ASSESSING THE EFFICIENCY OF INTERNAL AUDITING AND ITS CONTRIBUTION TO IMPROVING FINANCIAL MANAGEMENT IN LOCAL GOVERNMENT AUTHORITIES IN TANZANIA: A CASE STUDY OF MUSOMA MUNICIPAL AND DISTRICT COUNCILS
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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR AWARD OF THE DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE OF MZUMBE UNIVERSITY

2013
DECLARATION

I Josephat John Mbura declare that this thesis is my own work as a result of research finding except where identified by references and not submitted for a degree at any other university.

Signature ........................................

Date ...............................................
ACKNOWLEDGMENTS

The completion of this work would not have been possible without help and support I received from different individuals.

First and foremost, I would like to thank my research supervisor Mr Aloyce Maziku for his guidance, support and constructive criticism which made this work to its current status. He worked tirelessly with me from the problem conceptualisation stage, proposal writing to the final dissertation write-up. My sincere thanks are also extended to Dr Kokuberwa of University of Dar es salaam and Dr Akyoo of Sokoine University of Agriculture (SUA) Morogoro for proofreading the dissertation draft. Their contribution to this work is enormous.

I wish to acknowledge the assistance I received from my colleagues at Musoma District Council. Special thanks go to Dr Karaine K. Kunei, the former District Executive Director and to Mr Jamhuri D. William- the Human Resource Officer in Musoma District council for approving the financial support for my studies at Mzumbe University. I am also indebted to Mr Theogenes Laurent and Ms Theresia Kinoko from Accounts section, Kizindaro Israel (TASAF Coordinator) and Mr Pascal Jagad the Internal Auditor for their untiring moral support, and patience which altogether made it possible for me to complete my studies with great achievement.

This research would not have been complete without the help of Mr. Nyaulingo- the Chief internal Auditor of Musoma Municipal Council, the Management of National Audit Office (NAO) Mara Region, their willingness and assistance enabled me to access essential data and extensive literature vital to my study.

Finally but definitely not least, I appreciate the moral, financial and spiritual support I received from my young sisters Dora, Dorice, Amina and my young brothers Geldart and Innocent and my friend Iscary Mlassa and Theresia Mainoya. Their prayers and well wishes kept me strong during the whole period of my studies. God bless you all.
DEDICATION

This work is dedicated to my parents, Blandina Geldart Mhina and my late father, Mbazingwa S. Mleli who passed away in 2000, may the Lord rest his soul in eternal peace, Amen. It is also dedicated to my lovely friend Lucy Rwegasira and my son Hilton, I sincerely love you all.
# LIST OF ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
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<tr>
<td>HODs</td>
<td>Head of Departments</td>
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<tr>
<td>IAG</td>
<td>Internal Auditor General</td>
</tr>
<tr>
<td>INTOSAI</td>
<td>International Organisation of Supreme Audit of Institution</td>
</tr>
<tr>
<td>ISA</td>
<td>International Standard on Auditing</td>
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<tr>
<td>LAFM</td>
<td>Local Authority Financial Memorandum</td>
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<tr>
<td>LGAs</td>
<td>Local Government Authorities</td>
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<tr>
<td>LGCDG</td>
<td>Local Government Capital Development Grants</td>
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<tr>
<td>MDC</td>
<td>Musoma District Council</td>
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<tr>
<td>MMC</td>
<td>Musoma Municipal Council</td>
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<tr>
<td>NAO</td>
<td>National Audit Office</td>
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<tr>
<td>PFA</td>
<td>Public Finance Act</td>
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<tr>
<td>RAS</td>
<td>Regional Administrative Secretary</td>
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<td>SAI</td>
<td>Supreme Audit Institution</td>
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ABSTRACT

Financial management has become a critical problem in Local Government Authorities in Tanzania. This is attributable to weaknesses in internal auditing systems within the councils. This study therefore, set out to examine the efficiency of internal auditing and its contribution to improving financial management in Local Government Authorities (LGAs) in Tanzania. The unit of analysis was the Local Government Authorities in Musoma municipal and Musoma district councils including their External and Internal Auditors, Accountants, Head of Departments and Members of Audit and Finance Committees.

The overall objective of this study was to assess the efficiency of internal audit units in improving financial management in LGAs especially with the amendment of Public Finance Act of 2004 and establishment of Internal Auditor General Division in 2009. Specifically, the study assessed the independency of the Internal Auditors in performing their duties, examined the capacity of internal audit units in terms of human and material resources, and assessed the extent to which the management of municipal councils act upon Internal Auditor’s recommendations. The study also examined Internal Auditors’ compliance with the International Professional Practices Framework (IPPF) standards, and proposed practical solutions to that will empower the Internal Audit Unit in the selected municipal councils.

Data were collected from both primary and secondary sources of information. Mailed questionnaires, interviews schedules, and observation checklists were used as data collection instruments while desk research was used to complement the primary data. Out of the 60 questionnaire, 51 questionnaires were valid for analysis. The findings of the study were analysed through Scientific Product for Social Sciences (SPSS). The study revealed that inadequate support from top management, lack of autonomy among Internal Auditors, insufficient human and financial resources and absence of quality assurance mechanisms to be critical factors affecting the performance of Internal Audit Units in municipals and district councils. The study recommends that management of municipal and district councils
strengthen internal audit units in terms of financial and human and implementation of Quality Assurance and Improvement Program (QAIP) to enhance the performance of Audit units.
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CHAPTER ONE
INTRODUCTION

1.1 General Introduction

Effectiveness of the internal auditing system is one of the issues that recently have been taken into consideration by the government all around the world. This is due to the critical role the audit units play in safeguarding public funds. Thus, effectiveness of the internal auditing system is necessary because it ensures that performance and standards are adhered to, in order to facilitate achievement of an entity’s objectives (Ramachandran et al., 2012).

Effectiveness of internal audit unit in the public sector is taken seriously by the top management because its inability to perform not only impairs the image of an organisation but also the appropriateness of set objectives. Reasons that lead to erroneous audit reports is attributable mainly to absence of auditing tools such as standard internal audit manuals and other several factors including lack of detailed audit work plan, poor reporting structures, lack of professional independence, unlimited scope of work, presence of unqualified auditors and lack of growth prospect (Unegbu and Kida, 2011). On the whole, these factors affect the quality of work particularly of the internal auditors.

This study was set to assess the efficiency of internal auditing in improving financial management in Local Government Authorities (LGAs) in Tanzania. A single case study was used to identify factors affecting internal audit units and propose mechanisms strengthen the audit units so as to eliminate the mismanagement of funds in public funds in Local Government Authorities (LGAs).
1.2 Background to the Research Problem

There has been a public outcry on mismanagement of public funds in most of the Local Government Authorities in Tanzania. Watchdog institutions such as parliamentary committees, PCCB, the National Audit Office and Non-Governmental Organisations (NGOs) have also identified public funds mismanagement as a critical problem observed in most LGAs recently. Citing Mrina, Kagashe (2008) attributes the flaws in managing public funds to the presence of poor financial management systems and weakness of existing internal audit control systems. According to Ojo (2009), the key determinant of financial management efficiency lies on how excellent a particular organization pursues its duties and to what extent it is capable of carrying out its responsibilities. This clearly signifies the need to establish link between the organisation’s finances and the articulated organisation’s obligations.

Financial management especially in the LGAs has become an interesting aspect attracting the attention of the government and development partners. This has been due to huge amount of funds that are disbursed to Local Government Authorities to facilitate various development projects and services. Thus efficacy of the internal audit units as monitoring and evaluation apparatus in LGAs become a critical area of concern as they are the overseers to appropriate utilisation of public funds.

The Local Authority Financial Memorandum of (2009), order No 13; cited section 48 of the Local Government Finance Act to require every Council to employ its own Internal Auditors so as to examine and evaluate the effectiveness of the financial management in the Local Government Authorities. Despite this, the government through the Prime Minister’s Office-Regional and Local Government (PMO-RALG) is implementing a system assessment process to its council so as to evaluate performance measures which determine the level of Local Government Capital Development Grants (LGCDG) funding to be received. The performance measurement is mostly qualitative and seek to evaluate performance of the LGA in different key areas, among of them financial
management (URT, 2010). Others areas include; participatory planning, pro – poor budgeting, budget execution and other broader areas of local governance such as transparency and accountability, council functional process, gender and the involvement of lower local governments (LLGs) and communities.

The management of the LGAs has the responsibilities of ensuring a systematic arrangement to financial management within the organization while the internal auditor of the LGAs are obliged to examine whether the management performs their responsibilities for the interest of the organization and public as a whole. By doing these, internal auditors have to satisfy themselves that the existing laws and regulations are adhered to eliminate financial management irregularities.

It has however been reported that, despite the government initiative to establish Internal Audit Units in every LGA, most of the Internal Auditors (Internal Consultants) fail to perform their duties to the required standard thus forcing the government to seek for external assessment (Independent Consultants) when conducting annual LGCDG assessment. The Controller and Auditor General (CAG) report of 2010 and 2011 fiscal years clearly reveal mismanagement of public funds in most of LGAs giving the impression that the problem is becoming critical thus a need for immediate intervention to redress the situation.

1.3 Statement of the Research Problem

This study focused on the impact of internal auditing units in ensuring effective financial management in Local Government Authorities in Tanzania. Internal Audit is an integral part of management within any organization. Studies by Badara (2012), Unegbu and Kida (2011) characterise internal audit units as weak, under resourced, dependent and understaffed. These and other problems have led to their inability to effectively oversee the management of finances in LGAs. Besides, the CAG audit reports for the fiscal years 2009 to 2011 have not shown any improvement on the
financial management to most of the Councils. The key weaknesses highlighted by CAG reports are in the areas of cash management specifically laxity in revenue management, irregularities in expenditure management, inadequate payroll controls and weak internal control system. Such and other problems point to the weaknesses of internal control system (which is the proof of the inadequate performance of Internal Audit Unit) leading to irregularities in financial management in LGAs.

Musoma District Council’s Audit reports for 2009, 2010 and 2011 fiscal years (cited from Para 2.2.3, 2.2.4 and 2.2.3) revealed that the Council still experience problems in managing the public funds despite the presence of an audit unit within the Council. The report noted several factors which constrain the performance of the internal audit to include; inclusion of audit unit in the operations of the accounting officer, over concentration of the auditors to transactional audit neglecting the performance and achievement of the development projects aspects, and inadequate budgetary allocation.

Despite the government efforts to improve the efficacy of audit systems in the LGAs through staff capacity building and reorganization of Internal Audit Units. The key emerging questions are how effective are the LGAs audit units in managing the public funds? What factors constrain the performance of audit units in the LGAs in Tanzania? This study was set to examine the effectiveness of existing audit units in Musoma municipal and district councils and propose mechanism to strengthen the capacity of audit units to control and minimize mismanagement of public fund in LGAs. Specifically, it evaluates the performance of the internal audit unit in ensuring the effective financial management following the amendment of Public Finance Act of 2004 and establishment of Internal Auditor General Division on June 2010.

1.4 Objective of the Study

The overall objective of this study was to assess the efficiency of internal audit units in the control financial management in LGAs.
1.4.1 Specific Objectives of the Study

To address the major research goal, the study was guided by the following research objectives:

1) To assess the independence of the Internal Auditors in performing their duties in the selected study areas.
2) To assess the capacity of the Internal Audit in performing their duties in the selected study areas.
3) To examine the extent to which the council’s management acts upon Internal Auditor’s recommendations in the selected study areas.
4) To assess Internal Auditors in the study areas comply with the required standard as stipulated in the International Professional Practices Framework (IPPF).

