accurate and that the accounts and the financial statements are prepared in accordance with law and rules and regulations of the organization in particular the accounting standards and standard auditing practices. It is also the job of audit to report its findings to the management.

Of late internal audit in the computerized environment has become more relevant so as to make the audit personnel very effective in detecting irregularities. It is for this reason that auditing is regarded as the analytical and critical aspect of accounting. It is examination of not only accounting records but also managerial performance. Internal Audit plays a pivotal role in ensuring that efficient controls are operating in all the activities, be it is liabilities or assets of an Organization.

Internal Audit plays a constructive role by rendering service to the management with objective appraisal of systems, procedures, practices, compliance with policies. Internal

Audit has been defined as an independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis for service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls. The overall objective of internal audit is to assist all members of management in the effective discharge of their functioning, by furnishing them with objective analysis, appraisals, recommendations and pertinent comments concerning the activities reviewed. (Chun, C 1997)

The internal audit, in essence should be concerned with any phase of business activity wherein it can be of service to management. Internal Audit is a diverse and specialized function in various fields of auditing. It is a tool used to detect good, bad and the ugly. Internal Audit concept is an attempt to achieve an ideal combination of financial audit, operational auditing and reviews the plans for future.(Institute of Internal Auditors 2004)

The Internal Audit, to be effective should provide three types of services PPC, viz., Preventive, Protective and Curative. In the preventive role, it forewarns the management of an adverse situation in advance; It protects the management by the bringing to its notice the deficiencies in advance, before the external auditors point out; and as a curative function, it suggests remedial measures, thereby acting as a catalyst for change and action. In light of these, functions of the internal unit in local governments have been of doubtful. This is because of the ever-lasting of 'bad' certificate which is issued to a number of them by the external audit (Controller and Auditor General) due to the improper use of public funds. This justifies the study.

### **1.3 Statement of the Problem**

Local government authorities in Tanzania are charged with the task of establishing sources of revenues and collecting revenues from different sources in order to ensure effective socio-economic development. In this regard, such tasks necessitated the availability of internal audit unit in Local government authorities.

Originally, internal auditors working under Ministries and Local Government Authorities were only guided by internal financial regulations and Accounting manuals which prescribed on the matters such as pre- auditing and value for money audit (Mwakalinga, 2005). The ineffectiveness of internal audit units under this scenario was revealed to be due to lack of guidelines and importance of internal auditing functions. Thus, in year 2004, Tanzania government through Regulation 34 of Public Finance Act, 2004, issued regulations to be abided by Internal Auditor in Public Sector Organizations. The effectiveness of the legislation is currently questionable and hence, the importance of this research.

Furthermore, since setting up of those guidelines and standards through Public Finance Act, no assessment has been done to reveal whether internal auditors perform their duties effectively in their respective organizations. The Despite this, the assessment of effectiveness of internal auditors in public sector organization in Tanzania is challenged by the Controller and Auditor General (CAG) reports which for the past four years there are indicators of the problems with regard to internal audit functions in Local Government authorities.

Trend of Audit Opinions issued to LGAs for the financial years 2007/08, 2008/09, 2009/10 and 2010/11, unqualified opinions have increased by 4% from the year 2007/08 to 2008/09, decreased by 9% from the year 2008/09 to 2009/10 and increased by 5% from year 2009/10 to 2010/11.



Qualified opinions have decreased by 5% from the year 2007/08 to 2008/09, increased by 7% from the year 2008/09 to 2009/10 and decreased by 6% from the year 2009/10 to 2010/11. Adverse opinions have increased by 1% from the year 2007/08 to 2008/09, increased by 2% from the year 2008/09 to 2009/10 and also increased by 1% from year 2009/10 to 2010/11 (CAG, 2012).

Specific trend of audit opinions issued to LGAs by CAG further indicates that eleven (11) Councils have maintained the status of receiving unqualified audit opinions for four years and thirty Six (36) Councils have improved from the previous years where they received qualified and adverse audit opinions to the current years where they received unqualified audit opinion. Furthermore, eleven (11) Councils have maintained the status of receiving modified opinion (adverse/qualified) audit opinions for four years and twenty Nine (29) Councils dropped from the previous years where they received unqualified audit opinions to the current years where they received qualified and adverse audit opinions. This needs further study.

#### **1.4 Research Objectives**

The study was guided by the following general and specific objectives.

##### **1.4.1 General Objective**

The general objective of this study was investigating the performance of Internal Audit functions in Local Government Authorities in Tanzania.

##### **1.4.2 Specific objectives**

The study was guided by the following specific objectives.

- (i) To determine the extent Internal Auditors in Local Government Authorities in Tanzania have required competences to carry out their duties as per contemporary profession practice.

- (ii) To establish challenges facing Internal Auditors in performing their duties and how best the Internal Audit functions can be improved in Local Government Authorities in Tanzania.
- (iii) To determine the extent to which the challenges facing Internal Auditors affect their performance in Local Government authorities.

### **1.5 Research Questions**

The following research questions have been formulated from research objectives

- (i) To what extent the extent Internal Auditors in Local Government Authorities in Tanzania have required competences to carry out their duties as per contemporary profession practice as per Institute of Internal Auditing guidance and demand from various stakeholders?
- (ii) What are challenges facing Internal Auditors in performing their duties and how best the Internal Audit functions can be improved in Local Government Authorities in Tanzania?
- (iii) To what extent the challenges facing Internal Auditors in performing their duties have been solved?

### **1.6. Significance of the Study**

This study would seek out to bring insight as to the performance of Internal Audit function in LGAs and expected contribution in the following areas:

It would help the government to know the problem/root causes hence find the appropriate solution/measures. Through this study the government may be in good position to come up with appropriate measures.

The study might help the government to formulate the appropriate policies that will govern the local governments' Internal Audit Unit, hence harmonious developments.

The research results would contribute towards overcoming the lack of enough empirical literature in the Performance of Local government authorities (LGA).

The research results would enable to add knowledge to the understanding of the internal auditing profession on its relevance to all Internal Auditor stakeholders and to enable the society at large to take stock of the development of this topic;

Challenge the Internal auditors and give them an impetus to change from old ways of doing things based on trends that are evolving within the internal auditing profession. Apart from the above the study would help understanding how Internal Auditors should be functioning to help educators (both academic and continuing professional educators) to design curriculum that are more valuable to practicing internal auditors.

### **1.7 Limitations of the Study**

Due to lack of Funds and limited time factor, that forced the researcher to focus on small geographical location rather than all local Councils in mainland Tanzania. Here under were the Limitations which might limit the Study:

Time factor might affect my Study since the Korogwe District Council needed more time to collect appropriate data.

Money factor might affect my study due to money scarcity; the study needed a lot of money to conduct it but due to lack of sufficient of funds might affect the study in one way or another. Cooperation with some local government officers might be difficult during data collection; this might be caused by ignorance, lack integrity and mistrust of by some of Council officers.

## **1.8 Delimitations of the Study**

The study focused on performance of internal audit functioning in local government authorities (LGAs) in main land Tanzania. There were one hundred thirty eight local councils (138) which include Cities, Municipals, Town and District Councils. Due to time and scarcity of resources the researcher selected only Korogwe District Council as a case study. The problem of identification of respondents was solved by telling them that their state morals are highly confidential and their identities will not be disclosed.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction.**

This chapter sets the scene for the study by reviewing some literature on Performance of internal audit function in Local Government Authorities. This chapter introduces some important terms and concepts that will facilitate the understanding of the subject. This chapter further will establish a simple conceptual framework that will guide the discussion throughout this work.

#### **2.2 Theoretical Literature**

##### **2.2.1 The need for training and competence among Auditors.**

According to Code of Ethics issued by National Board of Accountants and Auditors (NBAA) state that a professional Accountant should acquire and maintain the required professional knowledge and skills in order to provide the competent professional services to a client or employer on the basis of current Accounting practices, legislation and techniques.

According to Public Service Regulation and the Public Service Scheme (2003) insisted that, every appointing authority should be responsible for training and development of his staffs; it says every appointing authority shall on the basis of job descriptions, personnel audit, forecasts in the human resources plans and performance appraisal findings, introduce a staff development program for the public servants.

Solid foundation: Best in Class audit – Internal Auditors need to have training and continuous education programme in transforming a traditional Internal Audit function into one with expanded capabilities is to prepare the function to assume broader responsibility for risk assurance (Kilenga, 2006).

### **2.2.2 Challenges facing Internal Auditors in performing their duties**

According to Kilenga (2006) here under are some challenges he had pointed out; Knowledge source on the contemporary issues of good governance benchmarking generally are lacking; which may hinder the transparency in decision making, as this boosts investor confidence and greatly contributes to more efficient company management. A comprehensive corporate governance framework also can be useful management tool to supervise the overall check and balance system used to evaluate the overall operations of the firm. The management is responsible for ensuring that their decision not only enhances the overall value of the firm, but properly serve the need of the interest stakeholders;

Limited experienced and usage of information technology (IT) to support the Internal Auditors' work e.g. ACL, Team Mate etc. The use of IT will allow some of the audit task to be completed more accurately and quicker than normal exercise. Lack of ability to identify significant operating changes, issues and concerns in a particular industry or sector and provide appropriate suggestions and insights to management or audit committee. Internal auditors need to have capable to suggest ways to do reengineering in business processes in order to ensure that organization objectives are achieved efficiently and effectively; and

Lack of quality communication to senior management and audit committee: The communications skills in most of Tanzania professionals have been a major barrier. More efforts at the individual and institutional levels are required to ensure that our Internal Audit practitioners can write quality reports, can communicate issues clearly and can make presentation to the executive management team, audit committees and Board members. Lack of management support especially when internal auditors discover weakness in the internal control system (Chacha, 2006).

Semboja and Therkildsen (1991:26), say while local governments are supposed to perform a range of functions, they are being constrained by shortage of funds, equipment and manpower. They put severe limit on what councils can actually do such as various government policies and acts that limit the functions of the council. Since own sources are almost always insufficient local government are usually dependent upon transfers even with transfers, resources are often inadequate to provide even the most minimal level of many of the services with which such governments are charged ( Bird, 2000).

Max (1991), Liviga (1992) and Magayane (1987), hold similar views that sources of revenue for local governments are not adequate including grants from the central government itself, such view, do not however, sufficiently explain the poor financing of the local government. It is also argued that, local government officials emphasize the collection of revenue, which is insufficient, is either misappropriated or embezzled (Mbuta, 1999).

A formal mandate from the board or audit committee would give the internal audit function the authority to audit anything that, in its professional opinion, impacts the effectiveness of governance, risk management and control process. But internal audit have no own/sufficient budget. Also the heads of departments are appointed by the management, hence became difficult for auditor to report (disclose) weakness of management

A study on corruption in local government authorities in Tanzania led by Professor Ngware suggests that corruption is a problem in local authorities, and that there are many practical situations and circumstances that create favorable conditions and temptations supportive of the evil practice. These include rigid and bureaucratic rules and regulations which often lack clarity; unregulated discretion which provide opportunity for its abuse; loopholes in the existing legal and regulatory framework

making compliance difficult; as well as inadequate pay and poor working conditions. (Commission of Corruption 1996).

