THE IMPACT OF INTERNAL CONTROL IN CURBING MISUSE OF RESOURCES IN PUBLIC SECTORS:
A CASE STUDY OF DAR ES SALAAM REGION

By

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A Dissertation Submitted in Partial of the Requirements for the Degree of Master of Science in Accounting and Finance of Mzumbe University
2013
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We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled: The Impact of Internal Control in curbing Misuse of Resources in Public Sectors: A case study of Dar es Salaam Region, in partial of the requirement for award of the degree of Master of Science in Accounting and Finance of Mzumbe University.

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I am indebted to many people, individuals and various people that in one way or another facilitated the smooth execution of my dissertation but special acknowledgment I give to Baraka Daudi who has always been ready to discuss with me during my working with this dissertation. Also this survey would not have been possible without the strong support and guidance of Mr. Fred Feruzi, a lecturer at the Mzumbe University who offered his unwavering support from the time of research proposal development, data collection up to the writing of this report.
DEDICATION

This dissertation is dedicated to my family, especially my parents Mr. Japhet and Mrs. Adia Mbwanji who encouraged me to join the University but also for the good cooperation I received from them during my study.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>CAG</td>
<td>Controller and auditor General</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>COSO</td>
<td>Committee of Sponsoring Organization</td>
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<td>GAAP</td>
<td>General Accepted Accounting Principal</td>
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<td>IC</td>
<td>Internal Control</td>
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<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<td>NAOT</td>
<td>National Audit Office of Tanzania</td>
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<td>NBAA</td>
<td>National Board of Accountants and Auditors</td>
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<td>PFR</td>
<td>Public Finance Regulation</td>
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<td>RAS</td>
<td>Regional Administrative Secretariats</td>
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<td>TAA</td>
<td>Tanzania Airport Authority</td>
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<td>TANESCO</td>
<td>Tanzania Electric Supply Company</td>
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<td>TBC</td>
<td>Tanzania Broadcasting Corporation</td>
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<td>TPDC</td>
<td>Tanzania Petroleum Development Corporation</td>
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ABSTRACT

This study was conducted on impacts of internal control in curbing misuse of resources in public sector in Dar es Salaam Region. In general the paper uses an exploratory research design. Primary data were collected by using questionnaire and secondary data were collected from the documents received from respondents in respective organization. The questionnaire was given to both auditors and accountant who are found at different level.

After coding the collected data for analyzing purpose; the researcher found that some of the organizations internal controls are strong enough so that the possibility of misuse of resources which was expected to happen is very low as compared to those public enterprises which are characterized by weak internal control. In general the reasons which plays a greater role in motivating and pushing peoples to misuse public resources includes personal finance losses, living beyond once means, lack of internal controls that prevent or detect fraud, ignorance and incapacity, and lack of an audit trial.

Finally respondents agree that even if internal control is the best weapon to overcome misuse of resources related problems; it has to be supplemented by other issues like setting a code of conduct, training employees and consult about the ethical issues.
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CHAPTER ONE
PROBLEM SETTING

1.1. Introduction
This chapter highlights the main reasons for the study. It also gives the background of the problem, problem statement, research objectives, research questions, and significance of the study.

1.2. Background of the problem
The Institute of Internal Auditors (IIA) defines control and control process as “any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.” Internal control is not only essential to maintaining the accounting and financial records of an organization it is essential to managing the entity. Everyone from the external auditors to management to the board of directors to the stakeholders of large public companies to government, have an interest in internal control. In many parts of the world, regulators have emphasized the importance of internal control by requiring management to make annual public statements about the effectiveness of internal controls.

The reason a company establishes a system of control is to help to achieve its performance and profitability goals and prevent loss of resources by fraud or any other means. Internal control can also help to ensure reliable financial reporting and compliance with laws and regulations. The entity’s internal control system consists of many specific policies and procedures designed to provide management with reasonable assurance that the goals and objectives it believes important to the company will be met (Rick Hayes, Roger Dassen, Arnold Schilder, and Philip Wallage, 2005).
1.1.1. Around the World

Recent reported cases of multibillion-dollar fraudulent corporate accounting and reporting scandal have refueled public policy debates on Internal control (IC). It is an issue of considerable interest to policy makers involved in corporate governance issues. IC in essence is intertwined with and directly affected by the dynamics of corporate governance. IC is intended to assure that if it is properly designed and implemented it helps the public organizations to achieve their objectives and they become prevented from misuse of resources.

Prior studies on IC have supported the relevance of IC disclosures as a monitoring tool on IC for shareholders and have focused on two dimensions: examining the substance and variety of voluntary IC disclosures in annual reports; and determining the usefulness of IC disclosures to users of financial statements (El-Gazzar and Fornaro, 2003; O’Reilly-Allen and McMullen, 2002; Hermanson, 2000). For example, Deumes and Knechel (2005), Willis and Lightle (2000) and El-Gazzar and Fornaro (2003) analyzed the different types of assertions contained in IC disclosures. Wallace (1981) analyzed the content of IC disclosures of municipal government reports. Hermanson (2000) analyzed the demand for IC disclosures by surveying disparate user groups. He found that IC disclosures might serve to motivate both management and the audit committee to focus their attention on enhancing IC. Wallace and White (1996) found that senior management at companies with an internal audit function focused primarily on aspects of financial controls (versus operational controls) and those at larger firms were more likely to publish IC disclosures. McMullen et al. (1996) found that although smaller firms had a higher incidence of financial reporting problems than larger firms, the incidence was lower when senior management at such companies published IC reports. IC disclosure is risky but the risk varies inversely with the level of IC attained (Root, 1998). For a company that has attained a high level of IC, such disclosure is an opportunity to achieve its predetermined objectives.
Although larger businesses are more likely to experience economic crime, fraud may be more costly for small businesses (Thomas and Gibson, 2003; Price Waterhouse Coopers, 2003). On a per employee basis, losses from fraud can be as much as 100 times greater at small firms than large firms (Association of Certified Fraud Examiners, 2004; Wells, 2003). In addition, the damage inflicted by fraud goes beyond direct monetary loss. Collateral damage may include harm to external business relationships, employee morale, firm reputation, and branding (Price Waterhouse Coopers, 2003). In fact, some of the collateral effects of fraud, such as damage to firm reputation, can be long-term (Price Waterhouse Coopers, 2003). Despite the increased incidence of fraud and enactment of new anti-fraud laws, many organizational anti-fraud efforts are not current and are somewhat superficial (Andersen, 2004). Hence, many entities are trying new and different steps to combat fraud (Price Waterhouse Coopers, 2003).

1.3. In Tanzania
According to the Tanzania government structure, the Regional Administrative Secretariats (RAS) form part of the Central Government. By end of 2009 Tanzania had almost 26 Regions with 26 Regional Administrative Secretariats and 26 Regional Commissioners. This number was increased in 2010. The role of RAS is to channel and coordinate funds disbursed from the Central government to the lower district levels. For this purpose, the RAS play a big role channeling public resources, coordinating central government programs and ensuring that social services are delivered at local district level (Corruption tracker, 2010).