1.4.2 Research Questions

The study was guided by the following research questions:

1) To what extent are the Internal Auditors independent to perform their duties in the selected study areas?
2) What is the capacity of the Internal Audit in performing their duties in the selected study areas?
3) To what extent does the council’s management acts upon Internal Auditor’s recommendations in the selected study areas?
4) To what extent are Internal Auditors in the selected area comply with the required standard as stipulated in the International Professional Practices Framework (IPPF)?
1.5 **Significance of the study**

The findings of this research study are significant in a number of ways. First, the study has revealed a number of weaknesses in the Internal Audit Units in the municipals and district councils thus the study point out critical areas that require immediate interventions to rectify the anomalies. Second, the study uncovers new knowledge in the area of Internal Audit service within the LGAs thus providing a case study for other LGAs to learn from. Third, the findings of the study will facilitate informed decision making concern resource allocation in LGAs. Lastly, the findings of the current study are crucial in devising monitoring and evaluation mechanisms not only in the studied case but also in other LGAs in Tanzania.

1.6 **Limitation and Delimitation of the Study**

Research acknowledges that, large population is more advantageous especially in generalisation of research findings. However, time set to accomplish the study, human and financial resources compelled the researcher to select a single case study. Thus the Mara region was selected to present other regions in Tanzania, while Musoma Municipal and Musoma district council were selected to represent the LGAs.

A number of limitations were experienced in this study; however, they did not alter the quality of collected data. First is the reluctance of some of Musoma District Council Officials to provide some information. Second, the research methodology adopted by the study. That is, the use of interview technique to collect data took a lot of time thus affected the time set to accomplish the study. Lastly, access to some key audit documents in the NAO and the regional level.

To redress the limitations the research resorted to the following; 1. Increase the number of interviewee to other related partners such as external auditors (NAO) as well as internal auditors of Regional Administrative Office (RAS) whose are directly concern with the Local government. 2. Use of documentary reviews and participant observation
methods to supplement interviews. 3. Use of covering letter to introduce the study and self introduction as well as to seek for informed consent of the interviewees.

1.7 Summary of Chapter One

This chapter presented the general background to the current study. It addressed issues related to auditing in general and specifically auditing practices in the Local Government Authorities in Tanzania. The chapter further articulated the problem statement, presented the research goal, specific objectives and research questions that guided the study. Lastly delimitations and limitations as well as the significance of the study were highlighted. The next chapter reviews the literature that supported this research.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter presents related literature that address key research question of the current study. A review of both online and print resources was carried out throughout the study to address general issues related to management but with a special focus on financial management. Specific attention has been on auditing systems and internal auditing systems in LGAs. The first section of this chapter underscores significance of audit systems in organisations. The second section provides clarity of key concepts that relate to financial management systems. A conceptual framework and research model is then developed from theoretical review in the third section. The fourth section synthesises the reviewed literature to identify research gap. The chapter ends with chapter’s summary.

2.2 An Overview of Auditing Systems in Organisations

Auditing had become an integral part of most organisations especially with the growth of size and operations of businesses. The need for Auditors in organisations regardless the nature of the business entity has in fact been geared by the growth of number of employees and operations which sometimes necessitate organisations to operate from various locations. On this basis, a need for specialists to examine procedures and operations of various units to facilitate control and management of financial resources becomes inevitable. Auditors’ role is to verify whether or not the financial statements of an organisation or institution reflect the true and fair view (Gupta, 1989).
2.3 Conceptual Clarity

2.3.1 Conceptualising Internal Audit

Internal audit is an additional safeguard for proper financial control in the public sector (Badara, 2012). The Internal Audit is responsible for the audit of all financial transactions by carrying out a continuous examination of all accounting books and records maintained in the organisation with a view to checking or detecting frauds and correcting errors. It is concerned with the examination of the system and procedures in place so as to ensure their conformity with the regulation as well as the adequate system of internal control.

Internal Auditing is an independent, objective assurance and consulting activity that adds value to and improves 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 (Institute of Internal Auditors, 1999).

An Internal Audit is part of the management team compared to external auditors who are from outside the organisation (Sawyer, 1996). They play independent appraisal function established by the management of organisations to review of the internal control system (Millichamp, 2002). By standards the Internal Audit unit is expected to be independent in terms of budget, programme of work, reporting mechanism, and staffing to be able to perform their function effectively (Kagashe, 2008).

2.3.1.1 Scope and Objective of Internal Auditing

According to URT (2009) order no 13 and 14, states that an Internal Audit unit shall be responsible for carrying out an independent appraisal of internal control within the local government by examining and evaluating the effectiveness of such control. This means that, internal auditor’s objective is to protect the assets and interests of the local
government through a process of continuous examination of its activities, securing a continuous operation of a sound internal control system within each department, reviewing, and where necessary, making recommendations for improvement of the system, controls and procedures in the local government. Also it stated that; the internal auditor shall in collaboration with the accounting officer prepare annual work plan including annual risk based plan and submit to the controller and Auditor General, Minister responsible for local government and Regional commissioner.

Millichamp (2000), however, identifies the common areas covered by internal auditing which include among others; reviewing the internal control system with a view to determining its adequacy and effectiveness, reviewing compliance with government regulations and accounting rules and standards, checking compliance with policies and procedures, safeguarding the asset of the organisation so as to prevent and detect errors, frauds and theft, appraising the effectiveness and efficiency in the use of resources, ensuring that the goals and objectives of the organisation are attained, making recommendations on improvement in the operation of the organisation, acting as in-house consultant on control matters. On the other hand, he stipulate the essential elements of internal audit such as independence, staffing, training, relationship, due care, planning, controlling and recording, system control, evidence and reporting. It can be from these essential elements, no way the internal audit can perform their duties effectively.

2.3.1.2 Internal Audit at Local Government Level

Internal audit is stipulated by the (URT, 2009) Order No. 13 cited section 48 of the Local Government Finance Act that every Council shall employ its own Internal Auditors who shall work closely with the Heads of Departments and shall report directly to the accounting officer. In this order Internal audit is an independent appraisal of internal control within a LGA. The main function is to examining and evaluating the effectiveness and adequacy of internal control.
2.3.1.3 Internal Audit and Management

It is important to note that; the nature and scope of operations and the status of an Internal Auditors is determined by the Management and differs among organisation according to the needs and perceptions of different managements (Millichamp, 2002; Gupta, 1989). The management is responsible to lay ground of strong internal audit unit so as to be effective toward enhancing financial management. The absence of the Management support will result to ineffectiveness of the internal audit unit.

On the other hand, Badara (2012) citing Thompson (2003) argues that internal auditing should not be restricted to financial transaction only. He believes that internal auditors can equally assist management by ensuring that adequate financial and management controls have been implemented and are operating effectively or by identifying the weaknesses in such system and making recommendations toward their improvement which include among the others; with internal audit, errors are more likely to be discovered in their early stages. On the other hand existence of assets is verified so as to protect the assets of the organisation, errors in account can be corrected early once detected by the internal auditor, it acts as moral influence on the staff and promotes efficiency by compelling the officers to keep their books of account entered up to date, a detailed examination of the financial account submitted by contractors is facilitated, cash disbursement, such as for wages and salaries, may be checked before they are cashed.

Internal Auditor’s function should be independently in order to review properly internal control system regardless they are established by the Management of an organisation by examining, evaluating and reporting of all adequate information as a contribution to the proper, economic efficient and effective use of resources (Millichamp, 2002). URT (2009) stipulates that the accounting officer is responsible for the establishment of an
effective internal audit unit for the appraisal of the internal control system and ensure that the internal audit is functioning properly.

2.3.2 Understanding Financial Management

Financial management is among key functional area which is used to evaluate the performance of the LGA. Financial management means the entire of managerial efforts are devoted to the management of finance, both its sources and uses of the enterprises (Maheshwari, 2008). Citing Solomon (2000), Maheshwari (2008) argues that financial management concerned with the efficient use of economic resources. In sum it is concerned with the managerial decisions that result in the acquisition and financing credits for the organisation.

Ojo (2009) citing Light (1974), provides a more elaborate definition which refers Financial Management as “a method of showing and ascertaining the financial position of government or business from time to time on how to use funds efficiently”. Thus, financial management is mainly concerned with the proper management of funds towards achieving the organisation’s goals. The finance manager must see that the funds are procured in a manner that the risk, cost and control considerations are properly balanced in a given situation and there is optimum utilization of fund through ensuring maximum operational efficiency by efficient and effective utilization of finances as well as financial discipline in the organisation (Maheshwari, 2008).

Langlois et al, 1998 as cited by Fjeldstad H. et al., (2004), emphasize the element of financial management by saying that “sound financial management system is element of the effectiveness of auditing system”. Thus, the financial management in LGA is evidence of the impact of the strengthening internal audit unit.
2.3.3 Understanding Internal Control System

Management of the organisation has the responsibility of establishing internal control system so that its activities are conducted in an efficient and well-ordered manner (Roger and Simpson, 1990). This means, a good internal control system increases efficiency to the organisation. On the other hand, Millichamp (1996) define Internal Control System as a whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible the completeness and accuracy of the records (Millichamp, 1996).

The Institute of Internal Auditors (1999) defines internal control as “any action taken by management, board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. It is further added that management plan, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved”.

URT (2005), defines Internal Control System as a set of system operated by the Council or unit to ensure that financial and other records are reliable and complete, and that they are adhere to management policies, are orderly and efficient in the conduct of the Councils or Unit’s business, and ensure proper recording and safeguarding of assets and resources.

From the above definitions, internal control is the duty of the management of an organisation. It is established in order to enhance prudent management resources and transparency in the accounting process. It also includes other administrative issues and organisation strategies in order to improve efficiency and productivity.

The internal audit unit shall review the soundness, adequacy and application of internal control for both financial, management and the use of resources. Internal auditor shall appraise the soundness and application of accounting, financial and operational control
in review and report on compliance with financial and operational procedures laid down in any written law, instruction and good accounting practice as defined by the Ministry from time to time in order to ensure sound financial practices (URT, 2009). Review of internal control is a useful exercise as it provides quality information to management on safeguard of assets, reliability of records, promotion of operational efficiency and monitor adherence to policies and directives.

2.4 Empirical Literature Related to the Study

The empirical literature review analyses previous researches related to this study to establish the research gap. Both published and unpublished research papers in print and electronic formats were reviewed to provide secondary information for the current study. The subsequent part provides a review of key studies conducted in and out of Tanzania.

Kagashe (2008) assessed the effectiveness of internal audit services unit in safeguarding public resources in LGAs in Tanzania using Kibaha District Council as a case study. A sample of 25 respondents was used to provide research data. The study revealed that Internal Auditor’s reports lack of sound internal control over the council’s resources as a result of management laxity over instituting, supporting and supervising the internal control is place. The study also revealed that Internal Audit Unit lack independence in carrying out audit functions in terms of reporting mechanism and programme of work. Other problems facing Internal Audit Units identified by this study was lack of financial and material support, lack of management support in implementing audit recommendations, lack of essential expertise, and inadequate knowledge and experience of Internal Auditors.

Mwakyonga (2009) examined effectiveness of auditing in Public sector in Tanzania and used a sample of 32 respondents. The study revealed a number of factors constraining Internal Auditors work to include absence of audit units at lower levels in the public
institutions, the study revealed that auditing sections were situated at the headquarters thus affecting auditing exercise. High running costs and poor communication between the headquarters and the lower level public institutions were among critical factors constraining auditing activities in the public sector.

Kunze (2010) examined the impact of organisation structure on internal audit functions. The study revealed that organisational structure to be a stumbling block to internal audit functions. The further points out problems related to reporting system and urge for changes to enhance internal audit capacities in terms of autonomy and resources. The study also noted reluctance of the management to establish strong internal audit units, mainly due to their low perception on Internal Auditors whom they regard as enemies.