A strong organization commitment to managing risk requires the development of a risk – based culture within the company. Such a culture is established by the practices of senior manager and the board of directors and should result in the development of an integrated risk management framework. One indication of an integrated framework is the existence of a separate committee or group responsible for risk management, comprised of directors and senior management. Internal auditor can then provide the required support to ensure that internal controls are place to adequately monitor the identified risks. (Institute of Internal Auditors, 2004).

### **2.2.3 Local Government in Broad Context**

Local government is a form of public administration which in a majority of contexts, exists as the lowest tier of administration within a given state. The term is used to contrast with offices at state level, which are referred to as the central government, national government, or (where appropriate) federal government. Local governments generally act within powers delegated to them by legislation or directives of the higher level of government. In primitive societies the lowest level of local government is the village headman or tribal chief. Tanzania has two levels of government above the local level at district level.

Local government in the Tanzania originated in the colonial period and has been modified since then: the highest level of local government is at county level. The question of Municipal Autonomy is a key question of public administration and governance. The institutions of local government vary greatly between countries, and even where similar arrangements exist, the terminologies often vary.



The Local Government authorities in Tanzania are under the jurisdiction of the Minister responsible for local government affairs. According to the Local Government (District Authorities) Act of 1982 and Local Government (Urban Authorities) Act of 1982 and their amendments, the village, district and urban authorities are responsible for: planning, financing and implementing development programmes within their areas of jurisdiction.

Each authority has to suppress crimes, maintain peace, good order and protect the public and private property; promote the social welfare and economic well-being of persons within its areas of jurisdiction, control and improve agriculture, trade and industry, further and enhance health, education and social life of the people, and fight poverty, disease and ignorance.

In performing their functions, the local government authorities must protect and properly utilize the environment for sustainable development. In addition, local government authorities have the legislative power under Act No. 7 of 1982 and Act No. 8 of 1982. The two pieces of 1982 local government legislation empower the authorities to make by-laws, which are applicable in their areas of jurisdiction. It is important to point out here that the local government authorities are also designated as corporate bodies having perpetual succession, capable of suing and being sued, and capable of holding and purchasing, or acquiring and disposing of any movable or immovable properties.

#### **2.2.4 Local Government Authorities Revenues which are Essential for Internal Auditing**

Following the principle that a government should be able to raise funds for meeting the cost of running its activities including the delivery of services and financing development projects, local government authorities in Tanzania have sources of revenue which fall into two broad groups namely: Own source revenues and Grants from Central Government.

Financial resources from these two categories of sources of revenue enable the councils in establishing their legitimacy as governments and justification for continued existence. The intention of this paper is to bring to the fore the role of local government revenue in the context of fiscal decentralization and the Poverty reduction strategy and also to provide some briefing about steps that are being taken in the interest of taking forward the process of fiscal decentralization. The perspective of local government on current issues and challenges regarding revenue generation and management in Tanzania will also be examined.

#### **2.2.5 Division of Resources (Revenues) between Central and Local Government**

The division of financial resources between the various levels of government should ideally be guided by the division of expenditure responsibilities among those levels. On that score, and on the basis of the Public Service Reform Programme, Central.. Government (ministries) should remain with the following responsibilities: (i) Formulation of national policies and strategies to guide the development of relevant sectors; (ii) Carrying out research and dissemination of research findings to end users; (iii) Development of professions and safeguarding professionalism; (iv) Ensuring quality control in the provision of services by various sectors; and (v) Setting of minimum national standards of services to be attained by the implementers.

Local Government Authorities, on the other hand, are supposed to lead other development agencies in implementing the policies and strategies developed by Central Government ministries. Since the councils are the ones which are responsible for economic and social development of the areas under their jurisdiction including poverty reduction it is to be expected that the councils are facilitated to effectively implement those policies and strategies.

### **Councils' Own Sources of Revenue for Internal Auditing**

Councils collect revenue from their own sources which fall under the following categories:

- (i) Various taxes imposed by the councils including property tax, service levy and rent charged for the use of council properties;
- (ii) Various fees imposed by councils to allow the carrying out of certain activities in their areas of jurisdiction e.g. trade licence fees, intoxicating liquor license fees, registration fees for taxi cabs and commuter taxi buses; and
- (iii) Fees and charges levied by councils on the people who make use of services rendered by the council or those who use its facilities e.g. abattoir fees, ambulance fees and dipping fees.

Local government authorities collect revenue from numerous taxes, fees and charges. So, even though the need for councils to step up efforts in revenue collection is appreciated it is also important to analyse and look into the possibility of reducing the number of taxes, fees and charges which are currently levied and collected by local government authorities. This is prompted by the fact that some of the taxes and charges which are imposed are not only difficult to collect but is also unproductive in that the cost of collecting them is higher than the revenue takings.

Each council has since the beginning of last year (2003) been revisiting the taxes, fees and charges with the aim of dropping those taxes, fees and charges which are uneconomic to collect and those which border on nuisance. The development levy and livestock cess were abolished by the Government as part of the rationalization of local government sources of revenue. Councils now have to employ improved procedures of revenue collection from the remaining sources so that all the revenue estimated to be collected from them is actually collected.

### **Grants from Central Government which are internally audited**

Grants from Central Government form a significant source of revenue for local government authorities. The Government has been providing grants to District and Urban councils since 1984 when the local government system was reintroduced. The levels of grants have all along been in accordance with the ability of the Central Government to provide and this ability is dictated by the performance of the national economy.

About 80% of the recurrent expenditures of local government authorities are financed by grants. The remaining portion is financed by revenue from own sources. With the abolition of two major local taxes that is, development levy and livestock cess, own source revenues as a percentage of council expenditures is becoming much smaller. At present, funds provided to councils as grants are strictly earmarked by Central Government to budget items and activities. Local government authorities have no discretion in allocating the grant money in accordance with local authorities. This arrangement certainly has serious implications on the autonomy of the local government authorities.

The Local Government Finances Act No. 9 of 1982 was amended by Act No. 6 of 1999 to allow for provision of conditional and unconditional block grants to local government authorities to enable them to enjoy greater freedom in allocating the grant funds to budget lines according their priorities and established needs. Since the management of block grants puts quite a bit of demand on improved financial management and control, capacity building including in house training is being provided to the staff of local government authorities. The ongoing councilors' training also includes issues relating to revenue and management and control of Council's finances.

The current system of allocating recurrent and development expenditure grants has a number of shortcomings. The system is non-transparent and potentially subjective

budget negotiations are used to reconcile requests for grants with available resources; It is supply-focused rather than demand or client-led, for example the grant given to a council for primary education is based on the number of teachers present, number of children who are in school and available infrastructure rather than on the actual need or demand for the education service which would be the number of school aged children;

Councils have no incentives to improve the quality of efficiency of local service delivery due to the supply –led approach. The current system favors well developed and well managed councils while the less developed ones end up with relatively fewer resources thus failing to expand their human resource base or construct additional physical infrastructure which causes persistent inequitable resource allocations. The system lacks transparency such that the powers of Central Government officials in allocating resources have led to lack of councils’ accountability downwards to the residents as they are able to pass the blame for inadequate services to Central Government; and excess Central Government control over the local resource allocation process has led to lack of Council discretion in delivering local services which in turn has led to lack of ownership over local service delivery.

#### **2.2.6 Functions of Local Government councils**

The local government constitutes the third tier of government in the country. It is in partnership with the federal and state government in making live worth living for the people in the rural areas. According to the Nigeria year book of 1981, it is believed that local government is fundamental to building a stable government not just at the state but also at the federal level through representative councils established by law, the councils exercise, specific responsibilities within defined areas.

Udonsi (1978), states among other things that the local governments have wide statutory powers to enable them discharge their functions effectively. He said that the functions are discharged through the headship of different departments and supervisory councilors. The main functions of the local government are set forth in the 4th section 7 of the constitution of the federal republic of Nigeria 1999. Local government functions are broken down into three (3) major broad categories:- Law and order functions, mandatory functions and permissive functions.

**a. Law and order functions**

Local government maintains law and order in their domain by:

- i. Reporting any act that is likely to result in breach of peace to the community.
- ii. Prevention of breach of peace.

**b. Mandatory functions**

There are the functions that are exclusively preserved for local government and they include:

- i. Provision of market, motor parks and their subsequence maintenance.
- ii. Construction of local roads within its area of jurisdiction
- iii. Provision of facilities for general sanitation and also provision of sanitary inspection and refuse disposal, night oil disposal where applicable.
- iv. Provision for the control of viruses. That is any insect that gives unpleasant biting or any of small animal or bird which destroy crops.
- v. Construction and maintenance of public conveniences like slaughter houses, slabs, cemeteries, community and reaction centers.
- vi. Provision and maintenance of packs, gardens, open spaces and gazing grounds.
- vii. Licensing, supervision and regulation of eating houses and laundries
- viii. Licensing, regulation and control of the sale of liquor.
- ix. Licensing and regulation of bicycles, handcarts, and other types of vehicles other than those mechanically propelled and canoed.
- x. Control and keeping of animals.
- xi. Control of hoarding.

- xii. Control of land held under customary tenure.
- xiii. Naming of roads and streets and the number of lots and buildings.
- xiv. Control and collection of revenue from private forest estates.
- xv. Collection of vehicles par charges.
- xvi. Collection of community tax, property and other rates, death duties etc.

c. Permissive functions

These are functions specifically meant for local governments but, where the fund for such functions is not available, state or federal government can perform such jobs.

They include:

- i. Provision and management of nursery, primary and adult education.
- ii. Information and public enlightenment is done by local governments through their designated councilors. This could be done through rallies and public gatherings organized by local government.
- iii. Health centers, maternity centers, dispensaries and health clinics, ambulance services, leprosy centers, prevention health services, abattoirs and neat inspection.
- iv. Provision of scholarships and bursaries. This aspect is the most neglected local governments or authorities.
- v. Provision of public libraries and reaching rooms.
- vi. Agricultural extension, animals, health extension, extension services and veterinary clinics.
- vii. Rural and semi—urban water supply.
- viii. Fire services
- ix. Provision of roads and streets (except truck roads), their lighting and drainages.
- x. Control of beggars, prostitutions and repatriation of destitute.
- xi. Control of water and atmospheric pollution
- xii. Provision of commercial undertakings.
- xiii. Regulation and control of building.
- xiv. Town and country planning.

Local government has the permissive function in the hands of the federal and state governments. Their impact has not been seriously felt in the area.

### **2.2.7 Sources of revenue Collections in Local governments**

To strengthen the local government administration, sources of revenue are open to them. However, Oguma (1996) posited that generally, the local government has eight main sources of revenue which include:

- a. Stationary allocation
- b. Rates
- c. Grants
- d. Fees and charges
- e. Fines
- f. Earnings and profits
- g. Loans and miscellaneous sources.