According to the Annual General Report of the Controller and Auditor General for the year ended 30th June 2009, the RAS had unsupported expenditures and issues with emphasis on matter worth approximately Tsh 17 billion. This misuse of resources in the public sector can arise from different factors such as; purchasing of items that are not
delivered, miss payment vouchers, improperly vouchered expenditure, salaries paid to non existed staffs, over paid contracts, irregular alteration of contract price and fuel expenses unaccounted for.

1.4. Statement of the problem

The formal definition of internal control, originally published by the accounting profession is in 1949 and repeated in subsequent publications, including Statements on Auditing Standards (SAS) No. 1 (paragraph 320.09), states ;

“Internal control comprises the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. (A) —System of internal control extends beyond those matters which relate directly to the functions of the accounting and financial department.”

According to the annual general report of the controller and Auditor general on the Audit of the Public Authorities and other bodies for the financial year 2007/2008 submitted by Ludovick S. L. Utouh, internal controls refer to all means by which public resources are directed, monitored, and measured. The report also stated that internal controls play an important role in preventing and detecting frauds/misappropriations and protecting the public resources, both physical and intangible. At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. Checking of compliance with internal controls is the role of an internal auditor which means the weakness in the functioning of internal audit unit, equally means the weakness in operation of internal controls.
Reg. 34 of the Public Finance Regulation (PFR 2001- revised 2004) details what roles to be played by the internal auditor in respect of internal control system. Moreover, Reg.35 (2) of PFR 2001 (revised2004) emphasizes on the responsibility of management in prevention, detection and investigation of frauds. The Board of Directors and Chief Executive Officers of the respective Public Authorities should ensure that effective Internal Control Systems are in place and being instituted.

This research area of internal control has been researched by many scholars. Isidore Minani (2010) in his research of the Impact of computerization on Internal Control over Cash in Municipal Councils in Tanzania: A Case of Iringa Municipal Council found that the computerization of the accounting system enhanced the control over cash. However, it was also found that the accountant’s incompetence in computerized accounting environment was still a challenge in the Municipals. Jayalakshmy, Ramaiyer, and Ireneo (2012) researched on the effectiveness of Internal Audit in Tanzanian Commercial Banks. They found that although the Bank of Tanzania (BOT), the central bank of Tanzania, had taken measures and issued regulations under Banking and Financial Institutions Act (2006) requiring all commercial banks to put in place an adequate internal control system, internal auditing in Tanzania commercial banks is still embracing the conservative approach which is primarily concerned with compliance and monitoring rather than adopting value added approach. This practice leads to the place where public funds are being spent on activities which do not add value to the stakeholders.

Despite the fact that a lot has been done on internal control over the use of public funds, little has been researched on the impact of internal control in curbing misuse of resources in public sectors.
1.5. General research Objective
To examine the impact of internal control in curbing misuse of resources in public sector in Tanzania

1.5.1. Specific research Objectives
i. To examine the current internal controls in public sectors.
ii. To examine the factors that contributes to individuals to misuse resources in public sectors.
iii. To find out ethical consideration that could be followed by the employees of the organization on top of the company internal control in curbing misuse of public resources.

1.6. General Research Question
Does the internal control policy impact in curbing misuse of resources in public sector in Tanzania?

1.6.1. Specific research Questions
i. What are the current internal controls of public organizations?
ii. What are the Factors that contribute to individual to misuse resources in public sector?
iii. What ethical consideration could be followed by the employees of the organization on top of the company internal control in curbing misuse of public resources?

1.7. Significance of the Study
This study will be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the impacts of internal control in curbing misuse of resources in public sectors. It will provide constructive information regarding the efficiency and effectiveness of the existing internal control practice of public sectors in Tanzania. Moreover, the results of the study can prove to be of great importance to
public organizations to gain a clearer insight onto how design, implement and finally evaluate internal control so that in turn alleviate the potential misuse of resources inside the organization and to the whole country at large.

1.8. Limitation of the study
This study aimed to examine the impact of internal control in curbing misuse of resources in public sectors. It was anticipated that the study was likely to face some limitations as follows: time allocated for the study was not enough with regard to data collection and availability of key information at the reliable sources. Lastly, data factor was also a limitation in this study since it was normally difficult to convince people to give their key information because of fear that one may be studying to break their interests.
CHAPTER TWO
LITERATURE REVIEW

2.1. Overview
This chapter will comprise explanation of terms relevant to the study such as internal control, and public resources. It will also review the literature in the area of impact of internal control in curbing misuse of public resources and different theories relevant to the matter in study.

2.2. Internal Control
Internal Control according to the committee of Sponsoring Organization of the Treadway Commission (COSO), is process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objects in the following categories: Effectives and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulation, and safeguarding assets against unauthorized acquisition, use or disposition. Internal control helps ensure that the directions, policies, procedures, and practices designed and approved by management and the board are put in place and are functioning as desired. The more elaborate the organization, the more the need for internal control to counteract any loss of effectiveness sustained when adding more people and processes to transact business( COSO, 2006).

The rationale underlying internal control is that decreasing the likelihood of material errors, irregularities, or illegal acts in turn increases the likelihood of reliable internal and external financial information. Examples of things that might need to be protected through a system of internal controls are land and other real property interests, equipment, accounts receivable, cash, bank accounts, etc. In a municipality it is the responsibility of elected officials to ensure internal control policies and procedures are in place and are being used by administrative staff (State of Alaska, 2002).
The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s internal control over financial reporting includes those policies and procedures that:

i. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company’s assets.

ii. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company’s receipts and expenditures are being made only in accordance with authorizations of the Company’s management and directors; and

iii. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the Company’s financial statements (Attwood and Stein, 1998).

Management, including the Company’s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), does not expect that the company’s internal controls will prevent or detect all errors and all fraud in the misuse of public resource. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of
changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate. Poor controls lead to losses, scandals, and failures and damage the reputation of organizations in whatever sector they are from.

2.3. Categories of internal control
Internal control may be categorized as either administrative or accounting controls. Administrative controls include, but it is not limited to, the plan of an organization and the procedures and records that are concerned with the decision processes leading to management’s authorization of transactions. Such authorization is a management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting controls of transactions.

Accounting control comprises the plan of an organization, and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide the reasonable assurance that (Ricchiute, 1982).
1) Transactions are executed in accordance with management’s general or specific authorization.
2) Transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and to maintain accountability for assets.
3) Access to assets is permitted only in accordance with management’s authorization.
4) The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any difference.

2.4. Components of Internal control
Internal control consists of five interrelated components that are; control environment, risk assessment, control activities, information and communication, and monitoring (Attwood and Stein, 1998).
The *control environment* is the foundation for the entire internal control system. It provides the discipline and structure as well as the climate which influences the overall quality of internal control. It has overall influences on how strategy and objectives are established, and control activities are structured.

Having set clear objectives and established an effective control environment, an *assessment of the risks* facing the entity as it seeks to achieve its mission and objectives provides the basis for developing an appropriate response to risk.

The major strategy for mitigating risk is through *internal control activities*. Control activities can be preventive and/or detective. Corrective actions are a necessary complement to internal control activities in order to achieve the objectives. Control activities and corrective actions should provide value for money. Their cost should not exceed the benefit resulting from them (cost effectiveness). Control activities include

(i). Performance reviews (Review of actual against budgets forecast)

(ii). Information processing (Checks of accuracy, completeness, authorization)

(iii). Physical control (Physical security)

(iv). Segregation of duties.