Mulinda (2010) examined the role of internal audit in risk management and revealed that most of internal audit personnel lacked basic Information Technology (IT) skills; quality assurance machinery was lacking, and monitoring and evaluation mechanisms were absent. Similary, Samagwa (2010) study to explore the efficiency of internal audit in risk management control identified lack of internal audit charter and performance gap of the internal audit department as challenges facing internal auditors on assessing risk management in Tanzania.

Studies conducted outside Tanzania were also reviewed. First, Dessalegn and Yismaw (2007) assessed internal audit effectiveness a case of Ethiopian public sector and revealed that the internal audit office of the organisation studied needed to enhance the technical proficiency of the internal audit staff and minimise staff turnover and foster audit effectiveness. Most of the employees have a short term employment contract and need to upgrade their competencies to enable them to provide high quality services. Internal audit offices do not prepare strategic plans hence leads their recommendations not afforded enough attention. Finally, the study revealed that organisation status and internal organisation of the internal audit office are fairly rated but internal audit’s lack
of authority on budgets reduces its control of resources utilisation as a result scope of internal audit services is limited to regular activities.

Similary, works of Unegbu and Kida (2011) on the effectiveness of internal audit as instrument of improving public sector management in Kano state in Nigeria revealed that Internal Auditors failed to effectively check frauds in the public sector management. Inadequate staffing, presence of small number of public sector audit departments, lack of management support in implementing suggestions in audit reports as challenges facing Internal Audit units in Nigeria. Other challenges included lack of knowledge and experience on the use of computers and computer aided audit programmes, lack of progressive career structure, and lack of conducive working environment of audit staff, inadequate staff remunerations, lack of accountability and lack of professional officeholders as critical challenges facing audit units in the public sector in Kano state.

A more recently study by Badara (2012) on the role of internal auditors in ensuring effective financial control at local government level in Bauchi State in Nigeria, identified lack of proper independent exercise by the internal auditor, understaffing on the side of internal audit unit, weak internal control system and Auditors non-adherence to the general auditing standard as factors that constrain internal auditing in a Nigerian state.

2.5 Synthesis of Reviewed literature and Research gap

A review of the previous literature shows that most of the past researchers have come up with various but similar problems facing Internal Auditing units in the Tanzania public service sector and Africa in general. This implies that, there are common problems facing Internal Auditors in developing countries which require government initiatives to strengthen and build the capacities of the Internal Audit units in alignment with the requirements of URT (2009) order no 14.
This study therefore, is intended to find out how effective are the Internal Audit unit are in managing the finances of the LGAs in Tanzania. The researcher intends to evaluate capacity and efficiency of Internal Auditing units especially with the amendment of the public finance Act of 2004 and establishment of Internal Auditor General Division on June 2010.

2.6 Conceptual Framework and Research Model

The framework (Figure 2.1) illustrates the relationship that exists between internal audit unit and improved financial management systems. Internal audit units have direct relationship with financial management units in local government authorities (LGAs). In this study main variables (in this case, independency of Internal Audit units, staffing and resources, management support, staff compliance to the general audit standards) have direct relationship with financial management units in LGAs. However, these variables cannot stand alone to influence Internal Auditing; they are affected by intermediate variables which are organisation structure, government policies and political environment.

Internal Audit needs to operate independently as an objective observer to provide the Accounting officer with substantial feedback that most people in the organisation cannot or will not provide. Therefore, role and charter of the effective internal audit service unit will depend on the degree of independence of the Internal Audit Unit has in carrying out its responsibilities in order to assist Accounting Officers in achieving their objectives. The independence of the Internal Audit Units is considered as a fundamental principle to Auditing not only in Tanzania, but in other similar units elsewhere. The independence is measured by scope of responsibilities in a given organisation, access to data and information, quality and amount of audit personnel (Buttery and Simpson, 1990). Internal Auditors are expected to be independent in terms of organizational status and personal objectivity which permits the proper performance of their duties (INTOSAI audit standard, 2009).
On the other hand, internal audit executive should have proper qualifications and experience as well as auditing and managerial skills. The unit has to be adequately staffed both in numbers of manpower and quality (INTOSAI, 2009). Thus, organisations have to ensure that staff appointed has appropriate qualification, personal qualities and potentials to perform the intended duties. Internal audit department should be managed by Internal Audit manager who possess accounting, managerial and audit skills. It is the responsibility of organisation to ensure that the internal audit receives training to impart them with skills and expertise to allow them perform a full range of duties.

Internal audit unit are effective instrument to quality control and safeguard of entity’s resources. In order to be effective, Internal Audit units must be supported by the management. The LAFM stipulate that the Director of a Council is responsible for directing the work of the Internal Audit section, receiving their reports and after consultation with relevant Heads of Departments, ensuring recommendations and acted upon and submitted to relevant authorities.

The internal auditor should not be expected to give total assurance that weaknesses do not exist (Supreme Audit Institute Standard No. 88). In order to demonstrate assurance, due care should be exercised by the Internal Auditor so as to show that his work has been performed in a way which is consistent with auditing guidelines. The Internal Auditor should be aware of the relevant laws and regulations which govern his responsibilities. ISA 610 (using the work of internal auditor), state that, due professional care is to state whether activities of the internal audit function are properly planned, supervised, reviewed and documented.

The framework provides a general setup for the whole subject so that each and every objective is fully represented. For example, objective number one of this study is to assess the independence of Internal Audit unit in performing their duties. Objective number two assesses the capacity of the Internal Audit units. Thus, the framework
illustrates all possible factors that are used to assess capacity of the unit. Objective number three assesses the extent to which the management responds to the Audit reports and recommendations. In this context, the framework includes management support as one of the variable. Objective number four assesses compliance of general standard issued by Internal Professional Practices Framework (IPPF), where by variables such as professional due care and audit staff are evaluated.
Figure 2.1 The conceptual framework

Internal Auditing Unit (Independent Variable)
- Carry out special investigation
- Review the accounting system and related control (Advisory function)
- Examine financial and operating information on management (Routine Testing)

Variables affecting internal audit unit

Main Variables
- Independence of internal auditor
- Staffing and resources
- Management support
- Due professional care and Experience

Intermediate Variables
- Government Policies
- Organisation structure
- Political influence (environment)

Improved Financial Management in LGAs

Source: Modified by researcher in 2012 from various sources
2.7 Summary of chapter two

This chapter presented related literature that address key research question of the current study. It paid special attention to internal auditing systems and financial management in the LGAs. The significance of audit systems in organisations has been emphasised and key concepts in the study have been clarified. The main argument raised in these concepts is that independence of the Internal Audit units is critical to ensuring effective financial management in LGAs. It is also argued that adequacy of resources, quality staffing, management support are pertinent to ensuring effective management of financial resources. The conceptual framework and research model is has been developed to address key research variables. The next chapter present the methodology adopted by the study.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology and research design of the study. The chapter includes the research approach, area of study, study population, units of analysis, sample and sampling techniques as well as data collection methods, procedures and instruments employed for data collection.

3.2 The Research Design

A research design is a plan or strategy used to get the expected study results (Kothari, 2004). Research design is categorized into different types depending on the nature of the study which includes case study design, survey design and experimental design. This study employed a case study design because of its flexible for data collection and is less expensive. Mixed data collection we reemployed in order to corroborate research findings. Thus, qualitative and quantitative approaches were used to achieve the study objectivity and validity.

3.3 Area of the study

The study was conducted in Musoma district and Musoma municipal councils. The choice of the two entities was based on various factors among them is the familiarity and experience of the researcher in the study area. The political aspect was another factor which the researcher considered. The Musoma municipal council is under the opposition party (Chadema) while Musoma district council is under ruling party (CCM). Thus, offering a ground for comparison.
3.4 Study Population, Sample Size and Sampling Techniques

3.4.1 Units of Analysis and Population of the Study

The units of analysis for this study were the Municipal and District councils in Musoma. The population included staff from Internal Audit unit, staff in the Accounts Department, Head of Departments, and members of finance committee from both councils. External auditors, members of audit committee and internal auditors from regional and administrative secretary office – Mara (RAS), District Executive Director (DED), District Treasurer (DT), District Internal Auditor (DIA), District Planning Officer (DPLO), District Human Resources Officer (DHRO), District of Water Engineer (DWE), District Medical Officer (DMO), District Education Officer both primary and education (DEO) and the Tanzania Social Action Fund (TASAF) Coordinator were also included in the study. The selection of these persons was based on the fact they are the key players in performing, supporting and evaluating Internal Audit services within the Councils.

3.4.2 Sample Size

The sample size is presented in Table 3.1.

### Table 3.1: Target population as per information obtained on June 2013

<table>
<thead>
<tr>
<th>District/Place</th>
<th>Unity of Inquiry</th>
<th>Staff/Member</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Musoma District</td>
<td>DED</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Head of departments</td>
<td>11</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>Internal audit unit</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accounts department</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finance committee</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Audit committee</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>85</td>
</tr>
<tr>
<td>Musoma Municipal</td>
<td>Head of departments</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Internal audit unit</td>
<td>3</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>Accounts department</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finance committee</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>NAO</td>
<td>External auditors</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>RAS</td>
<td>Internal auditors</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>85</strong></td>
<td><strong>85</strong></td>
</tr>
</tbody>
</table>

**Source:** Research data, (2013).
From the population of 85 staffs (Table 3.1), the sample size was supposed not less than 46 staffs. This sample size was obtained on a following formula:

\[
n = \frac{NC^2}{C^2} + (N-1)e^2
\]

Where:

- \( n \) = Sample size
- \( N \) = Population (85)
- \( C \) = Coefficient of variation (10%)
- \( e \) = Sampling error (1%)

However, due to avoiding errors the planned sample was increased to 60 above of required sample of 46 staffs. The planned sample composes 21 from municipal council, 30 from district council 5 from NAO and 4 from RAS office. Unfortunately, the actual sample was 51 persons (18 Municipal council, 24 District Council, 5 NAO and 4 RAS) because 9 respondents did not return the questionnaires. Table 3.2 provide a detailed sample composition.

<table>
<thead>
<tr>
<th>S/N</th>
<th>Place</th>
<th>Planned Sample</th>
<th>Actual Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Musoma Municipal Council</td>
<td>21</td>
<td>18</td>
</tr>
<tr>
<td>2</td>
<td>Musoma District Council</td>
<td>30</td>
<td>24</td>
</tr>
<tr>
<td>3</td>
<td>National Audit Office</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Regional Administrative secretary office</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Total Sample size</td>
<td>60</td>
<td>51</td>
</tr>
</tbody>
</table>

**Source:** Research data, (2013).
3.4.3 Sampling Techniques

Purposive and simple random sampling techniques were employed in this study. Purposive sampling was used because it is recommended when sample elements and locations are chosen to fulfil certain criteria or characteristics or have attributes under study (Makombe, Temba and Kihombo, 1999 citing Mbilinyi, 1992). This technique was used to select the two cases (i.e. Musoma Municipal and Musoma District Council) and staff in specific departments who possessed skills, knowledge, and experience in Internal Auditing within the selected units. Criteria for selection were as follows:

i) Members of Finance Committee, Audit Committee and External Auditors were selected due to the fact that, they are responsible for controlling and supervising all activities within the council according to the set laws and regulations.

ii) District/Council Executive Directors were selected because they are the Accounting Officers of the council as stipulated in LAFM (2009) order No. 7.

iii) The District Treasurer was chosen because she/he is the Council’s Chief Financial Officer and is responsible for advising the Council on all financial matters.

iv) Internal Auditors were selected because they are key players on ensuring the Council objectives are met.

v) Selected Heads of Departments are Sub-Accounting Officers advising the District/Council Directors on management of all financial matters of the department.