According to the 1976 government reform, local government councils derived their income from two main sources namely:

- i. External and
- ii. Internal sources

#### **1. The External sources**

The external sources are made up of the state grants which stands at 10% (ten percent) of internally generated state revenue and the federal government which stands at 20% (twenty percent) of distributable pool account. These make up the statutory allocation to the local government finance. Other sources of revenue include:

- a. Grants – block and specific from the central government. Block grant is the usually monthly grant while specific grants is for specific project
- b. Grant from state government
- c. Loans to carryout special projects
- d. Value added tax revenue (VAT)



## **2. The Internal Sources**

The internal sources are as follows:

- a. Rate tenement, penalty for tenement state, state government grants in lieu of tenement rate etc.
- b. Licenses, fees and fines  
Obstruction fines, bicycles licenses, dog licenses, wheel barrow licenses, liquor licence, vehicles emblem, motorcycle tollage etc.
- c. Food control: slaughter and abattoir fees. Bake house licence, meat, fish, cold room and butchers licence fees etc.
- d. Social: Marriage registration fees, town union/organization, age grade registration fees, cinematography, naming/registration of streets, temporal booth permit, mobile open air preaching, better's minstrel fees etc.
- e. Health: Registration/dislodging of septic/depot licence, improvement of stray animals/registration fees, pest control and disinfectant fees, reinstatement of births/deaths burial fees, dispensary/maternity fees, laboratory test fees, environmental sanitation services fees.
- f. Economic: Registration of contractors, petty traders permits, small-scale industries permit, mechanic, welding, electricians permits etc.
- g. Works/Engineering Survey: workshop receipts, hair charges, survey fees, approval of building plans, mortgage/sub-lease approval fees, customary right of occupancy fees and commission on transfer of plots.
- h. Commercial undertaking: motor park fees, market fees, transport/mass transit services, rent on local government properties.

### **2.2.8 Local Government Finance**

In terms of local government finance, the Department is focused on the financial well-being and effective financial management and accountability of local authorities and the promotion of value for money principles in the sector.

## **Capital Expenditure**

Capital expenditure is expenditure that results in the creation of an asset beyond the year in which that asset is provided eg houses, swimming pool, library etc. It is financed largely by State grants with the balance being funded from development levies and borrowings and own internal resources and property sales. In the case of some projects (e.g. local authority offices) they may be funded entirely by local authority own resources and borrowing.

## **Current Expenditure**

A local authority's annual budget represents current expenditure (sometimes referred to as revenue expenditure) which covers the day-to-day running of the local authority (including staff salaries, housing maintenance, pensions, and operational costs of treatment plants). The annual budget is adopted by the elected council at its budget meeting. Current expenditure is funded from a variety of sources, as set out below, although the specific contribution of income from the different sources may vary between authorities.

## ***Charges for Goods and Services***

Local authorities have powers to charge for services which they provide, for example, commercial water charges, housing rents, waste charges, parking charges, planning application fees. In most cases the charge or fee is set locally although certain charges or fees are fixed at national level.

## **Rates**

Rates, as well as charges for goods and services, are local sources of income over which local authorities have a considerable measure of control, while specific and general purpose grants are paid annually to local authorities by the State. Rates are levied annually by county, city, borough and certain town councils. Each of these authorities has exclusive rating jurisdiction within its own area. Some town councils are not

themselves rating authorities and there is an additional charge to the county rate levied on such towns to meet the expenses of the town council.

As a general rule, rates are levied on the occupiers of commercial property. The valuation of such property for rating purposes is carried out by a central government agency, the Valuation Office, with a right of appeal to a Valuation Tribunal. Each year the level of the rate (known as the Annual Rate on Valuation or ARV) is determined by the elected council as part of the budgetary process. The annual rates bill for commercial premises is calculated by applying this ARV to the valuation of the property concerned.

### **Specific State Grants**

Specific State grants are paid to local authorities in respect of specific services/schemes, for example higher education grants, road maintenance grants, etc by a number of government departments.

### ***Local Government Fund - General Purpose Grant***

The Local Government Fund (LGF) is a special central fund which was established in 1999 under the Local Government Act 1998. It is financed by the full proceeds of motor tax and an Exchequer contribution. The Fund provides local authorities with the finance for general discretionary funding of their day-to-day activities and for non-national roads, and funding for certain local government initiatives.

### **Community Fund/Community Initiative Scheme**

An elected council may, by resolution, establish a separate 'community fund' to support specific community initiatives such as amenity, recreational, environmental or community development projects of benefit to the area concerned. Contributions to the community fund may be made by local voluntary, business or community groups, and may be raised by the local authority by way of a community initiative scheme. It is a matter for the elected members to decide whether to adopt a community initiative

scheme, following a process of local consultation. Such a scheme is based on the payment of an annual contribution by each household for a specified number of years towards a particular community initiative of benefit to the local community. Details of the project, the amount of the annual contribution, waiver arrangements, the period for which it is operable and the area to which it applies must be set out in the scheme (sections 109 – 110 of the Local Government Act 2001 refer).

#### Charge for Non Principal Private Residences

The Local Government (Charges) Act 2009 broadened the revenue base of local authorities through the introduction of the charge on non-principal private residences (NPPR). The charge is set at 200 euro per dwelling and is levied and collected by local authorities. The income from the charge is used by local authorities to support the provision of local services and is retained by the individual local authorities that collect it.

The Local Government (Charges) Act 2009 is structured with a starting position of a universal liability for residential property in respect of the charge. It goes on to exempt certain buildings and owners from this liability, the most important exemption being where a property is occupied by the owner as his or her sole or main residence on the liability date.

The charge can be viewed as a type of self-assessment measure because it is for the owners of residential property, in the first instance, to assess whether they are liable to pay it.

Liability arises yearly on a point in time basis known as the liability date. The liability date is set at 31 March each year. Payment does not fall due until two months after the liability date and there is a further one month's grace period before penalties for late payment commence. A person liable for the charge thus has until 30 June each year to

meet that liability without incurring any additional charge. The Act provides for a late payment fee of 20 euro to apply in respect of each month a charge due remains unpaid.

Payment is accepted on behalf of any local authority through the Non Principal Private Residence web-site (external link) designed and constructed by the Local Government Computer Services Board. Payment is also accepted locally in local authority offices. Further information on the charge is available at the Non Principal Private Residence website (external link)

### **2.2.9 Audit of Local Authorities**

The accounts of local authorities, both current and capital, are audited by local government internal auditors who are independent in the performance of their functions and are under the general control of a Head of Internal Audit Unit. Local authority staff and elected members have a statutory duty to co-operate with them. An auditor may disallow illegal or unfounded payments, surcharge such payments on the persons responsible whether on members or the manager, and charge on the person the amount of any loss or deficiency incurred through misconduct or negligence.

Following receipt by the local authority of the audited AFS and any auditor's report, the manager must submit both for consideration by the elected council. The Code of Audit Practice, which is applied by local government auditors in the audit of financial statements, is available from the Local Government Audit publications.

Value for Money (V.F.M) reports covering a broad area of local authority activities have been issued promoting efficiency and cost effectiveness in local authorities. Where appropriate, the implementation of the recommendations contained in the reports is monitored at the annual audit of the individual local authority annual financial statements.).

### **2.2.10 Overarching Policy Vision: The Framework for Local Government Finance**

The fourth phase government is currently in the process of reviewing and adopting a policy framework for local government finances in Tanzania. The policy document indicates the Government's desire to transform the current local government revenue structure in a manner that balances an appropriate level of local revenue autonomy on one hand with the desire for a clearly structured, transparent and efficient local revenue system on the other hand. In achieving this policy objective, it is envisioned that the transformation of the local government revenue system will take place in a gradual process, which will incrementally improve and strengthen the local government revenue system over time.

As a guiding principle in the transformation of the system of local government finance system, the current deficiencies in the local structure and local tax administration should not be addressed by eliminating local taxes without considering their impact on local revenue autonomy; rather, deficient local taxes should be transformed into sound revenue instruments. From an implementation perspective, five steps are needed to ensure that the transformation of the local government revenue system conforms to this policy framework:

1. Assuring broad-based acceptance of the "closed-list" approach
2. Revising the legislative framework guiding local government revenues
3. 3. Strengthening and standardizing the regulatory framework for local revenue Administration
4. Strengthening local government capacity and local revenue administration practices
5. Gradually simplifying the local revenue structure by consolidating and harmonizing local revenue sources. (Mandugu , 200)

### **2.2.11 Formalizing the closed-list structure of local government revenues**

As a first step in transforming the local revenue system, broad-based recognition should be given to the fact that local revenue autonomy is to be pursued within the context of a “closed list” of local taxes in order to achieve both objectives (a standardized, more efficient framework for local taxation, as well as local revenue autonomy and flexibility).

Although the current permitted list of local government revenues was incorporated into the Local Government Finances Act three years ago, little was done in practical terms to assure proper adoption of the closed list. The clear and formal recognition of the “closed list” as a basis for local taxation –in the regulatory framework, in practices and procedures, and so on- would ensure the overall legitimacy of the local government revenue system. While embracing a restrictive approach to local taxation denies local authorities the option of introducing their own local revenue instruments, the approach would continue to provide local governments with the discretion to change local tax rates (within centrally established limits).

Furthermore, the list of permitted taxes should be defined in such a way that it provides flexibility to LGAs by allowing them to select from various different options how to administer local taxes. As such, the reform of the local government tax system would allow for asymmetries in revenue assignments. For instance, the right to collect certain revenues (e.g., local property rates) might be subject to certain centrally-defined conditions

### **2.2.12 Standardizing the Regulatory Framework for Local Government Revenues**

In order to promote a legitimate local government revenue system, provide a stable local business environment, and minimize the compliance burden faced by taxpayers from

local government taxes, the administration of local revenues should be guided by detailed set of nationally standardized local revenue administration guidelines.

In fact, the LGFA provides for such standardized Rating Rules to be established by PMO-RALG with consultation of the Ministry of Finance. However, such Rating Rules have not been developed and/or put in place. Instead, PMO-RALG and the Ministry of Finance have periodically issued circulars or guidelines to direct local government revenue practices. Such irregular instructions outside the context of a well structured regulatory framework fail to provide for a transparent and consistent local revenue administration process. Building on the revised legal framework provided by the LGFA, PMO-RALG should proceed to formulate and impose standardized

Rating Rules. This regulatory framework should provide a clear definition of the taxpayer and the tax base; the permitted options for the valuation of the tax base; the administrative procedures in collecting the revenue (including the tax forms to be used); as well as any enforcement and appeals procedures. The Rating Rules should also provide standardized language for local by-laws with which local authorities are able to determine the local tax rates (within minimum and maximum limits established by law).

Standardization of local tax administration processes will also enable central government officials to more systematically monitor the collection of local government revenues and to assist in building local government tax administration capacity. PMO-RALG should develop the Rating Rules in a participatory process which incorporates feedback from local government revenue officials as well as input from the private sector and civil society. It would be expedient for the development of the Rating Rules to be guided by the current by-laws and local revenue administration practices from a variety of different types of local authorities.