Effective *information and communication* is vital for an entity to run and control its operations. Entity management needs access to relevant, complete, reliable, correct and timely communication related to internal as well as external events. Information is needed throughout the entity to achieve its objectives.

Finally, since internal control is a dynamic process that has to be adapted continuously to the risks and changes an organization faces, *monitoring* of the internal control system
is necessary to help ensure that internal control remains tuned to the changed objectives, environment, resources and risks.

These components define a recommended approach for internal control in government and provide a basis against which internal control can be evaluated. These components apply to all aspects of an organization’s operation.

2.5. Information processing
A variety of control activities are used in information processing, for examples edit checks of data entered, accounting for transactions in numerical sequences, comparing file totals with control accounts, and controlling access to data, files and programs.

2.6. Physical control over vulnerable assets
An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records.

2.7. Performance review
It is a method by which the job performance is evaluated. An organization has to establish parameters/measurements within which programs, investments, and acquisition are reaching the desired result. The fundamental reason for performance review is to improve performance. Other reasons include the following:-

a) To evaluate how well a public agency or organization is performing. To accomplish this, managers need to determine what is to be achieved by an agency and to formulate a clear, coherent mission, strategy and objective.
b) To compare core process performance to most effective and efficient process in the industry.

c) To control; how can a manager ensure that subordinates are doing the right thing without performance review. It serves the purpose of control.

d) To budget: Budgets are crude tools in improving performance. Budgets increase could be the answer to improving performance, like purchasing better technology because the current ones are outdated and harm operational process.

e) To motivate: Giving people significant goals to achieve and then use performance measures including interim targets to focus peoples thinking and working, and provide periodic sense of accomplishment. Performance target may also encourage creativity in developing better ways to achieve the goals.

f) To celebrate: Organizations need to commemorate their accomplishment. Such rituals tie their people together, and give them a sense of their individual and collective relevance. Moreover by achieving personal goals, people gain sense of personal accomplishment and self worth.

g) To promote: It helps public managers to convince political superiors, legislators, stakeholders, journalist, and citizens that their agency is doing a good job. To convince citizens that their agency is doing well managers need to easily understand measures of those aspects of performance about which many citizens personally care.

h) Learning: it is involved with some process, of analysis information provided from evaluating corporate performance (Identifying what works and what doesn’t work). However if there is too many performance measures, managers might not be able to learn anything.

2.8. Separation/Segregation of duties

It is a primary principle in any internal control plan. The principle of segregation of duties is especially important when using computers and other information technology, because it ensures the separation of duties such as compilation, input, and review. It also defines authority and responsibility over transactions and use of the organization
resources. Above all managers should ensure the following activities are separated properly in the organizations:

- **Personal and payroll activities**
  Individuals responsible for hiring, terminating and approving promotions should not prepare payroll or personnel transactions or input data. Payroll managers should review and approve deductions. Supervisors should review time sheets before approving either by written or electronic signature, but should not be involved in preparing payroll transactions.

- **Other expenditure activities**
  Individual responsible for data entry of encumbrances and payment vouchers should not be responsible for preparing or approving these documents. A department should not delegate expenditure transactions approval to immediate supervisor of data entry staff or data entry personnel. Individual responsible for acknowledging the receipt of goods or services should not also be responsible for purchasing or payment activities (Glyan, 1997).

- **Inventories**
  Individuals responsible for monitoring inventory should not have the authority to withdraw items maintained in inventory. Individuals performing physical inventory counts not be involved in maintain inventory records (Johnston, 2000).

- **Check writing Activities**
  Persons preparing checks should not be signing the checks. Persons signing the checks should not be reconciling the checking account.

- **Revenue activities**
  Individuals receiving cash into the office should not be involved in authorizing banks deposits. Individuals receiving revenue or making deposits should not be involved in reconciling the bank accounts.

- **Authorize transactions**
To maintain control over expenditure and revenue collection, persons within the scope of their authority must approve any financial transactions before the transactions are processed (Gauther, 1996)

2.9. Objectives of internal controls
Internal control systems are designed to meet three major categories of objectives that are important to businesses: operational, information and compliance (Vanbaren, 2012).

2.9.1. Operational objective
Operational objectives are designed to maintain efficiency and effectiveness in the operations of a company. Included in operational objectives are procedures that promote companies' use of assets and resources properly. There are two types of internal controls, preventive and Detective control.

Preventative controls are procedures used to avoid potential problems before they happen. Operational objectives are designed to serve this purpose. Procedures developed to meet operational objectives include things such as the separation of duties and the requirement of proper authorization and password usage to control access to important company information.

Detective controls are used to detect errors, fraud and irregularities. These controls include activities such as performing reviews, analyses, physical inventory counts and audits.

2.9.2. Information objective
Information objectives are created for maintaining reliability and completeness in the financial and management information sectors of a business. These objectives are met by setting up proper procedures for handling financial information. Financial information is recorded in a consistent and accurate manner. These objectives begin by
controlling the environment employees work in. This goal is achieved by separating duties of employees and not giving too much control to just one person. When creating information objectives, the management team must assess the risks that are prevalent and implement procedures to reduce these risks.

2.9.3. Compliance objective

Compliance objectives are designed to ensure that a company's operations and financial reporting follows all applicable laws and regulations. These objectives are also designed to promote the reliability of financial statements. The five components of internal controls are vital to compliance. Knowledgeable employees must handle the financial work of the company. Detective control procedures must be performed. An audit is one way of determining if all financial regulations are being followed. Audits also inform companies of any criminal activity possibly taking place in the company.

2.10. Synergy and link among the components

There is synergy and linkage among these components, forming an integrated system that reacts dynamically to changing conditions. The internal control system is intertwined with the entity's operating activities and exists for fundamental business reasons. Internal control is most effective when controls are built into the entity's infrastructure and are a part of the essence of the enterprise.

There is a direct relationship between the three categories of objectives, which are what an entity strives to achieve, and components, which represent what is needed to achieve the objectives. All components are relevant to each objectives category. When looking at any one category the effectiveness and efficiency of operations, for instance, all five components must be present and functioning effectively to conclude that internal control over operations is effective.
2.11. **Standards of Internal Control system**

The law sets forth six standards that department must establish and incorporate in an internal control structure (Robert, 2003)

a) **Documentation**

Department must clearly document internal control system and make these system easily available examination

b) **Transactions**

Departments must manage transactions and other significant events by recording transaction promptly, documenting transactions clearly and classifying transaction properly.

c) **Authority**

Only a person’s acting within the scope of the authority, should be allowed to authorize and execute transactions.

d) **Separate duties**

Departments must establish a system to assign essential duties and responsibilities to a number of individuals like Authorizing, approving and recording transactions, and issuing and receiving, making payments and reviewing transactions.

e) **Supervision**

Provide qualified and continuous supervision to all staffs to ensure that internal control objective are achieved.

f) **Access**

Limit access to resources and records to authorize individuals, as determined by the department head. The department head as responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose.
Department must periodically compare the physical resources and accounting records to reduce the risk of authorized use or loss of resources and protect against wasteful and wrongful acts.