3.5 Data Collection Methods and Instrumentation

3.5.1 Secondary Data collection

Data means facts, opinion and statistics that have been collected together and recorded for reference or for analysis (Mwakyonga, 2009 citing Saunders et al, 2003). The study
used both secondary and primary data. Secondary data are data obtained from the literature sources such as books, newspapers, journals, laws and regulations.

**a) Documentary review**

This method was used to get background information about internal auditing in LGAs. It included are review of previous Internal Auditor’s reports, External Auditor’s reports, and evaluation reports issued by PMO-RALG. Further literature was obtained from the libraries of Mzumbe University, and within the councils.

**3.5.2 Primary Data Collection**

Primary data are the data that are directly collected from the original sources (Krishnaswami et al., 2006 cited in Mwakyonga, 2009). In this study, primary data were obtained through questionnaires, interviews and participant observations.

**a) Questionnaires**

The questionnaire was the major instrument of data collection for this study. The questionnaires were prepared based on conceptual framework constructed from the objectives of the study. Questionnaires are generally used when the respondents are asked the same questions. The questionnaires were administered by the researcher after a brief self introduction and explanation of the purpose of the study to the respective respondent (See appendix 1).

**b) Interviews**

Interviewing is a method of across examination allowing face to face interaction with the respondent so as to get detailed and sensitive information from the respondent. The researcher used this method to supplement of the questionnaires so as to get deep feelings and perceptions of the respondent on the subject matter. For the purpose of confidentiality and comfort each respondent was interviewed alone. Two respondents in
every unit of inquiry were interviewed using structured and unstructured interview schedule (See Appendix 2, section B).

In some instances both types of data were collected during the field visit which was done between December, 2012 and June 2013. Table 3.3 provides detailed timeline for various data collection activities.
Table 3.3  Data collection Timeline

<table>
<thead>
<tr>
<th>S/N</th>
<th>Activity</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Distribution of questionnaires to key informants</td>
<td>1 2 3 4</td>
</tr>
<tr>
<td>2</td>
<td>Data collection</td>
<td>1 2 3 4</td>
</tr>
<tr>
<td>3</td>
<td>Data processing and analysis</td>
<td>1 2 3 4</td>
</tr>
<tr>
<td>4</td>
<td>Conducting of focus group discussion and interview</td>
<td>1 2 3 4</td>
</tr>
<tr>
<td>5</td>
<td>Report writing and presentation</td>
<td>1 2 3 4</td>
</tr>
</tbody>
</table>

Source: *The Researcher, (2013).*
3.6 Data processing and analysis

Quantitative data from the questionnaires were analysed using Statistical Product for Social Scientists (SPSS). The data collected from the councils were rearranged and organised in themes before entered into the computer using SPSS. The rearrangement was necessary because it facilitated easy tracking of key variables information required for this study. This was carefully done so as not affect the original information gather from the respondents. Frequency and cross tabulations were employed to enhance clarity and validity of the study findings. Qualitative data from the interviews were analysed by content analysis. A detailed explanation on data analysis is presented in chapter 4.
CHAPTER FOUR
PRESENTATION OF FINDINGS

4.1 Introduction

This chapter presents the analysis of data collected from the research study. The analysis is based on the independent variables as well as intermediate variables as described on conceptual framework in chapter two.

4.2 Demographic Information of the Respondents

Out of the 60 distributed questionnaires, 51 questionnaires were completely filled and returned making questionnaire return rate of 85%. Table 4.1 indicates the highest questionnaire return was from NAO’s and RAS’s office in Mara followed by Musoma Municipal council. The least was Musoma District Council.

Table 4.1 Responses of the questions

<table>
<thead>
<tr>
<th>S/N</th>
<th>Place</th>
<th>Questionnaire distributed</th>
<th>Questionnaire returned (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Musoma District Council</td>
<td>30</td>
<td>24 (80)</td>
</tr>
<tr>
<td>2</td>
<td>Musoma Municipal Council</td>
<td>21</td>
<td>18 (85.7)</td>
</tr>
<tr>
<td>3</td>
<td>NAO – Mara</td>
<td>5</td>
<td>5 (100)</td>
</tr>
<tr>
<td>4</td>
<td>RAS – Mara</td>
<td>4</td>
<td>4 (100)</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>60</td>
<td>51 (85)</td>
</tr>
</tbody>
</table>

Source: Research data (2013).

4.2.1 Respondents’ work experience

It was important for the researcher to collect information on respondents’ work experiences because of the nature of the problem being addressed. It was believed that lengthy of service of the respondent in Audit unit has an influence on his/her perception
of Internal Auditing practice of the particular entity. The experiences of the respondents are presented in Table 4.2.

<table>
<thead>
<tr>
<th>Years of experience</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 1 year</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>1 to 5 years</td>
<td>17</td>
<td>33.3</td>
</tr>
<tr>
<td>Above 5 years</td>
<td>33</td>
<td>64.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**Source:** Research data, (2013).

The research findings in Table 4.2 show that most of the respondents (64.7%) have more than 5 years working experience in the organisation. Work experiences of respondents between 1 to 5 years are about 33.3% while below 1 year is only 2%. The findings indicate that the population of the study is made up of quite experienced staff. With such a population, the researcher anticipates that, great their vast experiences and expertise will enhance the results of the study.

### 4.2.2 Education Levels of the Respondents

The study also sought the education levels of the respondents which were thought to influence their skills and expertise in the chosen research area. Thus, respondents were grouped into 3 categories with respect to educational qualification i.e. 1. Respondents with Non-degree qualifications (diplomas and certificates), 2. Respondents with Advanced Diplomas and Bachelors, 3. Respondents with Postgraduate qualifications i.e. Postgraduate and Master’s qualifications. The results show that, category with highest frequency was those with advanced diploma or bachelor (60.8%), followed by those with Postgraduate and Master’s qualifications (35.8%). Based on these finding it is clear that the population of the study is made up well educated respondents who are capable of providing relevant information to answer the specific research questions. A detailed presentation of education levels of the respondents is provided in Table 4.3.
Table 4.3  Academic Qualifications of the Respondents

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below non-degree (diploma or certificate)</td>
<td>2</td>
<td>3.9</td>
</tr>
<tr>
<td>Advanced diploma or bachelor</td>
<td>31</td>
<td>60.8</td>
</tr>
<tr>
<td>Postgraduate diploma or Master</td>
<td>18</td>
<td>35.3</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100.0</td>
</tr>
</tbody>
</table>


4.3  Independence of internal auditors

This study aimed to assess the efficiency of internal audit and its contribution to improving financial management in LGAs. In order to evaluate the improvement of financial management in LGAs, the independence of the internal auditors in performing their services was assessed. The assumption is that, if Internal Audit unit lacks independence it becomes difficult for the unit to ensure financial management procedures are adhered to. Questions 6 to 11 were designed to gather information of this aspect (See appendix 2).

The research results show that 10 out of 51 respondents did not respond to question 6, 7 10 and 11 which was requested the audit staffs to confirm if they are performing other non-audit work, involvement in the preparation of action plans, their authority to access documents and their autonomy in reporting. The results are presented in Table 4.4.

Table 4.4  Statistics frequency of independence of internal auditors

<table>
<thead>
<tr>
<th>No</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>IND006</td>
<td>41</td>
<td>1.6341</td>
<td>.73335</td>
</tr>
<tr>
<td>IND007</td>
<td>41</td>
<td>1.3171</td>
<td>.60988</td>
</tr>
<tr>
<td>IND008</td>
<td>51</td>
<td>1.9412</td>
<td>.67563</td>
</tr>
<tr>
<td>IND009</td>
<td>51</td>
<td>1.4706</td>
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<tr>
<td>IND009</td>
<td>41</td>
<td>1.4634</td>
<td>.63630</td>
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</tbody>
</table>

4.3.1 Auditors Independence in Performing Audit Work

Majority (52.9%) of the respondents agreed that Internal Audit unit has independence in performing its work while the remaining (47.1%) were not satisfied with the level of independence of Internal Audit units on performing its duties as summarised on figure 4.1, implying that majority of people are positively in a manner of independence of internal audit on performing audit work.

![Independence on performing audit work](Image)

**Source:** Research Data, (2013).

4.3.2 Staff Performing non-audit work

With regard to performing non-audit works, the valid result shows that 21(51.2%) respondents agreed that Internal Auditors perform non-audit work while 14(34.1%) respondents disagreed and 14.6% were neutral to the question. A combination of those who strongly agreed and the neutral (i.e. 65.8%) imply that in most cases, I not agreeing that Internal Auditors are engaged in non-audit activities of their organisations. The
researcher wanted to check if the Audit staff is satisfied with their engagement to non-Audit work. The results on this aspect are summarised in Figure 4.2.

**Figure 4.2  Auditors’ satisfaction in performing non-audit work**

![Bar chart showing satisfaction levels for non-audit work]

**Source:** Research data, (2013)

Information provided in Figure 4.2 above prove that Internal Auditors participation in non-audit activities impairs their independence in carrying out Audit duties. This fact is affirmed by one interviewee who asserts that:

> At the council, Director assigns Internal Auditor to participate in preparation of annual procurement plan as well as books for local accounting audit committee (LAAC). This includes even taking imprest for those activities.

From these findings it is clear that independence of the Internal Auditors is compromised by their engagement in non-audit tasks. For instance, an Internal Auditor who is involved in the preparations of procurement plans and in the actual procurement
processes will automatically fail to effectively query irregularities in financial management of the particular organization.

4.3.3 Auditors’ Involvement in the Preparation of Audit Plan

In terms of Auditors’ engagement in the preparation of Internal Audit Plan, majority of respondents (75.6%) were satisfied with their level of involvement, 17.1% were not satisfied while 7.3% were neutral. In sum, it can be concluded that majority (75.6%) of respondents were satisfied with their level of participation in the preparation of Audit plans of their respective organisations/ institutions. In other words, the Internal are satisfied with their degree of independence in the preparation of their action plan. Figure 4.3 illustrate the research results.

**Figure 4.3 Preparation of internal audit plan**

![Bar graph showing satisfaction levels](image)

*Source: Research data, (2013)*

4.3.4 Satisfaction with Council’s management of Internal Audit Units Budget

This aspect wanted to check the level of satisfaction of the Audit staff with regards to management of Audit budget by the Council’s management. The research findings report that 54% of the Audit units’ staff was not satisfied, 25.5% were satisfied and a
few (19.6%) respondents were neutral to the question. Combining those in agreement and the neutral, it can be concluded that majority (54.9%) of Audit staff is not satisfied with the manner in which the approved budget for Internal Audit unit is maintained by councils’ management. Figure 4.4 summarizes these results.

**Figure 4.4  Level of satisfaction on maintaining approved budget**

![Bar chart showing levels of satisfaction on maintaining approved budget](image)

On the other hand, the management of the councils believed they have the right to maintain Internal Audit Units’ budgets as the District Treasurer in Musoma District states:

> A council Annual Budget mostly depends on subsidies from the central Government as “Other Charges” (OC) rather than Councils’ own sources due to lack of own sources of revenue. The total annual budget from our own sources is only Tshs 475,000,000/. Therefore, as we are facing financial difficulties the little resources we receive must be centrally managed.

The statement above relate with council approved budget of the internal audit unit on table 4.5 below
Table 4.5  Council approved budget

<table>
<thead>
<tr>
<th>Year</th>
<th>Municipal Council</th>
<th>District Council</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Own source</td>
<td>OC</td>
</tr>
<tr>
<td>2009/10</td>
<td>2,000,000.00</td>
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<tr>
<td>2010/11</td>
<td>3,000,000.00</td>
<td>15,000,000.00</td>
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<tr>
<td>2011/12</td>
<td>4,000,000.00</td>
<td>15,000,000.00</td>
</tr>
<tr>
<td>2012/13</td>
<td>5,000,000.00</td>
<td>18,000,000.00</td>
</tr>
</tbody>
</table>

Commenting on the same a staff from Internal Audit unit comments:

*The Council management does not take seriously the Internal Audit units, such that there are no initiatives to increase revenues. In such a situation effectiveness of Internal Audit unit in such an environment is questionable.*

From these findings it can be correctly said that it is impossible to ensure efficient financial management if Internal Auditing units are under resourced.