### **2.2.13 Impact of the Problems of effective Utilization of revenue**

According to Nwankwo (2001), the basic rationale behind the creation of local government is to meet the peculiar needs of the people at the grassroots, it is however pathetic to note that the local government has demonstrated incompetence in regards to its revenue utilization. The resultant effect of the problems of revenue utilization is that some of these local governments end up in financial crises and are unable to tackle the challenges of services delivery and mobilization of both human and material resources required for the functioning and meaningful development of the local government areas. Therefore underdevelopments continue to wage as people are either ignorant of or indifferent to the reasons for which local governments are created.

As Onwujuba observed in the "Daily star" (2004:Nov; 18) because of excessive population of the rural people wanting for one borehole, many villages resorted to their rivers and streams regardless of how unpleasant or dirty the water might be and the consequences of unclean water have led to a lot of indigenes to incur diseases of different kinds e.g guinea worm, cholera etc.

Chukwuemeka (2000) noted that due to the inadequate electrification of the local government areas, the indigenes are left in darkness for days, weeks and months. Aninri local government is not an exemption. This has led to the close down of some of the small scale businesses and business centers.

The problems of effective utilization of revenue available to local government has not created a negative impact on the indigenes because their priority needs are not met, thereby, making their standard of living low.

### **2.2.14 Solutions to the Problems of Effective Revenue Utilization**

For local government to utilize their revenue effectively, there are some certain steps which they need to adopt or take in their various local councils. Firstly, there is need for

accountability of the local government. Accountability as the ineluctable quest for control means that government revenue is often more devoted to avoiding work out comes than to achieve the best one's (Okereke:2004).

As Lucas[1999] has put it, accountability is a form of quality control of the local government. We avoid the really bad but forego the really good. It is a price well worth paying to avoid the great evil of mismanagement of local government fund and mis-government, but always, there will be some question whenever we are not faltering discretion too much, and insuring too heavily, at the cost of making it possible for the local government to discharge its commission. The accountability of auditors both internal, external and auditor –general, the council of the local government and various department of the local government will go a long way in solving the problem or revenue utilization in the local governments. It is their individual and join responsibilities to alert the audit alarm committee before irregular and illegal payment are made, failure to do so, will make them liable to appropriate share of punishment as provided under guidelines.

The audit alarm committee was provided to make sure and prevent the chairman of the local government who has the final say in all financial matter making any irregular or illegal payment. The auditor general being the accounting officer, appointed by the state government to check the financial position of the local government, has the power to veto payment after he has been informed by his officers that the payment is illegal. Based on that, audit alarm can be raised by informing the auditor –general of the local government about the illegal payment to be made. Through these measures, local government revenue can be well managed as well as preventing waste of revenue.

However, if our local government, Aninri local government in particular, should take accountability measure or control in all the various department especially in the treasury department effective utilization of revenue will come in place (Nwankwo 2002).

Another way forward to the problem of effective revenue utilization is the financial and budgetary control (Eze 2000). The financial control according to him is based on the old dictum that he who plays the piper dictates the tune. The money used by the local government is supplied by central government and state government. It is also proper for them to know how the money is being used. The case of joint account between the state and local government as enunciated in 1999 constitution is an instrument of financial control of local governments by the state government. This provision have brought to question the whole philosophy of government as a third tier of government in Nigeria.

Budgetary control is a very solid foundation for the control of all financial matters of the local government. This budget contains and consist of all the envisage revenue and expenditure of local government in a financial year the treasure, the secretary and the chairman in liaison with the finance and appropriation committee of the council are responsible for control of the budget. The treasurer ensures that each payment is covered by a voucher daily signed by the secretary of the local government.

In the words Amecheta (2001) finance and general purpose committee control is another body that helps in the control of financial management of the local government as was contained in the Anabmra state local government Edict No. 9 1999. in summary, financial and budgetary control is aimed art facilitating routines accountability in the part of local governments and their staff. The objectives are to mains purity, effective utilization in financial administration of the local government in Nigeria.

The principles of checks and balances are another measure by which local government revenue can be utilized as stated by Axon and Jefferson (2009). Thus principles of checks and balances mean that power should be used to check power, that no one arm of government should possess absolute power. “This is because power corrupts and absolute power corrupts absolutely” That each of the three tiers of government i.e the federal, state and local government should acts as a watchdog over the other. In essence,

the federal government should watch and control the state visa-via from initiating bad policy or embezzlement of fund. That the budget of the local government which contain the estimate made for the year, must past through the ministry of planning and budget to the legislature, and must be approved by the legislature. The state can control the local government through the appointment of the auditor general of the local government. The state has acted as a check on the local government.

The vote controllers of the local government are another body that can help in local government financial prudence. The vote controllers must be responsible for his actions and reactions. By responsibility, we do not means that a vote controller should not stand in the way of development especially in a democratic dispensation that we currently have on ground, where electorate are always eager to reap dividends as soon as possible. The reasonability of a vote controller must be such that the votes must be spent according to the exact purpose of the budgetary estimates except for some urgent and highly compelling and genuine reasons.

Through a vote controller, a great deal of effective revenue utilization can be ensured. Unfortunately, all eyes are always on the chairman and other political as well as principal career officer, however, it is our considered opinion that closer watch should be beamed on vote controllers for a better clean bill of revenue prudence in local governments. (Oladoyin and Olaiya).

According to Ofoeze (2004) eradication of corruption in the local government as well as corrupt – free personnel or officer in the local government will ensure effective management of local government revenue. Indeed, as professor Achebe (1993) in his book, “The trouble with Nigeria local government” as put it, “corruption has passed the alarming stage and has entered the fatal stage, and Nigeria local government will dies if it keep pretending that it is only slightly indisposed”. The local governments must allow the virtues of democracy such as equity, equality, liberty, popular participation,

accountability, transparency, plurality of policy options etc. Nigeria local government, Aninri local government is not exempted is sick from head to toe with corruption. What we need now is how to make the present governments viable and more accountable and reasonable too especially local electorates.

According to the chairman of the federal Island revenue service, Mrs. Ifueko Omoigui Okauru, blamed the high rate of corruption at the local government on the on the over dependence on oil revenue. According to her, revenue and its effective utilization are critically important for the survival of the local government councils. She said if only the local government could only look upwards to source of revenue through tourism, and investment initiative, the temptation to wait for funds from the state and federal allocations, only for it to be misappropriated would be minimally reduced.

There is need for the directors of finance of the local government to be corrupt free because he is the local government chief accountant or chief account officer and in a way the custodian of local government funds, he is the chief financial adviser to the chairman of the local government, thus ensuing that the financial policies of the local government are kept within bounds and limit`s.

Arising from the foregoing, it is clear that the directors of finance in all his capacities stated above can be seen as the chief financial officer of the local government on whose shoulders, the efficient financial management of the local government lies, and from whom explanation is expected for any unconscionable and improper of local government revenue or finances. Other personnel`s are not excluded especially the heads of various department (HODs) in the local government, the councilor, etc as Okereke (2004) would note, that corruption is not found in the local government, but among the personnel who operates in local government. Although corruption cannot be completely eradicated in the local government councils, but should be minimized in a very high rate.

### **2.3. Empirical Literature**

Studies in internal audit functions have been done by different scholars. Some of these studies include one done by Kilenga (2006), on the challenges facing Internal auditors in Tanzania which has shown that the challenges that Internal Audit practitioners are facing in Tanzania, provide the greatest opportunities for quick wins for those who would accept dealing with them head – on and adopt the strategies recommended in my presentations. Certainly, the Internal Audit executives have much bigger role to ensure successfully implementations of the strategies and dealing with issues that have been identified by different scholars. A common forum such as IIA local chapter would certainly help the information sharing on the best strategies and benchmarking of IA functions in Tanzania.

Dittenhofer (2001), in his study on internal auditing effectiveness, has indicated that although effectiveness is one of the importance area in internal auditing, yet determination on whether the internal auditing function itself is operating effectively is often done. He also shown that the identification of the basic objective of internal auditing, definition of goals to be accomplished, and establishment of measure relative to achieving those goals and evaluation of the overall Internal Audit process need to be done. Also, the separation of the usual measures of outcome from the overall measures of outcome to determine the cost effectiveness and operational improvement Internal Audit output measures must be supplanted by Internal Audit effectiveness achievements.

Guoming (1997), in his study on “Internal Audit in the Future,” revealed that there are prospects of development of Internal Audit in modernized enterprises will continuously be developed and become perfect in the environment of the socialist market economy. It shall provide its service for and meet the expectations of the highest leadership and functional segments of an enterprise, and play an important role in improving enterprises management, developing strategies and increasing economic benefits. Shouldering heavy responsibilities, Internal Audit should continuously adjust its organizational

structure, including personnel structure, with different kinds of knowledge and formal education as well as working experience, pay attention to collecting and analyzing different information for better service, and strengthen quality control and evaluation so as to heighten service quality in practice.

In the study done by Dittenhofer (2001), in Reengineering the Internal auditing Organization has shown that, internal auditing has during the 1990s become a dynamic discipline. Most if this change has been the result of the progressive approach taken by the leaders of the profession in applying the technological and behavioral innovations and advanced in thinking to an operation that has tended in the past to be conservative and reactionary.

The new approaches are substantial in number and individual context. The trend is to group the following areas; philosophical, methodological and operational. The constantly evolving changes require that internal auditing itself be constantly evaluated to ensure that it is functioning efficiently and efficiently and effectively.

#### **2.4 Research Gap**

From the reviewed empirical literature it is evident that a number of researches have been done on similar field of study. This indicated the essentiality of improving audit units in local government authorities. Despite this, there is no documented evidence which show that the same researches have been done at the area/institution where this research is going to be done. Therefore, findings from this study will cover the gap.

## **2.5. Conceptual Framework**

From the theoretical and empirical literature elaborated above, it can be appreciated that as a result of a growing number of stakeholders and increased expectations from Internal Audit activities, many Internal Audit functions are being pulled in different directions. At one end of the scale, some Internal Audit functions operate to fulfill regulatory requirements and focus almost entirely on financial controls.

Other functions are charged with looking at the effectiveness and efficiency of operational business processes which includes value for money audit as well as risk management and governance. Still others may set the direction for focus on today's processes, people and technology, versus new initiatives and the systems of the future. It is important for management and audit committee members to clearly understand the focus and purpose of Internal Audit activities in their organization.