2.12. Limitations of internal controls
In spite of the benefits that internal control can achieve if implemented successful, internal control has limitations such as (Johnson, 2002);

a) Errors of Judgment: Occasionally the administration and other people can exercise incorrect judgments when making business decisions, or carry out routine tasks in lieu of inadequate information, time restrictions, or other reasons.

b) Failures: Flaws in controls established can occur when people don't understand instructions correctly or they commit careless mistakes through distraction or fatigue. Temporary or permanent personnel changes as well as system or procedural changes can also contribute to the occurrence of failures;

c) Collusion: Individuals with accomplices - an employee who carries out an important control activity along with another employee, customer, or supplier for instance can perpetrate and hide fraud in such way that it is not detected by internal control. An example could be collusion among three employees of the personnel, production and payroll departments issuing payments to fictitious staff; or schemes between an employee in the purchasing department and a supplier etc.

d) Costs versus benefits: The cost of internal control in an organization should not be superior to the benefits that are expected of them. As the necessary measurement of the costs and benefits are not usually available the administration should make quantitative and qualitative estimates and make judgments and evaluate the cost-benefit relationship.
2.13. **Means of achieving Good Internal Control**

Firm can adopt a number of alternative means of achieving good internal control. The means adopted depend upon a variety of factors such as the size or the volume of business, the organization structure, nature of operation and objectives of the organization. Despite the many variations in internal control which will be manifested in different situations, all internal control system will at least include the following Characteristics;

i. A plan of organization which provides appropriate segregation of functional responsibilities of duties.

ii. A system of authorization and record procedures adequate to provide reasonable accounting control over assets liabilities revenues and expenses.

iii. Managerial supervision on reviews, to include internal audit, to ensure sound practices to be followed and assignment of responsibilities to competent personal.

2.14. **Testing of internal control**

Auditors test internal controls in order to establish whether they are operating effectively throughout the period under review. If controls are operating effectively, auditors can reduce the level of substantive testing on transactions and balances that would otherwise be required.

In testing internal controls, auditors are checking to ensure that the stated control has been applied. For example, auditors may check that there is a grid stamp on a sales invoice with various signatures inside it that show that the invoice has been approved by the credit controller, that it has been checked for arithmetical accuracy, that the price has been checked, and that it has been posted to the sales ledger. The signatures provide audit evidence that the control has been applied.

Auditors are not checking to ensure that the invoice is, in fact, correct. This would be a substantive test. Nevertheless, it is possible to perform tests of control and substantive tests on the same document at the same time.
2.15. **Dealing with deviations from the application of control procedures**

Where it appears that an internal control procedure has not been applied, it is necessary to form an opinion as to whether the deviation from the application of the procedure is an isolated incident, or whether the deviation represents a systematic breakdown in the application of the control procedure. This is usually achieved by selecting a further sample for testing.

If it cannot be shown that the non-application of the procedure is isolated (i.e. there are no further instances in which the control has failed), it is necessary either to find a compensating control that can be tested, or to abandon testing of controls and to take a wholly substantive approach. Where there is a breakdown in internal controls it is also necessary to reassess the auditor’s preliminary risk assessment. Abandoning tests of control may place strains on the budget for the audit and auditors should always consider the possibility of compensating controls before abandoning tests of controls.

2.16. **Relationship between internal control and audit process**

Internal controls are the policies, practices, procedures, and processes that management implements in order to ensure the accuracy and fairness of the information recorded in company financial statements. Traditional management practice has been to define a performance expectation and monitor employee performance for deviations from established performance standards. Traditional auditing has also followed this management practice with regard to internal controls. Auditing traditionally has involved reviewing and testing established policies, practices, procedures, and processes for evidence of non-compliance. The result of this type of auditing is that the auditor effectively becomes the internal control cop. Although the auditor may be effective at finding deviations from the current internal control scheme, the auditor provides little value beyond that to the client.
Modern management philosophy deviates from the traditional philosophy in choosing to focus on the positive of the employee relationship by inspiring employees to greater heights rather than setting a bar and punishing employees who fail to reach the bar. Auditing is most beneficial to the client when it follows the same path. Attestation where an auditor offers an opinion as to the quality of the existing financial statements is only one area that an auditor performs (Hayes, Dassen, Schilder, & Wallage, 2005). When auditors realize that they are a key business partner with the client, the auditor becomes much more than the fault finder and instead engages the client in improving the internal control system to ensure that there are no faults to. Although it would be impossible to create an accounting system that is free from errors, it is possible to create an accounting system with robust internal controls that can prevent a material misstatement of financial.

2.17. Public Resources
The term public resources sometimes referred to as state or administrative resources are any resources belonging to the government of a political entity encompassing both political and administrative entities at national, regional and local level. Public resources can be categorized in the following way (Ohman, 2011):

- Financial resources - Monetary assets (normally through the budget of various levels of government as well as publically owned and/or managed institutions)
- Institutional resources - Non-monetary material and personnel resources available to the state, including publicly owned media and other communication tools.
- Regulatory resources - The mandate to pass laws and regulations that control allowed and prohibited behavior in the polity. These regulatory prerogatives regard anything from the criminal code to the order in which candidates should appear on the ballot paper.
➢ Enforcement resources - The use of security and law enforcement institutions on implement laws and rules set up using regulatory resources. This is related to the state having a monopoly on the legitimate use of violence.

According to the annual general report of the controller and auditor general on the Financial Statements of Public Authorities and Other Bodies for the financial year 2007/2008; Internal control is a key element of the Public Authorities, some of the weaknesses of the internal controls observed from a number of Public Authorities and other bodies audited in period under review are improper Cancellation of Checks, Non preparation of bank reconciliation statements, Inefficient control over cash receipts, Weaknesses noted on the dispatch of checks, Lack of segregation of duties Outstanding receipts on the monthly bank reconciliation statements, Dormant Bank Accounts, and Lack of Bank Reconciliations.

2.19. Public sectors
Public sectors consist of the government sector and the parastatal sector which mainly offer services to the public. A government parastatal is statutory or public corporation owned by the government or a company in which all or more than 50% of the issued share capital of the company is beneficially owned by the government. The following are the main features of a government sector parastatal; (Msongole, 2011)
(i). Is a separate legal entity that can contract in its own name
(ii). Has been assigned the financial and operational authority to carry on a business
(iii). Sells goods and services in the normal course of its business to the entities at a profit or full of cost recovery
(iv). Does not depend on the government funding for it to operate as going concern (apart from purchase of outputs at arm’s length transaction or periodic grants which
are accounted for under IAS 20 Accounting for Grants and disclosure of Government assistance)