4.3.5  Authority of Access to Council’s financial Documents

With regard to Internal Audit unit’s authority ease of access to required documents majority (85.4%) of the respondents affirmed that it is easy for them to get access, 31.7% disagreed and only 7.3% were moderate. Combining those who agreed and the neutrals, it can be seen that majority (92.7%) affirmed that it is easy for Auditors to access required documents when they perform their duties. A summary of these findings is presented in Figure 4.5.
The findings on figure 4.5 are confirmed by an interviewee who states that:

*An internal audit staff has fully access to any documents required when carrying his/ her official duties. But the problem arises from the fact that Auditors are part of the management because they are the members in all Council’s committees, hence they normally know everything even before carrying out the Audit exercise.*

On the contrary, one respondent from internal audit unit informed that:

*The problem of the Council management is their reluctance to provide relevant and adequate information for audit verification. It takes more than 3 days to receive required documents from the auditee department. It is much easier for the External Auditors to access relevant documents because the Auditee normally furnishes all required documents in time.*
Timely and fully access to relevant is pertinent for Internal Auditors accomplishment of their duties. Reluctance to provide required documents impairs effective financial management within the organisation.

4.3.6 Independence of Internal Audit Units in Reporting

Internal audit reports were moderate issued according to the regulation and given standards. Considering general results, the management used to discuss with internal auditors before submission of the final report. The impact of discussion of internal audit report before submission is to create a room of changing valid information. One respondent from Internal Audit unit comments:

The essence of discussion to Audit Report on audit findings is to create good environment in front of political leaders. This normally conducted during private meeting between management as a whole and Internal Audit staff. Therefore, issues which could cause problems to the management are normally eliminated or dropped from the audit report, hence being the consequence of internal auditors being part of the management.
**Figure 4.6  Independence of Internal Audit Units in reporting**

![Graph showing independence of Internal Audit Units in reporting.]

**Source:** Research data, (2013).

Findings presented in figure 4.6 above when transformed into percentage show that majority (61%) confirmed the independence of Audit Units in reporting while 31.7% disagreed. This implies that majority of respondent are positively satisfied with the level of independence the Internal Audit Units have in reporting. This contradicts the level of privacy maintained in negotiation meeting between Internal Auditors and management.

### 4.4 Prepayment Audit in Municipals and Councils

This aspect required respondents to indicate if the Internal Auditors do perform pre-payment audit. Majority, (78%) of respondents confirmed that Internal Audit never participate on pre-payment audit, contrary to only 14.6% who admitted to have been involved in prepayment auditing. In sum, it can be said that Internal Auditors in Councils do not perform pre-payment audit. Figure 4.7 summarizes the research findings.
Inability to conduct prepayment audit by Internal Auditor s within the council is an evidence to lack of adherence to general Auditing standards. The assumption is that conducting prepayment audit and participation on auditing of the same activity is same as auditing your own work. This fact suggests that the Internal Auditors in the study areas did not participate in prepayment auditing.

4.5 Capacity of Internal Audit Units in the Councils

Objective no 2 of this study attempts to assess the capacity of Internal Audit units in performing their duties. Questions 12 – 13 in the questionnaire were designed to test this aspect. In assessment of the capacity of Internal Audit units variables such as staffing and resources were examined. Resources described here are those which are provided by the management to the Internal Audit units. Such resources include; adequate office spaces, office equipment, transport facilities and other resources both human and financial. Questionnaire statistics indicate that that 51(100%) of respondents answered question 12 and 13, while only 14 (%?) responded to question 14. Table 4.5 provides the details.
Table 4.6  Frequency statistics on staffing and resources

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<th>SR013</th>
<th>SR014</th>
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</tr>
<tr>
<td>Std. Deviation</td>
<td>.53211</td>
<td>.39803</td>
<td>.46852</td>
</tr>
</tbody>
</table>

Source: Research data (2013)

4.5.1 Adequacy of Staffs in Internal Audit Units

It has been found that the internal audit unit within the councils are understaffed. The management could not explain to the researcher presence of any strategies to overcome the problem. Figure 4.8 summarises the results.

Figure 4.8  Level of satisfaction of adequate staffs of internal audit unit

Figure 4.8 present the status of staffing in Internal Audit units within the Councils. A good number of respondents (56.9%) reported that Internal Audit units do not have adequate staffs to perform auditing activities as compared to a less similar number (41.2%) who reported adequate number of staffs in the units. A very insignificant number (2%) were neutral to the question. If a combination of the Yes and Neutral is taken (56.9%). It can be said that Internal Audit units in the Councils do not have
adequate number of staff to perform auditing tasks. The key question which emerges here is of why there is scarcity of Internal Auditors in Municipal and District councils.

4.5.2 Resources Provided by Councils’ Management

Resources are generally considered a vital factor for any audit activity. The resources include office facilities, transport facilities, human and financial resources. Previous studies have identified that lack of resources to be among the key factors impeding Internal Auditing activities in the public sector. This study sought to establish adequacy of resource in Internal Audit units within the councils by requesting staff from the audit units to report their level of satisfaction with the available resources. Responses in this aspect are depicted in Figure 4.9.

**Figure 4.9  Level of satisfaction of resources to internal audit unit**

The research findings portrayed in figure 4.9 shows that, majority (84.3%) are not satisfied with the amount of resources provided to them by Councils management, only a few (9.8%) indicated that the amount of resources given by the management is adequate.
4.6 Internal Auditors’ support from Councils Management

The study wanted to establish the level of support the Internal Audit Units receive from the management. This is measured by management’s response to Internal Audit recommendations. Literature and past research has pointed out that, management support to the Internal Auditors is critical to their effectiveness in ensuring financial management. This component is described was included in questions 15 to 23 of the questionnaire. Descriptive frequencies presented in Table 4.7.

Table 4.7 Frequency statistics of management support

<table>
<thead>
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<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
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<td>41</td>
<td>10</td>
<td>1.7073</td>
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<tr>
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<td>0</td>
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<td>1.2439</td>
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<td>51</td>
<td>0</td>
<td>1.5294</td>
</tr>
</tbody>
</table>

Source: Research data (2013)

4.6.1 The council management structure

Question 15 examined whether the management is well structured to facilitate Internal Auditing. A good number (53.7%) of respondent answered “YES” while a less similar number (39%) said “NO” and only a few (7.3%) of respondents did not respond to the question. On average these results indicate that the Audit units’ staff does not attach the existing structure to their performance. The non responding staffs further indicate that
the Audit staff fail to attach the prevailing management structures to their work performance summaries of responses are demonstrated on figure 4.10.

**Figure 4.10  Responses on structured management**

![Bar chart showing responses on structured management](image)

4.6.2 Communication Channel

Communication plays an important role in the performance of any organisation or an entity within the government. Communication between Internal Audit Units and the management is usually in terms of written Audit Reports issued upon completion of Audits. The auditors hold an exit meeting with auditee to discuss the audit findings in the draft Audit Reports. Exit meetings provide an opportunity to resolve questions or concerns of the Auditee on audit findings before the final Audit Report is released. Address the issue of communication of respondent affirms:

*A good communication between Internal Audit unit and auditee is during the verification of management recommendation on internal audit observations. Through this situation there is an interchange of observations before the closing of audit queries and then after release of final report.....*
On this aspect, the research findings indicate that majority (75.6%) of the Audit staff was satisfied with status of communication between the Internal Auditors and Auditee, while fewer staff (22%) indicated to be unsatisfied. Only a few (2.4%) remained neutral to the question. From these findings it is obvious that majority (75.6%) of respondent were satisfied the rate of communication between the Internal Audit unit and the management. Figure 4.11 below summarises these observations.

**Figure 4.11  Satisfaction with regular communication**

![Bar chart showing satisfaction levels](chart.png)

4.6.3 Value the management attach to Internal Audit Units

This research wanted to determine need to determine whether the Internal Audit units are is adequately regarded as key source of valuable information for decision making. The result shows that majority (58.8%) of respondents believe that Internal Audit unit are key sources of valuable information for decision making in the Council, contrary to fewer (29.4%) who did not believe that Internal Audit units are valuable source of information. Only a small number (11.8%) of respondents who were moderate. Figure 4.12 below summarises these findings.
Figure 4.12 Internal audit a source of valuable information

A combination of those who said moderate and YES (70.6%) appears to be in majority compared to those who said NO (29.4%), implying that the majority of the Councils’ staff attach value to Internal Audit Units and regard them as valuable sources of information that facilitate decision making. On the issue of supervision of Internal Audit Units by the management, research findings show that 35.3% answered “yes”, 33.3% said “NO” while 11.8% said moderate. From these results it can correctly be said that on average the Internal Audit units are supervised by the management.

4.6.4 Discussion of Audit Reports by Council Oversight Committees

In order for Internal Audit report to be effective and useful for communication as a source of evidence within the council, it should be tabled and discussed by oversight committees. The oversight committee within the council are council management team (CMT), audit committee and finance committee. The indicators of the improved financial management within the council among others, is due to the evidence of the queries raised in the internal audit report been acted upon by management. The information sources to be reviewed are the minutes of finance and planning committee and CMT.
Responses from the questionnaires reveal that majority (82.9%, 75.6% and 70.6% respectively) of respondents agreed that internal audit reports are discussed by CMT, Audit Committee and Finance Committee respectively. Those who did not agree were 9.8%, 14.6% and 9.8% for CMT, Audit Committee and Finance Committee. A combination of those who agreed and those who were moderate (90.2%, 85.4% and 90.2%) for CMT, audit committee and finance committee appears to be in majority compared to those who did not agree, implying that the majority of the people are positive towards the manner in which internal audit reports discussed by council oversight committee. Figure 4.13 below summarises those observation.

**Figure 4.13** Levels of satisfaction on discussion of internal audit report

<table>
<thead>
<tr>
<th>Percentage</th>
<th>CMT</th>
<th>Audit Committee</th>
<th>Finance Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>82.9%</td>
<td>75.6%</td>
<td>70.6%</td>
</tr>
<tr>
<td>No</td>
<td>9.8%</td>
<td>14.6%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Moderate</td>
<td>90.2%</td>
<td>85.4%</td>
<td>90.2%</td>
</tr>
</tbody>
</table>

4.6.5 Management Recommendations on Audit Reports

This aspect wanted to assess the level of satisfaction of the respondents in relation to the management response to Audit Reports Recommendations. On average, the respondents
are not satisfied with the way the management take up Audit Reports recommendations, in response to this a good number (39.2%) of staff indicated they were not satisfied, 31.4% were satisfied and 29.4% were moderate. These results are illustrated in Figure 4.14

Figure 4.14 Levels of satisfaction on replying internal audit reports

4.7 Adherence of International Professional Practise Framework

This aspect assessed objective four which examined the Internal Auditors’ compliance to International Professional Practise Framework (IPPF) standards in performing their work. To evaluate this aspect question 24 to 30 were included in the questionnaire. Out the 51 respondents, 41 fully completed questionnaires were returned. Among these 10 (19.6%) did not respond to the question as summarises on table 4.8.
Table 4.8  Frequency statistics of professional care and experience

<table>
<thead>
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<th>Std. Deviation</th>
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<td>1.6863</td>
</tr>
</tbody>
</table>


4.7.1  Complying with general standards

In order to make internal auditing effective, there should exist clear policies and procedures against which organisational practises are to be determined. The compliance of policies and procedures will lead to improve quality of audit function. Questionnaires responses and interview evidence reveals that the council’s Internal Audit Units attempt to ensure they are complying with general standard. Responses from interviews affirm this fact as one of respondent from Internal Audit staff in the Musoma Municipal council stated:

Since establishment of IAG, internal audit staffs have been trained more on compliance of policies and international regulation standards hence increase quality of audit functions. This includes the issue of using working papers, preparation of annual working programme especial on verification of high risk area and how to consider five attributes on writing audit report.
In addition, the responses to questionnaires shows that majority (56.1%) agree that audit staffs comply with general standards while 29.3% did not agree. 14.6% say there is moderate compliance of internal auditors to the general standards. A combination of those who are satisfied and those who are moderate (70.7%) appears to be more than those who are not satisfied. This implies that there are more people with positive perception on compliance with general standards. The 4.15 figure summarises these observations about compliance of general standards.