Basing on the above synthesis, the following framework was developed in order to enhancing the Performance of Internal Audit functions in Local Government Authorities in Tanzania. The primary objectives of this chart is to explain the pattern of the relationship between internal auditors and the users of Internal Audit function in relation to the Internal Audit functions in Local Government Authorities in Tanzania. The observed variables are the internal auditors' attributes, roles and duties of internal auditor, audit process, effective audit report and the users of the internal audit reports.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

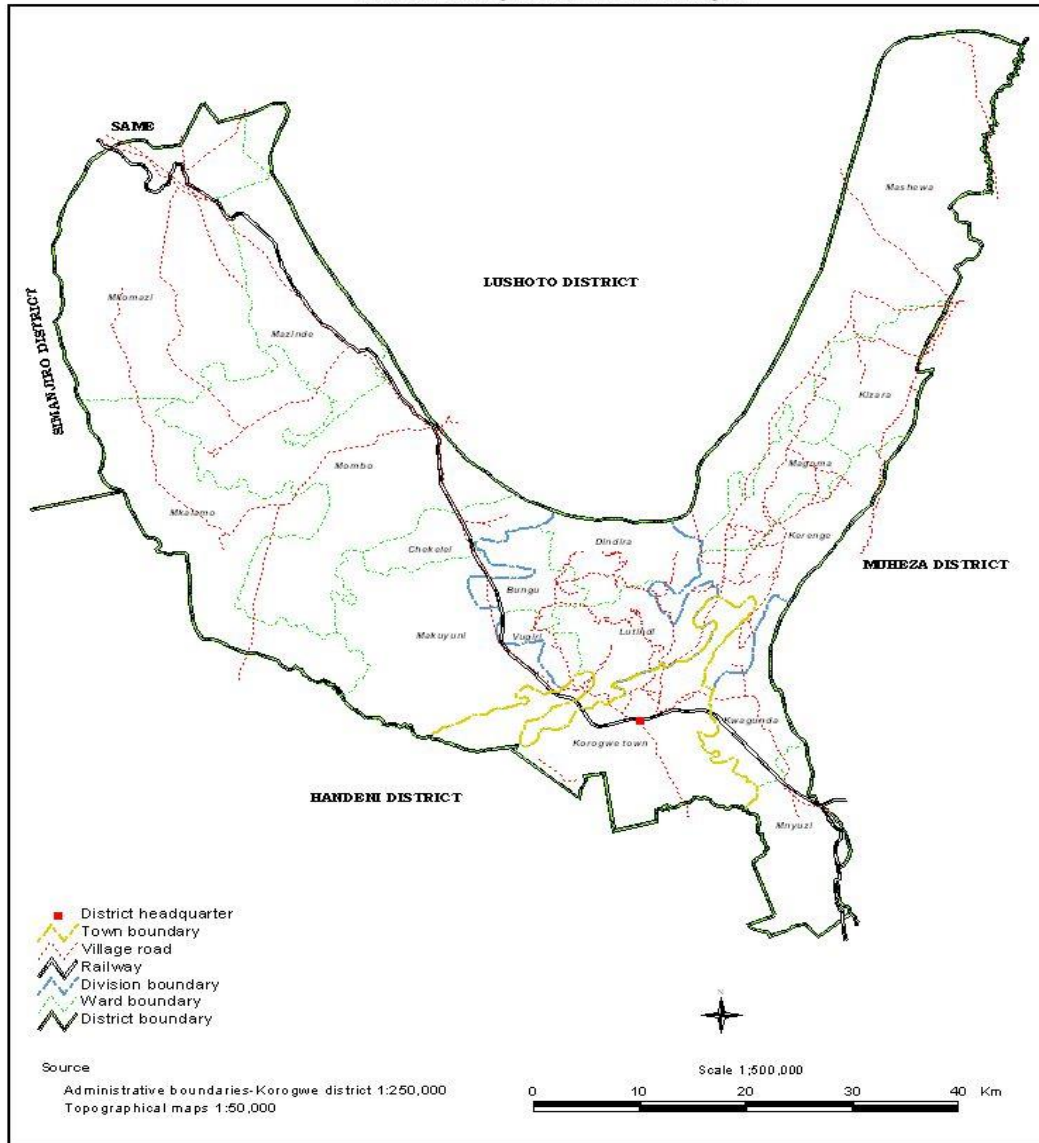
This chapter presents the methodology employed during the study. It also tried to introduce and define the variables that are selected for achieving the study objectives. Furthermore, the chapter defines the various data source that have been identified including sampling procedures, data collection techniques and data analysis procedure.

#### **3.2 Study Area**

The study was done in Korogwe District Council in Tanga region (Map 3.1). Korogwe District Council is a part of Korogwe District (Korogwe Town and Rural). It is located at latitude 4°15' and 5°15' south of equator, longitude 38°0' and 38°45' east of Greenwich Meridian.

**Map: 3:1 Korogwe District Council**

**KOROGWE DISTRICT**  
*ADMINISTRATIVE BOUNDARIES*



The district covers an area of 3,544 square kilometers and is situated in the central position of the region, with easy access to other parts of the country and to neighboring countries of Kenya, Uganda, Zambia and Malawi.

The indigenous people of Korogwe District Council are mainly of Bantu origin. The tribes that dominate in this district are Sambiaa and Zigua. There is also the Digo in Mashewa ward bordering Muheza District in the North East. Many immigrants have entered Korogwe district from up country regions in search of employment in the sisal estates before and after independence. They have settled here ever since and they constitute an important section of the Korogwe District community. These tribes include the Fipa, Nyakyusa, Sukuma, Ngoni and Bena. Apart from that, there is a sizeable number of Masai who have moved here for the search of grazing land for their cattle and Pare for the search of land for cultivation and human settlement.

Korogwe local government council was chosen because of being among giant local government authorities in the country and therefore the researcher expects to get the substantial amount of quality and reliable data.

### **3.3 Research Design**

Research design is the plan showing the approach and strategy of investigation aimed at obtaining valid and reliable data that achieves the research objectives and answer research questions. The researcher employed case study design because the case study design enabled the researcher to study deeply few cases in the system. Bell (1993) highlights that researchers employing case study design are able to examine small number of units that were extracted from a large number of variables and conditions. In this case, analysis of the data obtained from case study design was easy because only small number of units was used.

### **3.4 Research Approaches**

Qualitative and quantitative research approaches were employed during the research. Qualitative research approach was largely employed during the study. The researcher employed qualitative approach because the approach gives opportunity for problems to be studied in some depth and enable the researcher to collect facts and study their relationships in order to find sources and solutions of the facts.

Furthermore, researchers adopting qualitative perspectives are more concerned to understanding of individual perception of the World. Furthermore, methods of data collection in qualitative approach which include: interviews, observations and documentary analysis. Qualitative approach was used because of its flexibility in data collection and research plan. The approach enables the researcher to use different methods such as interviews and observations during data collection. Flexibility when using qualitative method may allow day-to-day correction of the problems arising during the study. This enabled the researcher to amend and modify the structure/plan of the study as the research process proceeds.

### **3.5 Population**

A population is generally a large collection of individuals or objects that is the main focus of a scientific query. In this study, the population was all stakeholders including employees of Korogwe district council.

### **3.6 Sample Size and Sampling Procedures**

#### **Sample size**

**Sample** is a finite part of a statistical population whose properties are studied to gain information about the whole (**Webster, 1985**).The sample size included twenty (**25**) people expected to be interview.

**Table 3.2:** Sample Distribution Table

<b>Category of respondents</b>	<b>Number of participants</b>
District director	1
District Treasurer	1
District Internal Auditor	1
District Planning Officer	1
Expenditure Accountants	1
Accountants & Auditors	10
Head of procurement Unit	1
District Engineer	1
Other Head of Departments	7
Chief Cashier	1
<b>Total</b>	<b>25</b>

**Source:** Researcher data, 2013

### **3.7. Sampling Technique**

This includes a process of selecting a number of individuals or objects from a population such that the selected group contains elements representative of the characteristics found in the entire group (Orodho and Kombo, 2002). The Sampling procedures was probabilistic (quantitative) and Non-Probabilistic (qualitative) (Tashakkori and Teddlie 2003).

The following sampling techniques were employed: Simple random sampling; Is a type of sample where each and every item in the population has equal chance of inclusion in the sample and each one of possible sample. The researcher used simple random sample to select those people/employees to be participated in the study.

Purposive is the sampling method involves purposive or non-probability sampling. The researcher used Purposive sampling to select those people/employees to be participated in the study. For example; the study focused on Finance, Planning departments, Internal Audit and Procurement Units and the Heads of Departments, in order to achieve the best results.

### **3.8 Data Collection Methods and Instruments**

The following were data collection methods and instruments used.

**Questionnaire** is a schedule of questions in which respondent fill in answers. Different kinds of questionnaires were designed to fit the category of respondents in the sample. Questionnaire consisted both open ended and closed ended questions. This type of instrument was used because enables a researcher to capture a lot of information and respondents are very free to provide their views independently.

**Documentary Review:** Is the method used to collect secondary data through reviewing documents. After reviewing documents, a researcher reviewed various documents systematically. In general local government documents reviewed included Council budget review estimates, financial reports, Projects action plans; project performance reports Management letters from Controller and Auditor General, revenue collection trends, transfers and grants from central government.

**Documentary Review Schedule;** This was instrument used to collect secondary data.

### **3.9 Data Processing**

The quantitative data that was generated and quantified and frequencies of responses and percentages was calculated and tabulated for easy interpretations and analysis. The descriptive data analysis was employed. Data from questionnaire, interviews, and documentary sources was triangulated with quantitative findings to identify important explanatory factors in light of issues discussed in the literature review and to be observed in the documentary analysis and analyzed by statistical methods.

### **3.10 Specific Analytical Techniques**

The study combined both qualitative and quantitative research strategy. It is important for this study to employ multi-methods, as they were used for quantifiable and non-quantifiable data. Reason for the choosing qualitative research strategy provide flexibility to enable respondents reflect upon and express their views, experiences and feelings in their own terms.

Quantitative research strategy was used to quantify data whose meanings are derived from procurement law, regulations, guidelines, and financials computations. Researcher applied phenomena that involved some numerical data or processes and procedures that could usefully be quantified to help the researcher to answer research questions and meet objectives.

### **3.11 Data Analysis Procedure**

Data analysis is an important step towards finding solution of a problem understudy. It is a systematic process involving working with data, organizing them and dividing them into small manageable parts. Cuba and Lincoln (1994) continue to explain that data are further synthesized in order to discover what is important and what has been learned so as to decide what to tell others. With regard to this study, the open-coding procedure was utilized during data analysis. The open-coding procedure is the analysis that pertains specifically to the naming and categorizing of phenomena through case examination of data.

In this case, the first step was to categorize data based on the research objectives. Data analysis begun with individual response and responses from different respondents was purposively sorted and grouped to make them tally with research objectives and research questions. Comparison of data was done to identify those similar. This reduced data into small manageable and analytical packages which was used for analysis and drawing the conclusion and recommendations. Quantitative data was analyzed by using Software Package for statistical Package.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND DISCUSSION ON FINDINGS

#### 4.1 Introduction

This chapter presents data and analysis as well as discussion based on research objectives. From analysis and discussion of data, the researcher was able to get evidence and hence, provide answers to the problem studied.

The collected data are presented and analyzed using descriptive statistics such as tables, graphs, histograms and measures of central tendency.

#### 4.2 The Extent Internal Auditors in Local Government Authorities in Tanzania have required Competences to carry out their duties

The objective intended to probe the extent internal auditors in LGAs possessed qualifications to undertake tasks as per contemporary profession practice as per Institute of Internal Auditing guidance and demand from various stakeholders. For this objective respondents (N=25) participated and provided different responses which was validated from documents. In the first instance, respondents were asked to tell if internal auditors have required qualifications and the following table indicates the responses.

**Table 4.1:** Responses on the internal auditors Qualifications for the Job Undertaken

N=25

Response	Number of responses	%
Have required qualifications	7	28
Have average required qualifications	10	40
No qualifications	8	32

Source: Researcher Data, 2013.