(v). Is controlled by government or another public sector entity

2.20. Corporate structure and internal control mechanism

Krishman (2005) tested the relationship between corporate governance structures and internal control mechanisms. Specifically, he analyzed whether audit committee quality affects internal control quality and discovered a positive relationship between the two. In his research he posted the concern that data on internal controls is not generally available, which explains the lack of studies in this field. By using reported internal problems when companies change their auditors, Krishnan detected a negative association between the portion of independent members in an audit committee and internal control problems. Moreover, he found a negative association between the number of audit committee members with financial expertise and internal control problems. His study is supported by a former research of Mc Daniel et al. (2002), who figured out that audit committee expertise positively influenced the quality of financial reporting and can thus be associated with better internal control mechanisms. The assessment of an audit specialist, within the audit committee, better aggregates to a high financial quality reporting. The reason for this lies in the fact that audit experts address special reporting quality standards, making their evaluations superior. In other words, high internal control standards supported by effective governance structures keep up the quality of financial statements and enhance transparency. Furthermore, the board as well as the audit committee should be responsible for the regularly review of processes, their evaluation and improvements. According to the research, the consequence of an intact internal control system is an added value to the business.
2.21. Problems of Internal control over payroll

Ismail Ramadhan Kidula (2009) in his research on an evaluation of the effectiveness of internal control over payroll the case of Tanzania Petroleum Development Corporation (TPDC), Dar es Salaam found the following problems in internal control over payroll in most organizations:

i. Lack of accounting manual which would have been used by the accounting department.
ii. Lack of internal check that is the work done by one person should be exposed to other independent person.
iii. Restrictions to the access of computer room are not adhered to for organization whose payroll accounting system is computerized.
iv. Lack of complete segregation of duties
v. Failure for timely payment, that is there is fixed pay day as sometimes employees get salary late and sometimes earlier
vi. There are some weaknesses in time keeping for some organizations which pay wages on hourly basis.

2.22. Weakness Found in the system of internal control over payroll

Ismail R. Kidula also grouped his findings of the weakness in the system of internal control over payroll as personal functions weakness and Time keeping weakness

Personal functions

i. Lack of rotation of staff it was observed that the accounts department has few employees. For instance in salary department there is only one accountant who prepares payroll before transferring to the computer department. This accountant has stayed there for more than five years. Even the cashier has stayed there for more than five years, though there is no problem, which has occurred.
ii. Cashier security: it was observed that the cashier is not guaranteed his security at the time he goes to withdraw cash from the bank.
iii. Lack of accountant personnel: It has been learnt that the accountants department has very few employees. This has resulted into accountant performing a lot of accounting activities alone including that of the cashier.

Time keeping
i. Lack of proper supervised time keeping records. This is one major problem identified. Each department maintains the attendance register, which is under supervision of the head of the department. Each employee is supposed to sign the attendance register when entering the office at 8:00 am

ii. Due to poor supervision, some employees do sign even if they are late.

2.23. Conceptual Framework
Conceptual framework explained in different ways as follows; a set of coherent ideas or concepts organized in a manner that makes them easy to communicate to others or an organized way of thinking about how and why a study takes place and about how we understand its activities, (Kaplan, 1964). Other authors defined conceptual framework as the basis for thinking about what to do and about what it means, influenced by the ideas and research of others, (Botha, 1989). A framework can help to explain why a study can be done in a particular way. It can also help us to understand and use the ideas of others who have done similar things, (Dewey, 1938). Framework can be used like a travel map. It is a map which shows that there may be many different paths that can be taken to get to the same place (Botha, 1989). A framework can help to decide and explain the routes that are taking and come up with conclusion (Kaplan, 1964). The model of this study emphasized Factors that influence the impact of internal control over the misuse of public resources.

The model has five inputs that have impact on internal control to achieve effective performance. The inputs are the components of internal control which are control environment, risk assessment, control activities, information and communication, and
monitoring. All the components relate to the three objectives of internal control i.e. operational objectives, information objectives, and compliance objectives.

**Figure 2.1: Conceptual framework**

![Conceptual framework diagram](image)

**Source:** Researchers Construction, 2013

### 2.14.1. Description of the model

Fig. 1 depicts the conceptual framework that displays the diagramatical presentation of the relationship existing between variables used in the research. The framework focuses on the impact of internal control in curbing misuse of resources in public sectors. All of the five inputs of internal control i.e. control environment, risk assessment, control activities, information and communication, and monitoring has an impact on the objectives of internal control that is generally categorized as the control of
organizational resources to ensure that they are utilized to the best interest of the organization.

Internal control performs the best interest when all of the components are built into the organizational infrastructure. "Built in" controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions.

2.14.2. Underlying assumption of the model
The assumption of this study is to examine the impact of internal control in curbing the use of public resources in public sectors.

2.14.3. Description of the Variables
(i) Control environment
Control environment relates to the control consciousness of the people within the organization. The control environment is the basis for all other components of internal control.

(ii) Risk assessment
Risk assessment refers to the organization's identification, analysis, and management of the risks that are related to financial statement preparation, in order to ensure that financial statements are presented fairly and in compliance with generally accepted accounting principles.

(iii) Control Activities
Control activities refers to the organization's policies and procedures which help ensure that necessary actions are taken to address the potential risks involved in accomplishing the entity's objectives.
(iv) **Information and Communication**

Information and communication focuses on the nature and quality of information needed for effective control, the systems used to develop such information, and reports necessary to communicate it effectively.

(v) **Monitoring**

Monitoring involves assessing the quality and effectiveness of the organization's internal control process over time. It includes assessing the design and operation of controls, and assessing compliance with policies and procedures. It also provides for the implementation of appropriate actions when necessary.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1. Introduction
This chapter presents research design, study area together with sample size that was involved in this study. The study as well contains Data collection methods and instruments and data analysis methods were also discussed.

3.2. Research design and strategy
A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). It constitutes the blueprint for the collection, measurement and analysis of data.

The research design used was be exploratory design. The major emphasis in such research design is on the discovery of ideas and insights (Kothari, 2004). An exploratory study is a valuable means of finding out ‘what is happening; to seek new insights; to ask questions and to assess phenomena in a new light’ (Robson, 2002). This type of design is fit to explore knowledge on the nature of problem of the misuse of public resource in spite of the existence of internal controls.

The research strategy that was used in this study is case study. A case study is a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence (Robson, 2002). The case study strategy also has considerable ability to generate answers to the question ‘why?’ as well as the ‘what?’ and ‘how?’ questions. For this reason the case study strategy is most often used in explanatory and exploratory research (Sounders, 2007).
3.3. Study Area
This study was conducted at Dar es Salaam Region. A sample of staffs from Audit firms, National Audit office, Temeke Municipal Council, and other public institutions located in Dar es Salaam was selected from Population. This was done on the basis of the limitation of time and financial resources for the researcher. Furthermore, the area is easily accessible with good communication system, a situation which facilitated data collection.

3.4. Types of Data and their Collection
This study used both secondary as well as primary data. Primary data were gathered by means of questionnaires. Questionnaires were be provided to a sample of staffs from Audit firms, National Audit office, Temeke Municipal Council, and other public institutions located in Dar es Salaam region, this target population was sampled via non-probability sampling. Non-probability sampling is that sampling procedure which does not afford any basis for estimating the probability that each item in the population has of being included in the sample. Non-probability sampling is also known by different names such as deliberate sampling, purposive sampling and judgmental sampling. In the exploratory research design non-probability sampling is suggested (Kothari, 2004). Questionnaire was helpful to obtain quantitative data pertaining the matter in study.