**Figure 4.15  Level of satisfaction of compliance with general standards**

![Bar chart showing level of satisfaction of compliance with general standards](chart)

4.7.2 Quality of Internal Audit programmes

In this context, majority (51.2%) of people agreed that internal audit programme were prepared according to the set standards while 31.7% did not agree and 17.1% they were moderate. A combination of those agreed and moderate (68.3%) of the respondents appears to be more than those who did not agreed (31.7%), implying that majority of the people are positively to the way internal audit programme are prepared as summarised on figure 4.16.

51
4.7.3 Experience of Audit Staff in performing Audit Work

Taking into account the experience to perform audit work, more respondents (75.6%) were satisfied, followed by 14.6% of respondent who were unsatisfied. Those who were moderate satisfied were only 9.8%. A combination of those who were satisfied and moderate respondents (85.4%) appears to be more than those who were unsatisfied (14.6%), implying that the majority of the people are positive on experience of internal auditor to perform audit work. Figure 4.17 summarises those findings.
Training Conducted to Internal Audit Staff

Training is among the important factors to any staff of an organisation as it makes them being current with required regulations. Training may be conducted through on job training short term, or even long courses. Training to organisation's staff will improve among others, the quality of work. It was observed that, council management does not have any training programme for their staffs. This statement is valid due to information given by one respondent who comments that:

*If your department within the organisation has financial difficulties, it is a sign of ending of your education if you’re not educated before. May be if you’re not depending the organisation financial support. This is due to absence of education programme of the council as a whole.*
This is an important statement that opens eyes to the council management there is no reliable training programme, hence most of the staff depends much on their department rather than council as a whole to finance their training.

However, responses on questionnaires distributed on related context, the vast majority of the responses do not believe that there is training conducted to internal auditors (48.8%), followed by 43.9% of those who believe while 7.3% of the respondent said moderate. Figure 4.18 illustrates the findings.

**Figure 4.18  Level of satisfaction on training**

A combination of those satisfied and moderate (51.2%) appears to be more than those who were not satisfied (48.8%), implying that majority of people are positively satisfied with training conducted to internal audit staffs contrary with those answered above. This may be due to many training conducted by IAG since establishment of internal auditor division. This approved by one of internal audit staff through interview who states that:

*The establishment of the division has increased training at the higher level only. But in the lower level nothing has been conducted.*
4.7.5 Code of Ethics for Internal Audit Services

Code of ethics is essential part for internal audit services when performing the audit work. After establishment of internal auditor general’s division, the code of ethical principles for internal audit services in Tanzania was introduced. These include among others, integrity, objectivity and independence, political neutrality, conflict of interest and confidentiality. This implies that internal auditors of any organisation should adhere to these principles as observed by respondents on questionnaires distributed. The results indicate that 65.9% agreed that internal auditors adhere to the code of ethics. 19.5% said that internal auditor did not adhere to code of ethics while 7.8% said they are moderate. Combinations of those who were satisfied and moderate (73.7%) appear to be more than those who were not satisfied (1.5%). This shows that majority of people within the councils are positively satisfied with the internal auditors on their adherence to code of ethics. The figure below analyse those observations.

**Figure 4.19 Existence of code of ethics**

![Chart showing existence of code of ethics]

4.7.6 Quality assurance programme

Quality assurance programme is a self-assessment through which is used to give performance indicator for the quality of work. The quality assurance programme (as
performance indicator) aimed to improve provision of quality work hence assures achievement of intended goals within the council. The absence of quality assurance programme can lead to internal auditors not performing quality work. It was observed that the council’s management does not maintaining self-assessment planning programme as directed by IAG. The results shows that in total 53% of the people claims that internal auditing does not have a quality assurance programme within the council, 39.2% answered yes while 7.9% chosen moderate. A combination of those who declared presence of quality assurance programme and moderate responses (47%) appears to be less than those who claimed absences of quality assurance programme (53%), implying that the majority of people are did not agree that there is a quality assurance programme. To be more accurate figure 4.21 shows summarises the result.

**Figure 4.20  Existence of quality assurance programme**

![Bar chart showing the existence of quality assurance programme](chart.png)

**4.8  Factors influencing the success of internal audit unit**

When asked to give their view on how internal audit unit could be strong on performing their duties, a wide range of factors were provided in Table 4.8. There were about 14
factors in total. These can be classified into two major groups; internal factors constituting 52.9% of all factors suggested by respondent and external factors which constitutes 47.1%.

The most prominent internal factors as per respondents are presence of adequate and qualified staff (17.65%) and full independence (9.80%), followed by advisory activities and timely production of internal audit reports. One the other hand, external factors range from adequate resources and enough access (15.69%), followed by capacity building and financial and other support (5.88%).

Table 4.9 Factors strengthen internal audit unit

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</tr>
<tr>
<td>2</td>
<td>Adequate resources</td>
<td>8</td>
<td>15.69</td>
</tr>
<tr>
<td>3</td>
<td>Enough access</td>
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<td>15.69</td>
</tr>
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<td>4</td>
<td>Full independence</td>
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<td>Competence</td>
<td>1</td>
<td>1.96</td>
</tr>
<tr>
<td>13</td>
<td>Documentation of audit reports</td>
<td>1</td>
<td>1.96</td>
</tr>
<tr>
<td>14</td>
<td>Project audit</td>
<td>1</td>
<td>1.96</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>51</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research data (2013).
4.9 Factors hindering the success of internal auditing

In this study, factors which inhibit the success of internal auditing were also considered to be the ones inhibiting the effectiveness of financial management in LGAs. When respondents asked to indicate weakness of the internal audit unit, the different responses were considered as summarised in Table 4.9.

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>FREQUENCY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of staffing and resources</td>
<td>13</td>
</tr>
<tr>
<td>Depend much on management</td>
<td>10</td>
</tr>
<tr>
<td>Budget limitation</td>
<td>10</td>
</tr>
<tr>
<td>Inadequate support to organisation</td>
<td>8</td>
</tr>
<tr>
<td>Lack of technical knowledge</td>
<td>4</td>
</tr>
<tr>
<td>Lack of working environment</td>
<td>3</td>
</tr>
<tr>
<td>Unrealistic report</td>
<td>2</td>
</tr>
<tr>
<td>Absence of risk management</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
</tr>
</tbody>
</table>

Source: Research Data (2013)

An examination of Table 4.9 indicate that the major factors that hinder success of internal auditing are lack of staffing and resources (25.49%), budget limitations and dependence much on management (19.61%), inadequate management support and poor working environment (21.57%). These factors inhibit the ability of Internal Auditors to work in their full capacity. Management support entails follow up on Internal Auditors’ recommendations.
When some of finance committee members asked to mention problems facing internal auditors, those from Musoma District Council affirmed that internal auditors normally fear to produce a realistic report to the management because they are under the authority of the Council director administratively, hence they suggest to exclude internal audit unit from management team to internal auditor general office, but this is different to Musoma Municipal Council. May be it is because of political environment difference between the councils.

On the other hand most of audit committee members and external auditors of NAO said that internal auditors lack technical audit expertise and inability to efficiently perform fraud assessment and project audit. This is mainly caused by absence of risk management programme within the council.
CHAPTER FIVE
DISCUSSION OF THE FINDINGS

5.1 Introduction

This chapter discusses the key research findings and is organised in alignment with the stipulated research questions. It relates the findings of the field research with the previous empirical studies conducted in the same research areas and identify aspects which corroborates or differ with the current research findings.

5.2 Autonomy Councils’/ Municipals’ Internal Auditors

The research findings presented in the previous chapter have indicated that Internal Auditors in the study area lack autonomy in performing their work. Their level of independence is affected by many factors among them is their participation in non-audit duties in the municipals and councils. The common practice in the study areas is that Auditors are part of the management (in this case the Auditee), this to a large extent impairs their objectivity when it comes to performing Auditing functions. Their involvement in the managements’ financial conducts impairs their ability to work by auditing principles. Internal Auditor’s involvement in Councils’ committees and negotiation meetings greatly affect their autonomy especially when it comes to auditing queries.

Another aspect which implies lack of autonomy is the provision of inadequate funding to the Internal Audit Units. Overdependence to Councils’ scanty resources affect the units in terms of staffing, office facilities and equipment consequently their work performance. In efforts to overcome this problem, central government for the fiscal year 2012/13 increase OC fund up to18M to all councils, but financial reports indicate that the fund is not fully disbursed as summarises on table 5.1. That means still the internal
audit unit depends on financial support from organisation, hence, independence of internal audit unit were and still not adequate.

### Table 5.1 Utilisation of budget

<table>
<thead>
<tr>
<th>Year</th>
<th>Total approved budget</th>
<th>Total actual received</th>
<th>%</th>
<th>Total approved budget</th>
<th>Total actual received</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/10</td>
<td>7,000,000.00</td>
<td>3,500,000.00</td>
<td>50.00</td>
<td>7,000,000.00</td>
<td>2,000,000.00</td>
<td>28.57</td>
</tr>
<tr>
<td>2010/11</td>
<td>18,000,000.00</td>
<td>9,500,000.00</td>
<td>52.78</td>
<td>16,000,000.00</td>
<td>7,000,000.00</td>
<td>43.75</td>
</tr>
<tr>
<td>2011/12</td>
<td>19,000,000.00</td>
<td>13,000,000.00</td>
<td>68.42</td>
<td>15,000,000.00</td>
<td>9,000,000.00</td>
<td>60.00</td>
</tr>
<tr>
<td>2012/13</td>
<td>23,000,000.00</td>
<td>16,000,000.00</td>
<td>69.57</td>
<td>18,000,000.00</td>
<td>11,000,000.00</td>
<td>61.11</td>
</tr>
</tbody>
</table>

Source: Councils’ budget plan

Although some initiatives have been taken to correct problem of independence within the organisation, still internal audit unit is yet to enjoy fully independence. That means initiatives taken without understanding the core issues leads to difficulties in overcoming the problems. Other aspects which affect Internal Audit Units independence include inadequate staffing, lack of political will, in conducive working environment, and irregular and insufficient training.

#### 5.2.1 Reasons for Understaffing of Internal Audit Unit

##### a) Poor strategic planning

Strategic planning plays a significant role of any organisation to contain unforeseen events within the organisation. The proper way to overcome any obstacles within the organisation is to have good strategic planning. The council management of most LGAs including Musoma DC and Musoma Municipal lacks plans to overcome shortage of key staffs within the councils. The absence of enough key staffs leads to most of departments to be under the acting heads of departments. Regarding the focus group discussion and interview, majority (75%) said that the council did not have any adequate strategy to overcome the problem.
b) **Lack of political will on government side**

Political environment plays a big role on organisation to have enough resources within the organisation. A good political environment will have a positive impact to acquire adequate staffs within the council. The council has shortage staff due to intervention of professional work by the political leaders. This is valid as far as the result from Musoma District Council is concerned. This can be referred to interview of one respondent from head of department, who said:

> Most of our council leaders are not working for the benefit of society. They are working for their personal interest. For instance, some years back they frustrated keys staffs for unnecessary reasons as a result staffs are reluctant to produce their expertise to their leaders. Therefore shortage of staff still unsolved in our council as most people fear of working with political leaders.