Table 4.1 indicates that 7 responses 28% indicated that the internal auditors have required qualifications for the job they were undertaking and 10 respondents (40%) responses indicated that internal auditors have average qualifications for the job were undertaking. Similarly, table 4.1 also indicates that 8 responses (32%) said that internal auditors did not have required qualifications for the job they were undertaking.

It was revealed from documents reviewed that internal auditors (10%) had first degrees and advanced diplomas while 04% have post graduate qualifications such as postgraduate diploma and master degree. According to 3 respondents (12%), those with highest qualification in the field of study were very few to the extent that it created a gap of more that 80%. This was in line with the local government authority understudy which the manning level indicated such deficiency. Furthermore, such findings are in line with the Local government documents which indicated the internal auditor deficiency of 86% (Ministry of Local Government, 2011).

According to the responses provided by the respondents 10 (40%), internal auditors had general qualifications. They explained that they had certificates and diploma which was regarded as lowest qualifications in the field of internal auditing. According to respondents 8 (32%) internal auditors had no qualifications and that is why there was a number of forgeries and loss of funds in the local authority. Three (3) respondents from this group (12%) explained that many internal auditors in the local government have been doing their duties at the required levels and according to the respondents, which affected the performance of the local government authority negatively.

Apart from having qualifications, the researcher probed competencies of internal auditors and it was revealed from the study that they were generally not competent. Respondents (57%) explained that even those with required qualifications were not accomplishing their tasks according to the required standard. It was revealed from the study the existing internal auditors lack competence on different areas.

Respondents (45%) mentioned lack of training to be among issues that contributed to incompetencies among internal auditors. Respondents explained that some of the aged internal auditors got qualifications a number of years ago when training as well as practice at work was mostly done manually. The respondents explained that the recent development of technology have resulted into the need of new qualifications through training to aid competencies among internal auditors.

It was revealed from the study that lack effective and efficient staff development and training at the studied local government resulted into a number of internal auditors not get training opportunities. In light of this, one respondent highlighted that *'..... Staff training and development is important at the workplace because enables the management to identify priorities among employees and hence planning for implementation'*. The respondent explained further that the staff training enables employees to gain knowledge and skills which is essential for updating and upgrading competencies among workers.

The analysis of the above findings indicates that a number of internal auditors were behind the use of technology that is they were un-able to use modern facilities and equipments to undertake their duties. The researcher observed a number of machines and equipments which were not utilized because of lack of enough skilled internal auditors to use them.

It was further revealed from the study that for the past three years only 21% of the total employees managed to get training and that supports respondents' views that few internal auditors were competent. It was revealed from the study that for those who were not competent none of them have gone training which could increase their efficiency the records show that Council management does not has training programs for internal auditors.

Review of documents indicates that local governments in recent days introduced the use of Epical system in accounting which used computer system. The respondents (45%) argued that a new technology needed internal auditors to undergo training in order to audit using technological facilities and equipments. Findings revealed further that none of internal auditors have gone training for Epical, so they lack epical system.

It was also revealed from the study that the local government used to introduce things into accounting system without making deliberate preparations for effective implementations. Respondents (19%) explained that the government introduced the use of International Public Sector Accounting Standards (IPSAS) which require all public sectors to report their financial statements accountings to IPSAS. One respondent argued that '*.... these new standard need internal auditors to know its application so that they can be able to audit final accounts according to IPSAS*'. The respondent sadly explained that unfortunately internal auditors have not yet attended the IPSAS training which means that they are not aware about the IPSAS requirement; also the findings revealed that management put many efforts on accountants training on new accounting system without both (accountants and auditors).

It was revealed from the study that the local government was faced with the problem of lacking internal auditors with profession requirements. According to 15 respondents (60%), none of internal auditors meet profession requirement of having Certified Professional Certificate such as CPA, ACCA and CIMA. This implies that internal auditors lack professional competence. Because of this scenario, poor accounting of local government authorities is explained to be underpinned by this issue. It was reported that it was hardly for the local government to get clean certificate from CAG because of failure of internal auditors to ensure that financial accounts are prepared properly in accordance to IFRAS. It was revealed from 5 respondents (20%) that such situation resulted into loss of council's funds.

Findings also revealed that few internal auditors have enough work experiences. According to 20 respondents (80%), about 90% of total respondents have no enough number of years in local government specifically doing internal audit work. This of course was also explained to negatively influence their performance. Work experience is important because together with qualifications/professional expediencies facilitate ones competence at workplace.

### 4.3 Challenges facing Internal Auditors in performing their Duties

This objective intended to probe challenges facing internal auditors when accomplishing their duties. Respondents (N=25) provided responses as indicated in Table 4.2 below.

**Table 4.2:** Responses on the Challenges facing internal Auditors

<b>Challenge</b>	<b>Number of Responses</b>	<b>%</b>
Shortage of Funds	5	20
Internal auditors are Independence	12	48
Cooperation of internal audit unit with other departments	5	20
Internal auditors are free from corruption	3	12
<b>TOTAL</b>	<b>25</b>	<b>100</b>

**Source:** Researcher Data, 2013.

Table 4.2 indicates that 5 respondents (20%) indicated that shortage of funds was among challenges which affected the internal auditors and 12 responses (48%) explained the independence of internal auditors to be another challenge facing internal auditors. Table 4.2 also indicates that 5 respondents (20%) mentioned cooperation of internal audit unit with other departments to be another problem to the functions of internal auditors and 3 respondents (12%) mentioned corruption to be among problems facing internal auditors.

It was revealed from the study that the main challenges facing internal auditors were lack of sufficient funds to finance internal audit unit. Respondents (20%) explained that for the past five years budget of internal audit unit in local government was low compared to the training needs. Documents indicated that budget for internal audit for the past five years was stagnant that is did not change. Respondents (5%) explained most of local councils including Korogwe District Council do not support the internal audit unit through own source revenue instead internal audit unit seeking client assistance to finance its activities. This situation impairs independence of internal auditors.

The example was provided by respondents (3%) that when internal auditors want to audit let say hospitals, they request to District Medical Officer (DMO) allowances, fuels and car for such activity. According to the respondent, the DMO thought that audit may reveal weakness/embezzlements that may affect him/her in one way or another he may refuse the request of allowances, fuels and transport by giving some excuses hence no audit may be done the same to other departments like works, education, planning, water, agriculture and livestock..

The above responses was validated from documents which Table 4.3 indicates the results

**Table 4.3:** Internal Audit budget for five years

<b>YEAR</b>	<b>2009/2010</b>	<b>2010/2011</b>	<b>2011/2012</b>	<b>2012/2013</b>	<b>2013/2014</b>
AMOUNT(THS)	15,000,000	18,000,000	18,000,000	18,000,000	18,000,000

**Source:** Korogwe District Council Approved MTF, 2012

According to the data in the above table, the amount of budget for each year was not enough for accomplishing the goal and that eventually influenced the performance of internal auditors. It was revealed from the study that due to lack of enough funds, many

development projects remained un-audited. Respondents 4 (16%) highlighted that the issue have been creating a loophole of lack of value for money for many development projects. Documents indicated that in financial year of 2010/2011 and 2011/2012 several projects in two departments (Health and Water) those projects are building of hospitals, dispensaries, houses for doctors and nurses, and construction of wells for water projects were not audited by internal auditors due to lack of funds.

Findings also indicated that Accounting to Controller and Auditor General (CAG) Reports of 2011/2012 reveal that internal auditors in local governments lack funds to perform their duties efficiently. According to 10 respondents (40%), 100% of Korogwe District Council staff and Councilors interviewed if internal audit unit has enough funds to facilitate its function they said no.

It was revealed from the study that 12 respondents (48%) independence was another challenges facing internal audit unit on its functions. According to the respondents, 76% Korogwe District Council believed that the unit is not independence on their activities, due to Council's structure and reporting. The current reporting structure, the District Internal Auditor (DIA) required submitting all audit reports for approval to District Executive Director (DED) who is accounting officer before submitting to Internal Auditor General (IAG), Regional Administrative Secretary (RAS) and National Audit Office (NAO).

According to one respondents stakeholders think that if the internal audit reports may affect the Council management the DED may refuse to sign the report unless the amendments are made on a report that favour him/her. The experience shows that, this always done. It was revealed from the study that the organization structure was another challenge. According to the respondents (5%), currently internal auditors are employed by District Executive Director (DED) who has full authority on internal auditors. The findings revealed that 100% interviewed said that internal auditors should be independent and should be removed from DED office and their reports should not be

channeled to responsible parties on the sense that how a person be a player and remain a referee.

Good Cooperation of internal audit unit with other departments was another challenge revealed by 5 respondents (20%). Findings reveal that there were difficulties with regard to effective Corporation among internal auditors and other department. One respondent (internal auditor) explained that they used to other departments such as the accounts department and procurement considered them as watch dogs and that they were passively not accept by those who are not accomplishing their jobs based on the laid financial regulations. However, other respondents (3%) explained that they had been doing their level best to harmonize the situation to the extent that no great effect was realized.

Free from Corruption was explained to be another challenge to the internal auditors functions. It was revealed from the study that respondents (65%) indicated internal auditors not to be corrupt, 30% respondents said that they were corrupt while 5% respondents remained silent. Those who said that they were not corrupt explained that everything was going smoothly and financial regulations were adhered to during internal auditing. Respondents who said that internal auditors were corrupt explained that internal auditors were not free from corruption due to lack of sufficiency funds, including small salaries that do not enable them to meet their needs and responsibilities. In due regard, these issue have been motivating them take bribery due to nature of their work. Respondents advised the government should increase salaries and other benefits of internal auditors to enable them to perform their duties efficiently and effectively.

#### **4.4 The Extent the Internal Audit Functions Have Been improved in Local Government Authorities**

The objective intended to investigate the extent internal audit functions has been improved in local government authorities with as special focus on the local government under study. Respondents (N=25) participated and responses were validated through documentary review. It was revealed from the study that that 72% of Korogwe council staff and councilors said that the government should increase budget of internal audit unit if it wants to improve their performance and effective, because funds are the main challenges that facing internal auditors. Apart from this response, documents indicated that the management has been responding to these responses as indicated in the Table below (4.4)

**Table 4.4: Responses on the Training Budget**

Year	2007	2008	2009	2010	2011	2012
%	9	13	20	16	29	32

**Source:** Korogwe District Council Documents, 2007-2012.

According to the data in Table 4.4, there is a linear increase in percentage for example, between years 2007-2008, the increase was 4% and 7% was an increase for the years 2008-2009. Furthermore, for the year 2009 and 2010, the percentage increase was 6% and for years 2010 and 2011, 13% was an increase and for the years 2011 and 2012, the percentage increase by 3%.

Respondents (2%) explained that training internal auditors was possible which will increase their skills and efficiency. Respondents (13%) explained the independence can be achieved since internal audit unit may be able to meet day to day requirements such as stationary, transport, allowances and fuel without depending from audited department(s).

According to respondents (45%) the internal auditors was able to audit all development projects and that enhanced value for money since user departments were keen on their projects.