Secondary data was obtained from document review including document provided by the respondent in their organization. A number of other sources were past research papers, published reports, journals, and textbooks. This was helpful to see what others have said about the subject matter, what are their findings and recommendations. The data that was obtained via this method was both quantitative and qualitative.
3.5. Sample size

The sample size of 100 people working in public organizations located in Dar es Salaam was provided with questionnaires. This sampling used purposively sampling technique on the basis that the sample selected out of the population was a representative of the whole population. Three audit firms were be selected out of the population of 169 audit firms according to the list of active audit firms provided by National Board of Accountants and Auditors (NBAA) in Tanzania. The distribution of questionnaire by the researcher is explained thoroughly in following table of questionnaires response by the selected public organization in study.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Number of Questionnaires Distributed</th>
<th>Actual number of questionnaires returned</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tanzania Broadcasting corporation (TBC)</td>
<td>20</td>
<td>17</td>
<td>17%</td>
</tr>
<tr>
<td>Temeke Municipal Council</td>
<td>20</td>
<td>15</td>
<td>15%</td>
</tr>
<tr>
<td>National Audit Office</td>
<td>10</td>
<td>7</td>
<td>7%</td>
</tr>
<tr>
<td>Tanesco</td>
<td>20</td>
<td>18</td>
<td>18%</td>
</tr>
<tr>
<td>Tanzania Airport Authority</td>
<td>15</td>
<td>13</td>
<td>13%</td>
</tr>
<tr>
<td>Dar Financial Consultants</td>
<td>5</td>
<td>5</td>
<td>5%</td>
</tr>
<tr>
<td>Innovex Auditors</td>
<td>5</td>
<td>5</td>
<td>5%</td>
</tr>
<tr>
<td>Lumo Associates</td>
<td>5</td>
<td>5</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>85</td>
<td>85%</td>
</tr>
</tbody>
</table>

Source: Field data, 2013

3.6. Data analysis and presentation

Data collected was analyzed using percentages, tables and graphs in order to summarize and organize data in meaningful way. The data was edited, coded, analyzed and categorized in relation to questions paused in the study in both qualitative (non-numerical) and quantitative (numerical) nature. The data analysis method emphasized in
exploratory research is the use of diagrams in relation to research questions to explore and understand data collected from respondents.
CHAPTER FOUR
PRESENTATION OF FINDINGS

4.1. Introduction

This chapter presents the findings and its discussion. The findings presented in line with the specific objectives. One of the main objectives of this research is to study whether internal control has an impact in curbing the misuse of resources in public sectors. The most important data sources to this report are the survey conducted with accountants and auditors at all areas of the organizations.

4.2. Section A: Respondents’ profiles

The questionnaire was distributed to 100 employees of the 5 selected public organizations and 3 audit firm listed as active in the National Board of Accounts and auditors (NBAA) in Tanzania, but 85 questionnaires were collected for analysis of the study.

As you observe in the table underneath; from the total respondents about 43.5.6% are worked on the accounting, 21.2% as Managers, 9.5% as Economist, and other remaining fields are 23%. This means that the most frequent respondent as one of the statistical tool that of the mode indicates accounts for those employees who work on other areas like internal auditors, management, and finance officer. The result implies that both of the respondents are believed to give a valuable feedback since they are aware of the main theme of the research (i.e. internal control and public misuse of the resources.)
Table 4.1 the respondent’s Job title

<table>
<thead>
<tr>
<th>Job Title</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant</td>
<td>37</td>
<td>43.5%</td>
</tr>
<tr>
<td>Management</td>
<td>20</td>
<td>23.5%</td>
</tr>
<tr>
<td>Economics</td>
<td>8</td>
<td>9.5%</td>
</tr>
<tr>
<td>Others</td>
<td>20</td>
<td>23.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>85</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Respondents survey, 2013

In terms of the educational background 51% of the respondents have Bachelor degrees in the field of the accounting, 27% accounts for diploma holders the other groups which are masters degree holders accounts for the remaining 22% of the total. The connotation behind table 4.2 is that the public sectors hired those persons that are capable of performing those tasks in their field of study so that one of the internal control components called control environment which needs commitment to competence is fulfilled.

Table 4.2 the respondent’s Job Title

<table>
<thead>
<tr>
<th>Educational Background</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>23</td>
<td>27%</td>
</tr>
<tr>
<td>First Degree</td>
<td>43</td>
<td>51%</td>
</tr>
<tr>
<td>Masters Degree</td>
<td>19</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>85</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Respondents survey, 2013
Systems and all other control procedures are useless unless the peoples assigned to carry them out do so conscientiously, consistently, and honestly. Regarding the field of study and the respondents work experience table 4.3a and 4.3b depicts that 48%, 12%, 15%, 4% and 21% of the survey respondents working as an accountant, Management, Auditor, Economist and others respectively. And the second table (4.3b) shows that on average of 53% of the selected public sectors employees have a work experience of 0-5 years, and 29% are 6-10 years, 12% are 11-20 years and the remaining 6% accounts for those employees who have an experience of more than 20 years respectively.

Table 4.3 Respondents field of study and years of experience

<table>
<thead>
<tr>
<th>Area of specialization</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Years of Experience</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td>41</td>
<td>48%</td>
<td>0-5 years</td>
<td>45</td>
<td>53%</td>
</tr>
<tr>
<td>Management</td>
<td>10</td>
<td>12%</td>
<td>6-10 years</td>
<td>25</td>
<td>29%</td>
</tr>
<tr>
<td>Auditors</td>
<td>13</td>
<td>15%</td>
<td>11-20 years</td>
<td>10</td>
<td>12%</td>
</tr>
<tr>
<td>Economists</td>
<td>3</td>
<td>4%</td>
<td>More than 20 years</td>
<td>5</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td>18</td>
<td>21%</td>
<td>Total</td>
<td>85</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Respondents survey, 2013

4.3. Section B: Evaluation of the proposals in light of internal control function

Question I: What are the current internal controls of public Organization?

Proposal 1: The organization structure of the company is clearly defined in terms of lines of authority and responsibility.
Table 4.4 Response to Proposal 1

<table>
<thead>
<tr>
<th>Scales</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organization structure of the company is clearly defined in terms of lines of authority and responsibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>43</td>
<td>51%</td>
</tr>
<tr>
<td>Disagree</td>
<td>10</td>
<td>12%</td>
</tr>
<tr>
<td>Neutral</td>
<td>20</td>
<td>23%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>12</td>
<td>14%</td>
</tr>
<tr>
<td><strong>85</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Respondent’s survey, 2013

According to BusinessDictionary.com the organizational structure of the organization is defined as the framework, typically hierarchical, within which an organization arranges its lines of authority and communications, and allocates rights and duties. Organizational structure determines the manner and extent to which roles, power, and responsibilities are delegated, controlled, and coordinated, and how information flows between levels of management.

As per the response of respondents, about a half of them responded that they agree on the clearly definition of their organization structure in-terms of lines of authority and responsibility. The repercussion of the respondents to this study is that as organizational structure clearly defined employees in the organization know their power and responsibility. As a result no one can apply his power and authority in the wrongful act by losing his responsibility.

**Proposal 2:** Appropriate policies and procedures have been developed and implemented for each of your functions in major processes?
Policies and procedures are a set of documents that describe an organization's policies for operation and the procedures necessary to fulfill the policies. They are often initiated because of some external requirement, such as environmental compliance or other governmental regulations.