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**c) Environmental condition**

In order to have adequate staffs in an organisation, there should be clear environmental conditions for organisation practices to be effective. Regarding to environmental condition, majority (88%) of interviewee said that; internal auditors prefer to work in a good environment. That is why at municipal councils especially in most of cities, there are more than 5 staffs. Therefore, most of the councils in rural areas facing lack of staffs.

### 5.2.2 General discussion on capacity of internal audit in a study area

Capacity of internal audit unit involves the present number of staffs and different resources in kind (material resources). A council with adequate and enough resources on both staffing and material helps to increase audit effectiveness and hence, contributes positively to ensure effective financial management. At Musoma Municipal
Council there are 3 staffs while at Musoma District Council there are only 2 internal audit staffs. Since the councils has inadequate resources and are under staffed, internal auditors cannot ensure effectiveness in financial management. This is valid due to the observation obtained from the respondent concerning the question described their satisfaction of adequate staffing and resources.

Internal audit unit does not have its own material resources such as transport facilities and office. Material resources and other material support are essential in ensuring effectiveness of financial management. The unit has no own office, the audit unit staffs always use offices of other departments on performing their duties. The result shows that internal audit unit at Musoma Council tends to use water office for more than 5 years now. However, at Musoma Municipal Council do not have separate office for their audit work, they tend to use accounts office.

On other hand, the unit lacks own vehicle for projects audit, and thus, depend transport from other department. Lack of transport facilities could lead to delay in implementation of unit’s programme as they wish, therefore, impair independence in performing audit functions; hence role of the unit in ensuring effective financial management cannot be achieved.

5.3 Management support to Internal Audit Units

5.3.1 Organisational setting

Organisational setting includes status of internal audit unit in the council’s organisation structure and internal audit reporting structure. The internal audit function of an organisation should be given high status in the organisation structure to enable better communication with senior management and to ensure independence of internal audit from the auditee. Independence is an essential principle in providing effective internal audit service to ensure financial management. The internal audit unit of the councils is operating in such a way that has direct access to the management. This provides
theoretical independence of internal audit unit, meaning that the role of internal audit depends on the integrity of Accounting Officer rather than organisation structure. The results shows that, the Council director of Musoma municipal council meets every week with head of internal audit unit for discussion on financial irregularities while at Musoma Council there is no such things rather than waiting for drafts of quarterly reports for discussion. This situation contrary to study conducted by Kunze (2010) when stated that, organisation structure is a stabling block on internal audit function and therefore fail to fulfil its roles.

Reporting system is another sub factor relating to the organisational setting. The internal audit unit in all the councils (MMC and MDC) reports direct to the accounting officer (Council Director) who is also responsible to strengthening internal control system in organisation. Again, accounting officer is responsible for all administrative requirements of all staffs including internal auditors within the organisation. This means any disciplinary action may be taken by council director to the employee. With reference to the findings, internal auditors have failed to provide effective financial management to the organisation for failing to expose the council director for his/her participation in one way or another for financial irregularities. Their failure is due to fear of punishment from the employer (Accounting officer). This statement relates to the statement developed by one of finance committee member of Musoma Council that accounting officer has power to drive the internal auditor during performing their duties so as to ensure his/her personal interest are taken into account and reflected in the final draft. This is due to the fact that, accounting officer has power to take disciplinary actions to the staffs. Within such circumstances it could be very difficult for internal audit unit to be committed to the organisational goal on ensuring effective financial management.

Therefore, the above observations shows that organisational structure is clearly identified the internal audit function and communication channel to the management.
There is no problem on organisational structure. Management itself has direct impact on internal auditing to improving financial management.

5.3.2 Communication between Internal Audit Units and management of the Councils

Communication between management and internal audit unit are taking place throughout the period of fieldwork, during provision of drafts and responses of management. During the period internal auditor hold an exit meeting so as to establish their findings. During the meeting there are opportunities to resolve questions and other audit findings before the final audit report is released. Exit meeting consist all council management team which comprises head of departments within the respective council.

The reports highlight some observations and other financial irregularities obtained by internal auditors. This helps the management to obtain areas that need improvement. The audit reports are addressed to Council Director for action, but copies are not provided to other head of department rather than those authorised on regulations and circulars. There is delay on replying internal audit report, contrary to the majority of responses (60.8%) who were positively satisfied with the time of replying of internal audit reports by management. This is due to the fact that respondents were only considering report submitted to the committee rather than time and dead line on report. This statement is valid due to quarterly report whereby every report has outstanding matters, which shows reluctance of management to respond on internal audit findings and recommendations. For example, 3rd quarter of internal audit report at Musoma District council shows that out of 15 queries issued only 5 queries were fully acted upon and closed. Therefore, efficiency of internal auditing and its contribution to improve financial management was affected by delay on replying audit reports.

Communication channel at Musoma District council between management and unit as whole were not much properly observed as compared with Musoma municipal. There is a gap of communication between council’s management and internal audit unit. This is
due to absence of timetable between management of council and internal audit staffs on financial management and all matters that hinders efficiency of internal audit. Absence leads poor efficiency to the unit with assumption that management itself does not accepts services provided by the audit unit.

5.3.3 Councils’ Supervision of Audit Work

Supervision of audit work is another way of ensuring efficiency of internal audit and its contribution to improving financial management within the organisation. There are different ways to supervise the audit work, among others, is follow up of agreed work plan between management and the unit. The internal audit unit usually prepare annual work programme and this programme should be approved by management before sending to NAO. This process has been supported by LAFM (2009) which state that, action work programme should be prepared by council director with assistance of internal audit unit. The audit report issued to the management on quarterly basis, but there is no evidence of supervision made by management on internal audit reports whether covered the intended objectives or not. The management only consider what is written on the audit reports regardless whether covers intended objectives or not. The lack of common supervision between internal auditor and management may lead the internal auditor to address unrequired findings for certain period.

5.4 Internal Audit Units Compliance to the General Auditing Standards

5.4.1 Internal Audit Charter

After establishment of internal auditor general’s division, IAG has been framed the charter for internal audit services in the public sector. This charter is in compliance with International Standard for the Professional Practice Framework (IPPF). Internal audit charter consist among others, purpose of internal audit services, responsibility, authority, scope of internal audit services, accountability and reporting structure. The councils still not customise this internal audit charter issued by IAG. Absence of
internal audit charter is behind on ineffectiveness of auditing services within the organisation on performing their audit work.

Management of the council is responsible for the implementation of the charter with assistance of internal audit unit. But still internal audit unit is yet to implement it. This to contrary with respondents views as indicated on questionnaires on which majority (73.2%) said that internal audit unit has established an internal audit charter. This deficiency is due to the fact that the charter issued by IAG so as to be customised by individual council. Those agreed only considered the charter issued by IAG and those not agreed argued that internal audit unit should have their own charter basing on their environment.

5.4.2 Internal Auditors Training and Development

As it is observed, councils has no established training policy; they have neither conducted training needs assessment nor establishing training programme to cover individual and organisational requirements. It is a routine for management to allow staffs going for training, but not focused to meet organisation needs. It is a duty of the management to have a strategic plan showing clearly interested parties to be offered. Only development of human capital as per internal audit requirements and the organisation in general through training, seminars and other short courses will increase individual capabilities and competence which might give return to organisation by ensuring effective financial management.

Training and development to internal audit unit staffs should be proactive and reactive, implying that those consider before and after problem occurrence respectively. Therefore management of the councils and other LGAs in Tanzania should prepare their internal auditors to prevent financial irregularities in high risk areas and other technical audit within the council. High risk areas within the councils normally differ from one organisation and to another, therefore without training and development to internal audit unit staffs the effectiveness of financial management will be questionable.
No matter how well the internal auditor has planned and performed the audit or how significant the findings, the report may become ineffective for management unless the audit report highlight technical issues on ensuring effectiveness of financial management. Technical issues on value for money audit, project audit and mismanagement of public funds should be addressed in audit report. Since of lack of technical know-how among internal auditors lead much concentration to be on transaction audit, hence project audit and value for money verification were not considered or covered properly.

On the other hand, the changes of legal environment of financial accounting treatment influenced the need for training to internal audit unit. Nowadays, there is a frequency change of accounting system and regulations of accounting treatment so as to ensure transparency of financial management, such as using of Epicor and International Public Sector Accounting System (IPSAS). But internal audit unit staffs were not trained on those issues. The problem is observed as lack of priorities within the organisation.

5.4.3 Internal Auditors Adherence to Available Code of Ethics

As said in chapter 4 (Para 4.5.5) the code of ethics is an essential part for internal audit services. This is due to fact that it promotes the ethical culture in the profession of internal auditing. When performing internal auditing, all copies of documents before submission as final, draft reports are kept for future evidence. The draft report is obtained from the reliable evidence on original sources.

On the hand, internal audit unit depend on financial support from individual department (auditee) on performing audit work. It was observed that if there are activities for certain department, that department is responsible for supporting audit activities, such as facilitate all necessary requirements for auditing. Actually this is contrary to code of ethical principle as given by IAG to all public sectors because of conflict of interest between auditors and auditee.
Professional competence of internal auditors was questionable in terms of professional knowledge and skill in the performing audit services. At Musoma Municipal council out of 3 internal audit staffs only 1 has professional qualification (CPA) while at Musoma Council all 2 staffs had not obtained CPA. Professional development enables auditors to develop and maintain the capabilities to perform competently within the professional environment (Code of ethics for internal audit services in public sector, July 2012). However there are no strategic measures taken by management to attaining professional competence of internal audit unit. Due to lack of professional competence to internal auditors, some of the members of management team have been reluctant to accept the audit findings claiming that the auditors had n professional expertise, hence objective of ensuring effectiveness of financial management were not much observed. They much respond to the external auditor’s reports queries rather than internal auditor report queries.

5.4.4 Organisation Performance

The results indicated that councils do not maintaining departmental organisation performance. The employer agreed that without organisation performance especially to internal audit unit, financial management cannot be satisfactory. This is related to the self-assessment planning memorandum manual known as Quality Assurance and Improvement Program (QAIP) issued by IAG as a periodic assessment of audit and consulting work performed by the internal audit activity.

Internal audit unit performance should be measurable and focus on prior objectives agreed between management and staffs within a certain period of time. It is through this situation where effectiveness of financial management will be evaluated. Due to absence of quality assurance program at the councils has made internal auditor perform according to their perception as sometimes their action plans were not cross examined if are really implemented.
CHAPTER SIX
SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This chapter presents a summary of key research findings, conclusions drawn and recommendation. It also points areas which require further research. The conclusions are presented in four sections with reference to the main research objective. The overall objective of this study was to assess the efficiency of internal auditing and its contribution to improving financial management in LGAs in Tanzania. The first section, present summary of research findings while second section draws the conclusions of the study. Recommendations and areas for further study are presented in the third and fourth sections respectively.

6.2 Summary of Research Findings

The summaries of findings are based on the analysis of information presented in chapter 4 and 5. In assessing the efficiency of Internal Auditing and its contributions to improving financial management in LGAs, some necessary aspects for the internal auditing were examined; including independence of internal auditors, staffing and resources, management support and professional development and professional experiences of the Internal Auditors. The study revealed that Internal Audit Units in the selected areas lack autonomy mainly attributable to inadequate funding, involvement of Internal Auditors in non- audit work, absence of staff development programmes, absence of internal audit charter and quality assurance programme as well as inadequate management support.

Independence of internal auditors is manifested in budgetary processes especially disbursement, utilisation and management of Audit Units finances. The study noted that the Councils’ management are the overseers of Internal audits budgets and the amount
of units’ funding depends on the management decisions. However, the Internal Audit units have full autonomy in preparation of annual work programme and access to the required documents.