It was also revealed from the study that the management has been striving to ensure effective and efficient training of internal auditors. The finding reveals that 76% of Korogwe council staff and councilors said that, improving internal audit function was through training internal auditors so that they can acquire knowledge, skills and experience which will improve their efficiency. Respondents (6%) explained three categories of training needed by internal auditors and those included long term training, such as masters, postgraduate diploma, bachelor degree, mid-term training like CPA, ACCA and CIMA (professional training) and short term training like short courses, seminars, workshops which add current skills to internal auditors so that they can increase their efficiency.

Despite good intension of increasing training rate among internal auditors, documents indicated that training rate was very small. According to the reviewed documents, between years 2005 – 2010, the rate was at the average of 0.9% annually. Furthermore, for years between 2011 -2012, the rate was at the average of 1.4% annually. This is against the real demand of 30% annually.

It was also revealed from the study that 68% of total respondents said that the management has been doing deliberate efforts to ensure the independence of internal audit section. According to respondents (10%), the internal audit dependency from council management, aimed at improving its function.

It was further revealed from the study that the existing number of internal auditors was not enough to perform their duties effectively, According to the respondents (5%), explained the management has been striving to employ qualified internal auditors although the rate of recruitment was revealed to be at the small rate. It was also revealed from the study that the management has been making deliberate efforts to procure a good number of internal audit facilities and equipment.

Findings reveal that 64% said that internal audit unit should be facilitate by management in-terms of stationary, transport (to have own car),fuel, computers (lap top) for each internal auditor, this may help them to perform their duties easy without depending on other departments as current used to be which may impair their independence. Transfer of internal auditors was revealed to be among management strategy to improve internal audit functions. Respondents (50%) argued that the local government regulation stipulates that internal auditors should not stay in the same station for more than five (5) years, According to the respondents, if the regulation is not adhered to, they become familiar to businessmen/renderers, council employees this may cause to impair their independence and integrity. Therefore through regular transfer of internal auditors this improves their performance.

Findings reveal that 49% said that internal auditors should be paid well in order to avoid corruption and bribery. They said that, current pay to internal auditors as per government salary scale is not sufficiency to compare with their responsibilities. Based on this response, one respondent argued that '*..... it is easy for internal auditors to be attempted by contractors, tenderers or heads of departments to take bribery for the aim of hiding the audit findings of embezzlement or lack of Value for Money on development projects*'.

It was explained by respondents (50%) that due to under pay of internal auditors this may result into loss of local government finance through dubious actions.

The above argument is valid because if the management could pay well internal auditors such things could not happen or might be reduced. This also could combat the act of fraud and misappropriation of funds due to active of internal auditors.

It was also revealed from the study that Korogwe District council did establish training program for internal auditors,72% said no, the Korogwe District council does not have training program for internal auditors, this shows that internal auditors lack competence

needed to perform their duties efficiency and effectively. According to respondents (2%) in management, the management is on course of enacting the training policy to effect different training programs that are viable to the internal auditors.

Findings reveal that 60% said that internal controls in Korogwe District council does not exist, this shows that there is a weak internal controls in Korogwe District council, this may cause fraud, errors, miss-appropriation of funds and misstatements of financial statements. This was challenged by respondents (2%) who explained that the existence of internal control have been enabling the management to control funds.

Findings reveal that 80% said that audit committee exist but,78% said that, although there is audit committee in Korogwe council but it is ineffectiveness because it does not held its regular meetings, apart from that its recommendations do not be implemented by council management. On top of that its composition does not reflect good governance since the heads of departments are those constitute in audit committee including chairperson. It was revealed from the study that those heads of departments are the one who suspected in audit report.

## **CHAPTER FIVE**

### **SUMMARY OF THE STUDY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

In this chapter a summary of the study is provided. The summary covers the entire study from the background up to the data analysis and discussion. The chapter also provides conclusions and recommendations.

#### **5.2 Summary of the Study**

The research was on the problems facing internal auditors in local government authorities in Tanzania. Internal auditing being an independent, objective assurance and consulting activity designed to add value and improve an organization's operations in recent years have been voiced by the mass to contribute to poor performance of not only to local government authorities but to all public institutions and ministries. Thus, major complaints have been failure to enable organizations to accomplish their objectives. It have been also argued that,

Internal Audit have been failing to play a constructive role by rendering service to the management with objective appraisal of systems, procedures, practices, compliance with policies as well as failing to be an independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis for service to management and hence, not a managerial entity.

Therefore, the general objective of this study was investigating the performance of Internal Audit functions in Local Government Authorities in Tanzania. The study was guided by the following specific objectives. (i) To determine the extent Internal Auditors in Local Government Authorities in Tanzania have required competences to carry out their duties as per contemporary profession practice. (ii) To investigate challenges facing Internal Auditors in performing their duties and how best the Internal Audit

functions can be improved in Local Government Authorities in Tanzania. (iii) To determine the extent challenges facing Internal Auditors in performing their duties in Local Government authorities.

Extensive literature both theoretical and empirical review was done.

The researcher employed case study design because the case study design enabled the researcher to study deeply few cases in the system. In this case, the researcher was able to examine small number of units that were extracted from a large number of variables and conditions. In this case, analysis of the data obtained from case study design was easy to analyse because only small number of units was used.

Qualitative and quantitative research approaches were employed during the research. Qualitative research approach was largely employed during the study. The researcher employed qualitative approach because the approach gives opportunity for problems to be studied in some depth and enable the researcher to collect facts and study their relationships in order to find sources and solutions of the facts.

Furthermore, researchers adopting qualitative perspectives are more concerned to understanding of individual perception of the World. In light of this, methods of data collection in qualitative approach which include: interviews, observations and documentary analysis. Qualitative approach was used because of its flexibility in data collection and research plan. The approach enables the researcher to use different methods such as interviews and observations during data collection. Flexibility when using qualitative method may allow day-to-day correction of the problems arising during the study. This enabled the researcher to amend and modify the structure/plan of the study as the research process proceeds.

Interview was a method used to collect data from respondents. In this study different groups of respondents had set of questions. Interviews were effected by the use of the

instrument that is interview questions. Interview questions were both closed and open ended. The closed ended questions had the predetermined answers while the open ended questions provided opportunities for respondents to provide extensive answers. Questionnaires were also used to tap data that was either partially collected or totally not collected by the researcher. Different kinds of questionnaires were designed to fit the category of respondents in the sample. Questionnaire consisted both open ended and closed ended questions. This type of instrument was used because enables a researcher to capture a lot of information and respondents are very free to provide their views independently.

Documentary Review was a method used to collect secondary data through reviewing documents. After reviewing documents, a researcher reviewed various documents systematically. In general local government documents reviewed included Council budget review estimates, financial reports, Projects action plans; project performance reports Management letters from Controller and Auditor General, revenue collection trends, transfers and grants from central government. The method was facilitated by the use of documentary review schedule which systematic review of documents.

With regard to this study, the open-coding procedure was utilized during data analysis. The open-coding procedure is the analysis that pertains specifically to the naming and categorizing of phenomena through case examination of data. In this case, the first step was to categorize data based on the research objectives. Data analysis begun with individual response and responses from different respondents was purposively sorted and grouped to make them tally with research objectives and research questions. Comparison of data was done to identify those similar. This reduced data into small manageable and analytical packages which was used for analysis and drawing the conclusion and recommendations. Quantitative data was analyzed by using Software Package for statistical Package.

With regard to the extent internal auditors in local government authorities in Tanzania have required competences to carry out their duties, findings indicate that very few have required qualifications, a good number have average qualifications and others have no required qualifications to carry out internal audit functions effectively. With regard to specific qualifications, findings indicated that internal auditors possessed a number of qualifications ranging from first degrees and advanced diplomas, post graduate qualifications such as postgraduate diploma and master degrees. It was revealed from the study that those with highest qualifications (postgraduate diplomas and degrees) in the field of study were very few. This was in line with the local government authority understudy which the manning level indicated such deficiency. In due regard, this was among indicators of deficiency in-terms of numbers of internal auditors in the local government authority.

Furthermore, such findings are in line with the Local government documents which indicated the internal auditor deficiency of 86% (Ministry of Local Government, 2011). The general findings were that those with general qualifications had certificates and diploma which was regarded as lowest qualifications in the field of internal auditing. It was also revealed from the study that internal auditors explained to have qualifications resulted into ending into a number of forgeries and loss of funds in the local authority and that was enforcing the responses that many internal auditors in the local government were doing their work not at the required levels and that negatively affected the performance of the local government authority.

Findings also indicated the issue of the possession of required qualifications influenced individual internal auditor's competencies. Surprisingly, findings indicated that even those with required qualifications were not accomplishing their tasks according to the required standard and that signified lack of on job training practices at the work place. This is due to the fact that on job training is a practice of staff development and training. Findings also revealed that the performance of internal auditors was influenced by

failure to cope with the current development of science and technology. It was revealed from the study that the recent development of technology have resulted into the need of new qualifications through training to aid competencies among internal auditors.

It was also revealed from the study that the local government used to introduce things into accounting system without making deliberate preparations for effective implementations. It was revealed from the study that the government introduced the use of International Public Sector Accounting Standards (IPSAS) which require all public sectors to report their financial statements accountings to IPSAS. Findings indicated that internal auditors have not yet attended the IPSAS training which means that they are not aware about the IPSAS requirement; also the findings revealed that management put many efforts on accountants training on new accounting system without both (accountants and auditors).

With regard to the challenges facing internal auditors in the performing their duties, findings indicated that issues such as shortage of funds, independence, Cooperation of internal audit unit with other departments. It was revealed from the study that the main challenges which facing internal auditors was lack of sufficient funds to finance internal audit unit. Findings indicated that for past five years budget of internal audit unit in local government was low compared to the training needs. Findings indicated that most of local councils including Korogwe District Council do not support the internal audit unit through own source revenue instead internal audit unit seeking client assistance to finance its activities. This situation impairs independence of internal auditors.

It was revealed from the study independence was another challenges facing internal audit unit on its functions. Findings indicated that the unit is not independence on their activities, due to Council`s structure and reporting. The current reporting structure, the District Internal Auditor (DIA) required submitting all audit reports for approval to District Executive Director (DED) who is accounting officer before submitting to



Internal Auditor General (IAG), Regional Administrative Secretary (RAS) and National Audit Office (NAO). Findings indicated that stakeholders thought that if the internal audit reports may affect the Council management the DED may refuse to sign the report unless the amendments are made on a report that favour him/her.

Good Cooperation of internal audit unit with other departments was another challenge revealed by 5 respondents (20%). Findings reveal that there were difficulties with regard to effective cooperation among internal auditors and other departments. One respondent (internal auditor) explained that they used to other departments such as the accounts department and procurement considered them as watch dogs and that they were passively not accepted by those who are not accomplishing their jobs based on the laid financial regulations. With regard to the extent the internal audit functions have been improved in Local Government Authorities, findings indicated that Korogwe council staff and councilors said that the government increased budget of internal audit unit in order to improve their performance and effectiveness.

It was revealed from the study that to ensure sufficient funds the following things were done: Training internal of auditors was possible which increased their skills and efficiency. Findings indicated that the independence was achieved since internal audit unit was able to meet day to day requirements such as stationary, transport, allowances and fuel without depending from audited department(s).