Regarding whether the companies implement the appropriate policies and procedures or not the graph which is found above depicts that 68% of the total respondents believed that their own companies do have appropriate policies and procedures. Other respondents which account about 14% disagree about the matter. The researcher does not have a reply for ‘I don’t know’ response category.

Policies and procedures including the accounting policies and other organizational activities policies helps the organizations to implement strong internal controls, quickly address the enterprises compliance requirements and minimize the risk of waste,
and misuse of resources.

**Proposal 3:** There are adequate controls designed to ensure for payroll related expenditures

**Figure 4.2 for proposal 3**

![Bar Chart]

Source: Researcher’s Field Data, 2013.

The above figure 4.2 indicates those of surveyed public institutions employee’s response on the question about the presence of adequate controls designed to ensure for payroll related expenditures. Therefore the results indicated that about 66% of the respondents agreed on the presence of adequate internal control over payroll related expenditures. The remaining employees responses include disagree (19%), neutral (9%) and I don’t know.

Payroll is one of the largest expenses in any organization. A payroll policy establishes internal checks and balances to control and protect this expense. It reduces the incidence of errors and possibility of misuse of public resources. The above result support that the public organizations have a good payroll policy.
Misuse of resources through a Payroll may appear in a situation where an employee causes an organization to issue a payment by making false claims for compensation. This kind of fraud may arise when lack of implementation in the internal control system.

Internal controls for payroll exist to ensure payroll is properly disbursed to the appropriate employees, that it's accurately recorded, and that the relevant legal requirements such as payroll tax deposits are adhered to. Payroll internal control procedures help to establish an effective payroll system, which allows payroll processing and recordkeeping to flow smoothly.

To minimize the risk of fraud, the payroll policy must include internal controls. One form of control is separation of duties. For example, if there are two employees involved in payroll processing, one would prepare payroll documents while the other would authorize and approve. An approving authority must review all pay and leave information. Another group or department such as accounting can audit payroll transactions. Payroll procedures must also protect the confidentiality of payroll information, ensuring that only authorized persons have access to them.

A payroll policy guarantees that employees will always receive the correct pay at the right time. It ensures that the company adheres to federal, state and local laws, especially those that refer to taxes, Medicare, Social Security and fair labor standards. Compliance with legislation will help the company avoid paying penalties. Payroll procedures also support the implementation of established compensation structures and systems, department budgets and collective.
**Proposal 4**: The usage of check is accounted for by person other than those who have custody of unissued check.

**Figure 4.3 for proposal 4**

![Bar chart showing responses to the proposal](image)

**Source**: Researcher’s Field Data, 2013.

The above Graph gives you an idea about whether the companies make use of segregation of duties in the operations of checks. Of the total respondent 18% disagreed with the segregation of duties, indicated that the companies over all check operations are handled by a single person. The other part of respondents which accounts for 55%, 24% and 4% agreed, neutral and I don’t know categories respectively on the issue of accounting operation for check is performed by different persons.

A check is a written instrument signed by the depositor, ordering the bank to pay a certain sum of money to the order of a designated person. To decrease the possibility of inefficiency, errors, and fraud, control procedures should exist to guarantee their
responsibility for sequence of related operations is divided among two or more persons. For example no one individual should be authorized to order merchandise, verify the receipt of the merchandise, and pay the supplier by check. Control procedures should exist to ensure that responsibility for maintaining the accounting records are separated from the responsibility for engaging in business transactions and for the custody of the firm’s assets. By such separation, the accounting records serve as an independent check on the business operation.

**Proposal 5**: Areas where materials and supplies are; are held protected against access by unauthorized personnel.

**Figure 4.4 for proposal 5**

![Graph showing the responses to Proposal 5](image)

**Source**: Researcher’s Field Data, 2013.

The above graph indicated that more than half of the respondents (58%) agreed on the subject that assets are held protected from unauthorized personnel’s but there are also respondents which says the organizations assets are not protected well and are susceptible for other unauthorized persons involvement which is paved the way
(opens the doors) for fraudsters and misuse of resources in public sectors.

An individual is to be assigned custody, accountability, and maintenance for assets. Periodic comparison should be made of the assets with the records to determine whether the two agree.

The basic concept behind restricting access to assets is to reduce the risk of unauthorized use or loss, and to help achieve management goals. Restricting access to assets depends on the vulnerability of the assets and the perceived risk of loss. These two factors should be assessed periodically. For example, access to and accountability for documents, such as checks, can be achieved by:

i. Locking them in a safe,
ii. Assigning a sequential number,
iii. Assigning custodial responsibility.

**Proposal 6:** Organizations have a formal code of conduct for employees regarding acceptable operating practices and expected standards of ethical and moral behavior

**Figure 4.5 for proposal 6**
As can be seen from the above chart about 45% of the respondents said that they agreed on the subject matter that will be stated on the availability of code of conduct for employees in the organizations. On the other hand 26% and 29% respectively is the account of the respondents who disagree, and are neutral with the raised questions.

A code of conduct is a set of rules or a protocol that explains how people should conduct their tasks. A code of conduct often consists of things to do in certain situations and requires certain behaviors. A code of conduct can also act as a way of presenting an organization's or company's philosophy or ethical approach to the world; for example, an objective or obligation that the organization pursues in its activities.

One of the most effective mechanisms for promoting ethical behavior is a written code of ethics or code of conduct. Generally speaking, a code of ethics/conduct includes provisions related to conflicts of interest, related - party transactions, illegal acts, and the monitoring of the code by management and the audit committee or board.

Having a code of conduct offers many different benefits for an organization. If the organization uses its code of conduct to compare itself with other organizations, it can also be used to increase publicity for the organization and attract new customers or clients to help the organization grow. Lastly, the code of conduct also acts as damage control. If a situation occurs that puts the organization in a bad light, the company can try to spin the situation in terms of an attempt to follow their own code of conduct.

Proposal 7: There is a clear assignment of responsibility and delegation of authority to deal with such matters as organizational goals and objective, operating functions and regulatory requirements

Source: Researcher’s Field Data, 2013.
With Regard to assignment of responsibility and delegation the above chart shows more than the average respondents replied that they agree (59%) on the topical issues of clear assignment and delegation. This indicates that the organizations are able to empower subordinates employees and assign the responsibility to the employees who are capable of handling the specified responsibility and task. The remaining part accounts for neutral (22%), disagree (11%) and I don’t know (8%).

Authority and responsibility are clearly assigned throughout the organizations and this is clearly communicated to all employees. Responsibility for decision-making is clearly linked to the assignment of authority, and individuals are held accountable accordingly.

Delegation is the process of giving decision-making authority to lower-level employees. For the process to be successful, a worker must be able to obtain the resources and

Source: Researcher’s Field Data, 2013.
cooperation needed for successful completion of the delegated task. Empowerment of the workforce and task delegation is closely intertwined. Empowerment occurs when upper-level employees share power with lower-level employees. This involves providing the training, tools and management support that employees need to accomplish a task. Thus, an enabled worker has both the authority and the capability to accomplish the work. Although authority can be delegated, responsibility cannot-the person who delegates a task is ultimately responsible for its success. The assigned worker is therefore accountable for meeting the goals and objectives of the task.