With regards to the capacity of Internal Audit Units, the study reveals that the Councils do not have adequate Internal Audit staff to enable them perform their functions timely and effectively. It was also revealed that the major auditing activities the Internal Audit Units perform are transactional audit rather than performance and achievement of the projects. This scenario is contributed by absence of adequate manpower and other facilities and resources such as transport, hence their inability to visit the various projects.

On the management reaction to Internal Audit recommendations, the study revealed that the management response to recommendations of the Internal Auditors report is very minimal. This is despite that fact that the audit reports are generally well prepared with fully separate highlight of the status of findings and attached audit evidence. It was however, revealed that, majority hold the belief that Internal Audits Units are reliable sources of valuable information for financial decision making, although the Councils’ management fail to provide good working environment for the units.

With reference to compliance to regular audit standards, it was noted that Internal Audit reports as well as Internal Audit programmes are prepared according the set standards issued by the authorised organisations. It was also remarkable to note that, despite the challenges faced, Internal Auditors adhere to available code of ethics; have reasonable experience, and relevant qualification required of the Internal Auditors thus likelihood for their effective performance if given adequate support by the Councils’ management.

Another finding was that the management of the Councils have quality assurance programme for internal audit activities. This in fact, affects Internal Auditing
effectiveness to improve financial management by undermining the Unit’s ability to prepare realistic and adequate audit evidence.

One final observation was that the management of the Councils have not implemented Internal Audit Charter. The internal auditor general’s division has framed and issued the charter for internal audit services in all public sectors, but to the end of field work of this study, the selected councils had not customised this charter. Absence of internal audit charter is behind the ineffectiveness of auditing services within the Councils.

6.3 Conclusions

This study assessed the efficiency of internal audit unit and its contributions to improving financial management in local government authorities. The study specifically evaluates the performance of internal auditing in ensuring financial management following the amendment of Public Finance Act, 2004 and establishment of Internal Auditor General Division, using a model developed for the analysis. The model consisted of four independent variables: independence of internal auditors, staffing and resources, management support and due professional care and experience, in which all specific objectives were analysed.

The first objective of the study was to assess the independence of the internal audit unit in performing their duties in study areas. The findings of the study revealed that the Internal Audit Units of the Councils need to be fully independent especially for the case of budget approved by the management. The lack of authority on budget reduces its control of resources utilisation. It was seen that there is independence of internal auditors in terms of preparation of action plan as well as access to the documents as they plan, but all those are affected by lack of authority on budget as planned.

The second objective was to assess the capacity of the internal audit unit in the study areas. Under this objective, two variables were considered; number of unit staff and
material resources given to the unit by the management. According to the descriptive analysis result, the scope of internal auditing is limited to some extent. This is due to understaffing and limitation of resources given by management. Extending the scope of audit work by increasing range of activities audited would improve financial management.

The third objective was to assess the extent on how management of study areas acts upon the internal auditor’s recommendations. This objective was tested into different factors such as organisational setting, communication network between internal audit unit and management as a whole and discussion of internal audit reports by oversight committees.

However, management’s commitment in providing greater attention to internal audit recommendations and ensure there is quality assurance programme should be observed so as to increase effectiveness of internal auditing for better financial management. The absence of management support may cause less effort of internal auditors in their engagements. In addition, the absence of training to internal auditors may affect their competence to enable them to provide the expected high quality services.

The study, therefore, has shown that internal audit on LGAs needs improvement in the areas of management support especially of follow – up of recommendations issued by internal auditors and staffing and resources given by management. Also management would ensure there is a quality assurance programme within the internal audit unit. Effective financial management in LGAs could be enhanced by ensuring effective management support on proper follow up of the audit findings and recommendation, enough staffing and resources within the council and maintaining quality assurance programme.
6.4 Recommendations

Based on the findings revealed above, the following are some recommendations which will improve efficiency of internal auditing in LGAs.

a) Management of the councils should ensure there are enough resources and adequate staffing of internal audit units so that they carry out their duties effectively.

b) Management support to internal audit unit should be improved by ensuring all internal audit findings and recommendations for all matters raised up are acted upon timely. Also management should ensure there is good and reasonable working environment among the internal audit office so as to increase efficiency of their work.

c) To increase job training among internal auditors so as to enable them to cover the gap of all deficiency of audit professionals.

d) Quality assurance programme to internal auditors and internal audit charter should be introduced and maintained by the management so as to ensure performance of their services.

6.5 Areas for Future Studies

The study attempted to determine efficiency of internal auditing and its contribution to improving financial management in LGAs. The research design, therefore were specifically focused to address this at Musoma District Council and Musoma Municipal Council. Thus, the findings in this study may not apply to other Councils within or outside the country. Therefore, the areas not covered in study are good for future studies.

First, the councils which have adequate staff and resources with effective management support. Second, in this study it was revealed that government policies affect internal
auditing. Thus, future studied may focus on what policies affect effectiveness of internal auditing in ensuring financial management.

Third, in this study we attempted to consider only four variables (independent of internal auditors, management support, staffing and resources and professional care and experience). Thus, future studies may focus on among others, to explain how political environment and organisation structure have impact to internal auditing.

Fourth, in this study we only were assessing the efficiency of internal auditing and its contribution to improving financial management. Thus, future studies may focus on impact of internal auditing in ensuring effective financial management. Effective financial management may be on a reducing of audit queries issued by external auditors, improving value for money audit, organisation to obtain clean report rather than adverse reports and many others.

Lastly but not least, in this study we tried to consider a number of targeted populations such as head of departments, members of watchdog committees within the council, external auditors and other internal auditors from RAS. The findings were based on both responses. Thus, future studies may focus on survey development research design by considering only council internal auditors so as to reveal their observations on improving financial management.
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The Local Government Finance Act No. 9 of 1982

United Republic of Tanzania (2005), Internal Audit manual, Government printer, Dar es salaam.

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United Republic of Tanzania (2010), Manual for the assessment of councils against minimum condition and performance measurement criteria, Government printer, Dar es salaam.
Dear interviewee,

I am a student pursuing Msc. Accounting and Finance at Mzumbe University (Morogoro campus). During my studies am supposed to conduct a study research concerning Internal Audit unit so as to enable me to complete my studies. This research is conducted looking forward impact of internal auditing in ensuring effective financial management in LGAs, hence help to improve efficiency of internal audit services.

Therefore, it against this background I am requests you to fill the following set of questions by giving relevant and reliable information.

Section A: General information

1. Name of unit inquiry ………………………
2. Sex Male [ ] Female [ ]
3. For how long have you working in your organisation?
   a) Below 1 year [ ]
   b) 1 to 5 years [ ]
   c) Above 5 years [ ]
4. Academic qualification level
   a) Below advanced diploma or bachelor [ ]
   b) Advanced Diploma or Bachelor [ ]
   c) Above Advanced Diploma or Bachelor [ ]
5. Is there having internal audit unit in the organisation?
   (YES/NO)…………………………..
### Section B: Independence of internal auditors

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<thead>
<tr>
<th>S/N</th>
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<th>NO</th>
<th>Moderate</th>
</tr>
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<tbody>
<tr>
<td>6</td>
<td>Is the internal audit staff performs other non-audit work?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Is there independence on preparation of internal audit action plan?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Plan of action for internal audit as well as budget approved by the council management are well maintained as they are submitted?</td>
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</tr>
<tr>
<td>9</td>
<td>Is the internal audit unit independence on performing his audit work?</td>
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<td></td>
<td></td>
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<tr>
<td>10</td>
<td>Is the internal audit unit having authority to access the documents as they plan?</td>
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</tr>
<tr>
<td>11</td>
<td>Internal auditor report independently on what they observed?</td>
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</table>

### Section C: Staffing and Resources

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<th>NO</th>
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<tr>
<td>12</td>
<td>Does the unit have adequate staffs to perform their function?</td>
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<tr>
<td>13</td>
<td>Are the resources given by the management adequate on performing the audit work?</td>
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<tr>
<td>14</td>
<td>Are the internal auditors making a prepayment audit?</td>
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### Section D: Management Support

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<th>Moderate</th>
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</thead>
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<tr>
<td>15</td>
<td>Is the Council management well-structured to facilitate the internal auditing activities?</td>
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<td></td>
</tr>
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<td>16</td>
<td>Did the management make provision for flow of information to internal audit unit staff?</td>
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<td>17</td>
<td>Is there any regular communication on financial irregularities between the internal audit staff and the management?</td>
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<td>18</td>
<td>Is there any evidence that audit work has been supervised properly by the management?</td>
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<td>19</td>
<td>Are the internal audit findings acted upon timely by the Council management?</td>
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<td>20</td>
<td>Is the internal audit reports discussed by the Council management committee?</td>
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<tr>
<td>21</td>
<td>Is the internal audit reports discussed by the Audit committee?</td>
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<tr>
<td>22</td>
<td>Is the internal audit reports discussed by the Finance committee?</td>
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<tr>
<td>23</td>
<td>Is internal audit unit a source of valuable information for decision making in the organisation?</td>
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</table>
Section E: Due professional care and experience

<table>
<thead>
<tr>
<th>S/N</th>
<th>Narration</th>
<th>YES</th>
<th>NO</th>
<th>Moderate</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>Did internal audit staff comply with general standards?</td>
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<td>25</td>
<td>Is there internal audit charter within the District?</td>
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<td>26</td>
<td>Does the internal audit programme prepared according with the adequate</td>
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<td>standards issued by the authorized organisations?</td>
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<td>27</td>
<td>Do the staffs of internal audit unit have enough experience to perform</td>
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<td></td>
<td>audit work as they expected?</td>
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<tr>
<td>28</td>
<td>Is there any training conducted to internal audit staffs?</td>
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<td>29</td>
<td>Does the internal auditors adhere the code of ethics?</td>
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<td>30</td>
<td>Does the internal audit activity have a quality assurance program?</td>
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</table>

Section F: General

1. What do you think is a relevant adequate staffs required within the District?
   ........................................................................................................................................
   a)  3 staffs   b)  5 staffs   c)  More than 5 staffs

2. What do you think are the strengths of the Internal Audit unit?
   a)  ......................................................................................................................................
   b)  ......................................................................................................................................
   c)  ......................................................................................................................................
   d)  ......................................................................................................................................
3. What do you think are the weaknesses of the Internal Audit unit?
   a) ..........................................................................................................................
   b) ..........................................................................................................................
   c) ..........................................................................................................................
   d) ..........................................................................................................................

4. If there is any weakness of internal audit unit, what are the possible solutions?
   a) ..........................................................................................................................
   b) ..........................................................................................................................
   c) ..........................................................................................................................
   d) ..........................................................................................................................

5. Do you think there is any difference on the internal audit unit since after establishment of Internal Auditor General Division?
   a) YES or
   b) NO,
   c) Moderate
APPENDIX 2: INTERVIEW GUIDE

Section A: Structured Interview

1. What is your view on the independence of the Internal Auditors in performing their functions?
2. Does the internal audit unit achieve their planned programme of work?
3. Does the internal audit unit have necessary skilled and knowledgeable personnel?
4. Does the internal audit unit perform their work in a more professional manner?
5. Is the management giving necessary attention to internal auditor’s recommendation?
6. What are the problems facing the internal auditors during their course of work?
7. What do you think should be done to improve the efficiency of internal audit service unit?
8. Is there any improvement of the internal audit unit following the establishment of Internal Auditor General Division?

Section B: Unstructured Interview

9. Independence of the Internal Audit unit and its personnel
10. Quality of internal audit work
11. Professionalism, skills and experience of internal auditors
12. Management support
13. Effectiveness of Audit Committee.
14. Organisation structure
15. Political influence to internal audit unit