It was also revealed from the study that 68% of total respondents said that the management have been doing deliberate efforts to ensure the independence of internal audit section. It was revealed from the study that the internal audit dependency from council management, aimed at improving its function and the existing number of internal auditors was not enough to perform their duties effectively. The management has been striving to employ qualified internal auditors although the rate of recruitment was revealed to be at the small rate. It was also revealed from the study that the

management has been making deliberate efforts to procure a good number of internal audit facilities and equipment.

### **5.3 Conclusion**

Findings reveal that internal auditors should be paid well in order to avoid corruption and bribery. The research revealed that current pay to internal auditors as per government salary scale is not sufficiency to compare with their responsibilities. Findings indicated that due to under pay of internal auditors this may result into loss of local government finance through dubious actions.

In this regard, availability of internal audit policy is essential for effectiveness of internal auditors. Thus, examining policies and procedures on a regular basis ensures that the local government authority minimizes its exposure to fraud and other losses. Furthermore, the extension of credit to customers was revealed to provide one such area of loss prevention. Designing a credit policy with the intention of reducing bad debt does not good if not followed. Operational audits examine the practices of a company, rather than its finances. Is your business operating at maximum efficiency? Ineffective operations add to overhead without increasing profit. An operational audit may reveal these inefficiencies or point to unnecessary paperwork.

### **5.4 Recommendations**

The following are recommendations for immediate and further research.

- The local government authority managements to allocate enough funds to the internal audit departments. This will enable training of a good number of internal auditors and functioning different activities in local government authorities. It will further ensure effective internal controls in other departments
- Deliberate efforts to be done to ensure the district council have enough and qualified Human Resource. This should be done through extensive deployments of internal and external recruitments.

- The management of Korogwe Local Government should practice human resource future planning. This will enable the immediate filling in of vacant posts.
- The internal auditors to the council should be highly qualified senior accounting staff to avoid being intimidated by other administrative officers of the council.
- The managements of local governments should strengthen staff training and development. This will facilitate effective on job training which is essential in updating/upgrading internal auditors' competencies in-terms of knowledge and skills.
- The management should ensure availability of enough and quality internal audit facilities and equipment this will enhance performance of internal auditors during accomplishing internal audit functions.
- It is also recommended that the same research to be done in other local governments in Tanzania. This will enabled different researchers on the same problems studied to emerge with convergent solutions plus recommendations.
- It is also recommended that other issues in the local government authority studied which influence its performance should be researched.
- There should be checks and balances. This is because power corrupts and absolute power corrupts absolutely. The three tiers of government should act as a watchdog over the other.
- An audit alarm committee should be established in the local government so as to inform the auditor general when the chairman is making illegal payment.
- There should be inter-departmental checking of all the department especially the finance department i.e treasury department for accountability.

## REFERENCES

- Amecheta (2001), Finance and general purpose committee control is the control of financial management of the local government
- Amucheazi, E. (1999) *Local Government Reforms and Mobilization for Rural Development*, Enugu: Fourth Dimension Publisher African Economic Policy (2001), *The Impact of Tax Evasion on Socio-Economic Development of the Country*, The Policy Paper, London – Unpublished.
- Barrett, MJ (1986); “*Measuring internal auditing performance*,” Journal of Internal Auditing, Vol.2, pp.30-5.
- Bell, A. (1993), *Doing Research in Education and Social Sciences*, London: The Preager Press
- Bou Raud, G (2000); “*Internal Auditors and a value – added approach: The business Regime*” The Managerial Auditing Journal 15/42000.pp182 – 186.
- Chacha, A, (2006); “*The Different type of internal Audit*,” NBAA workshop paper on Internal audit Function – Its role and Relevance, May 2006, pp 3-4.
- Chukwuemeka (2000),*the inadequate electrification of the local government areas*,
- Chun, C (1997),”*On the functions and objectives of internal audit and their underlying Conditions*,” The Managerial Auditing Journal 12/4, (1997), 247 – 250.
- Commission of Corruption (1996), “*Corruption in Local governments*”
- Controller and Auditor General Reports. [www.nao.go.tz](http://www.nao.go.tz) date.17/12/2012.
- Dittenhofer, M (2001); “*Internal auditing effectiveness: an expansion of present Methods*”. Managerial Auditing Journal 16/8(2001), pp443 – 450.

- Institute of Internal Auditors (2004); *“The Professional Practices Framework,”* The Institute of Internal Auditors Research Foundation, Altamonte Springs, FL. January 2004.
- Eze S. (2000) *Theory and Practice of Local Government.* Ado Ekiti, UNAD
- Guoming, B (1997); “The developing trend and prospected of internal, “Managerial Auditing Journal 12/4, 5 (1997) 243 – 246).
- Institute of Internal Auditors (2004), “The internal audit, in essence with any phase of business activity .
- Institute of Internal Auditors (2006); *“Internal Auditing Role in Section 302 and 404 The Sabsanes – Oxley Act of 2002.”* 26 May 2006.
- Jack, 2001, *”tool of control to measure and evaluate the effectiveness of the working of an organization primarily with accounting, financial and operational matters”*
- Kilenga, A.E.Y (2006); “Challenges facing internal auditors in Tanzania and strategies To deal with them,” NBAA workshop paper on internal Audit Function, Its role And Relevance, May 2006, pp 3-4.
- Kilenga, A.E.Y. (2006); *“Role of internal auditing strategies and best practices,”* NBAA Workshop paper on internal Audit Function – Its role and Relevance,
- Kothari C.R. (1990), *Research methodology: Methods and Techniques,* New Delhi Wilay Eastern Ltd.
- Lucas(1999),*Accountability is a form of quality control of the local government.*

Liviga A.J. (1992), *Local Government in Tanzania: Partner in Development or Administrative Agent of central government* Local Government Studies, Vol 18 No.3.

Liviga, A.J. (2002), *A Handout on the Political Dimension of Local Government Reform Agenda: 1996-2000*

Magayane, S.B. (1987), *The Role of Local Government in Reactivating Self Help Scheme in Tanzania: The case of Iringa District*” M.A dissertation, University of Dar es salaam

Max, J.O (1991), *The Development of Local Government in Tanzania*, Dar es Salaam Education publishers and distributors Ltd.

Mbuta J.J. (1999), *Factors Affecting Performance of Local Government in Tanzania: A Case Study of Tanga Municipal Council 1992 – 1995*, MA Dissertation, and University of Dar es salaam

Ministry of Local Government ( 2011),*Local Governments Report*.

Mwakalinga, H.C (2005); *The Effectiveness of Internal Audit in development Projects in Tanzania: The case of Tanzania Social Actions Fund (TASAF)*, Unpublished MBA Dissertation, UDSM.

Oguma (1996), *the local government has eight main sources of revenue*.

Onwujuba, the “Daily star” (2004:Nov; 18), *Excessive population of the rural people wanting for one borehole*.

Orodho and Kombo, (2002).*process of selecting a number of individuals or objects from a population.*

Professor Achebe, (1993), “*The trouble with Nigeria local governments*”

Saunders. M, Lewis, P. and Thornhill, A. (2007), *Research Methods for Business Studies*, 4th edition: Pearson Educational Limited in England

Semboja J. and Thekldsen O. (1991), *A hand Book on District Levels Administration in Tanzania*, Dar es Salaam, Education publishers and Distributors.

Semboja .J. and Therkildsen .O. (1992), *Short term Resources Mobilization for Recurrent Financing of Rural Local Governments in Tanzania in world development*, Vol. 20 No. 8

Tashakkori and Teddlie (2003).*The Sampling procedures*

US-News Letter, 2011,”*Number of organizations is reported to collapse due to misappropriation of finance and loss accrued from the business process/activity.In the United States of America 2000 and 2010*”

Utouh, L.S (2006), *The role of internal audit in the public sector*” NBAA workshop *Paper on internal Audit Function – Its role and Relevance*, May, 2006.

**APPENDINCIES.**

**QUESTIONNAIRE: FOR PERFORMANCE OF INTERNAL AUDIT IN LOCAL  
GOVERNMENTS IN MAIN LAND TANZANIA.**

**PART A: BACKGROUND INFORMATION.**

Please tick (√) to the appropriate answer where applicable:

1. Name of Organization.....

2. Number of years working in Local Government Authorities

a) Less than 3 years ( ) b) 3 – 5 years ( ) c) 5 – 9 years d) 10 years and above ( )

3. Highest academic qualification

a) Ordinary Diploma ( ) b) Degree/Advanced Diploma ( ) c) Masters Degree ( )  
d) Post Graduate Diploma ( )

4. What is your Professional Qualification?

a) CPA (T) ( ) b) ACCA ( ) c) CIMA ( ) d) None ( )

5. Have you attended Training in Audit?

a) Yes ( ) b) No ( )

1. If YES in 5 above, what was the duration of your training (months).....

Status/ designation in your current employment.....



**PART B: CHALLENGES FACING INTERNAL AUDITORS IN PERFORMING THEIR DUTIES**

1. Do you think that the internal Audit Unit has sufficiency funds and other facilities to perform its function properly?

A) Yes ( ), b) No ( )

2. Do you think that the internal audit activity is independent, and free from coercion by management?

a) Yes ( ), b) No ( )

3. Do you think that, Internal Audit Unit has a good Cooperation with other Council departments?

a) Yes ( ), No ( ).

4. Do you think that, Internal Auditors paid well in order to be free from Corruption?

a) Yes ( ), b) No ( )

**5. How can Internal Audit Unit be Improve (mention 5 ways)**

i)-----

ii)-----

iii)-----

iv)-----

v)-----

**PART C: DETERMINING LEVEL OF PERFORMANCE ON CORPORATE GOVERNANCE.**

**Please tick (√) to the appropriate answer where applicable:**

**Evaluation of Governance performance.**

- 1 Does the management establish training programs to ensure that staffs are competent to perform their work?  
a)Yes (  ),b) No (  )
- 2 Does the management taken steps to ensure that an effective framework of Internal Control is established and operates in practice?  
a)Yes (  ),b) No (  )
- 3 Does the management include, in the LGA's annual report, a statement on the effectiveness of its framework of Internal control?  
a)Yes (  ),b) No (  )
- 4 Does the management ensure procedures are in place to ensure effective and efficient budgeting and financial management?  
a)Yes (  ),b) No (  )
- 5 Does the management establish an audit committee comprising members of his management team with responsibility for the independent review of the framework of control and of the internal and external audit processes.  
a)Yes (  ),b) No (  )
- 6 Does the management taken steps to ensure that effective systems of risk management are established as part of the framework of internal control?  
a)Yes (  ),b) No (  )

- 7 Does the management publish promptly an objective, balanced and understandable annual report?  
a) Yes ( ) , b) No ( )
- 8 Does the Management ensure that the LGA's financial statements comply with recognized set of accounting standard? a) Yes ( ) , b) No ( )

I would be glad for any idea or suggestion you may like to add for the purpose of making better performance of internal Audit Unit in Local Government Authorities in Tanzania.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

**THANK YOU FOR YOUR GOOD COOPARATION.**