Effective delegation can benefit the manager, the employee, and the organization. Perhaps the most important benefit for the company is a higher quality of work. Delegation can improve quality of work by allowing the employees who have direct knowledge of products and services to make decisions and complete tasks. Quality can also improve through enhanced employee motivation. Employees may do a better job because they feel a personal accountability for the outcome, even though responsibility ultimately rests with the individual who made the delegation. Motivation should also be enhanced as delegation enriches the worker's job by expanding the types of tasks that are involved in it.

Managers who delegate effectively also receive several personal benefits; most importantly, they have more time to do their own jobs when they assign tasks to others. Given the hectic nature of managerial work, time is a precious commodity. Effective delegation frees the manager to focus on managerial tasks such as planning and control. Managers also benefit from the development of subordinates' skills. With a more highly skilled workforce, they have more flexibility in making assignments and are more efficient decision makers. Managers who develop their workforce are also likely to have high personal power with their staff and to be highly valued by their organization.
Although delegation can provide benefits to the organization, many managers lack the motivation or knowledge to delegate effectively and thus delegation (or lack of delegation) may be detrimental to the company. Managers' lack of motivation to delegate may be associated with a number of fallacies associated with delegations. Many managers believe that "if you want it done right, you have to do it yourself." While this is at times untrue, because the ultimate responsibility for a task lies with the manager, this attitude often prevents delegation. Other reasons for a lack of motivation to delegate are lack of trust in subordinates as Steve Jobs once said 'team work means that you trust your team members to work well even without your supervision’ but some managers lack the courage to trust their team members in their working places thus fails to delegate appropriately, also fear of being seen as lazy, reluctance to take risks, and fear of competition from subordinates. Some of these barriers are correctable through management training and development, but others may not be easily overcome. Managers may also lack the competencies necessary to delegate effectively. They may choose the wrong tasks to delegate, the wrong subordinate to trust, or they may provide inadequate direction to the subordinate when delegating.

Improper delegation can cause a host of problems, primary of which is an incorrectly completed task, which may hurt the overall productivity of the organization. Additionally, the careers of the manager and subordinate may suffer. The manager is likely to take the blame for delegating the wrong task, delegating to the wrong person, or not providing proper guidance. The subordinate may also take the blame for doing the task incorrectly. Thus, poor delegation may detract from the personal success of managers and employees.
Proposal 8: The organizations have an internal audit committee that is appropriate for the size and nature of the entity.

Figure 4.7 for proposal 8

As defined by the Institute of Internal Auditors (IIA); Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. With regard to internal audit committee the above graph shows that about 42% of the respondents agree on the presence of the internal audit committee inside their organizations. While the remaining 31% need to be neutral to respond the proposal question and the other 21% disagree which indicates the public enterprises are in danger due to the absence of internal auditor and also indicate that the companies may outsource their audit function to external party.

Internal audit committee 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. Management is responsible for
establishing and maintaining an adequate system of internal controls. An internal audit office is charged by management with assessing the effectiveness of the design and execution of the system of internal controls and risk management processes.

Internal auditors are responsible for making recommendations for improvement in internal controls to top management and, if applicable, a governing board of directors. To maintain independence, and to perform in an objective capacity, internal auditors should not engage in any operational or programmatic responsibilities.

Working closely with the audit committee, the internal audit function plays an important role in contributing to the overall governance of a fraud risk management program to avoid misuse of public resources. It provides objective assurance to the board and management that the controls in place to manage fraud risks are designed adequately and operate effectively. Internal auditors may conduct proactive audits to search for corruption, misappropriation of assets and financial statement fraud acting both to detect and to deter fraud.

The members of the audit committee should understand their role of ensuring that the organization has antifraud programs and controls in place to help prevent fraud, and aid in its discovery if it does occur, to properly fulfill their fiduciary duties of:

1. Monitoring the financial reporting process.
2. Overseeing the internal control system.
3. Overseeing the internal audit and independent public accounting functions.
4. Reporting findings to the board of directors.

The audit committee should ensure that the organization has implemented an effective ethics and compliance program, and that it is periodically tested. Since the occurrence of significant frauds can frequently be attributed to an override of internal controls, the
audit committee plays an important role to ensure that internal controls address the appropriate risk areas and are functioning as designed.

**Research Question II: What are the factors that contribute to individuals to misuse resources in public sectors?**

Question 1. Do you think that effective internal control alleviate misuse of resource problems in public sectors?

**Table 4.5 Effective internal control alleviate misuse of resource**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50</td>
<td>59%</td>
</tr>
<tr>
<td>No</td>
<td>35</td>
<td>41%</td>
</tr>
<tr>
<td>Total</td>
<td>85</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Source:** Researcher’s Field Data, 2013.

As you observe from the above table; of the total respondents 59% of them responded that internal control plays a decisive role in alleviating misuse of public resources problems. Effective internal control is a system of internal control whereby the designs, functions and programs of internal control achieve their intended results (Aldridge & Colbert, 1994). Internal control facilitate the companies effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company’s objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed. The other 41% of the respondent’s replied that internal control by itself alone do not mitigates misuse of public resources unless otherwise it is actively used with the other prevention mechanisms such as operational audits, ethics training, and surveillance equipment's.
It is generally accepted that internal control procedures can provide reasonable and in no case, absolute assurance, that the objectives of such controls relating to misuse of resources are achieved. This could be due to the possible existence of certain inherent limitations including:-

1. Management's consideration that a control be cost effective

2. The fact that most controls tend to be directed at anticipated types of transactions and not at unusual and unforeseeable transactions.

3. The potential for human error due to carelessness, distractions, errors of judgment and misinterpretation of instruction.

4. The possibility of circumvention of controls through collusion with parties outside the entity or with employees of the entity, (e.g. a lack of segregation of duties between computer programmers and computer operations).

5. The possibility that a person responsible for exercising control could abuse that responsibility.

6. The possibility that the procedures may become inadequate due to changes in conditions and compliance with procedures may deteriorate.

7. Manipulation of transaction or estimates or judgments, required in the preparation of financial statements.

However, despite the existence of certain possible inherent weaknesses that would exist in almost every system, how so ever perfect in design, the corrective action taken for rectification by the Management and its periodic assessment through the Systems Control Evaluation method adopted in Systems Based Audit enables the fulfillment of the principal objectives of establishing and effectively operating Internal Control Procedures.
Question 2: In your opinions, what factors motivates peoples to misuse public resources

Table 4.6 Factors that motivates peoples to misuse public resources

<table>
<thead>
<tr>
<th>Factors</th>
<th>Counts</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Living beyond once means</td>
<td>11</td>
<td>13%</td>
</tr>
<tr>
<td>Personal financial losses</td>
<td>8</td>
<td>9%</td>
</tr>
<tr>
<td>Lack of or circumvention of internal controls</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Failure to discipline perpetrators</td>
<td>6</td>
<td>7%</td>
</tr>
<tr>
<td>Ignorance, apathy, and incapacity</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td>Lack of an audit trail</td>
<td>5</td>
<td>6%</td>
</tr>
<tr>
<td>Rationalization</td>
<td>12</td>
<td>14%</td>
</tr>
<tr>
<td>All of the above</td>
<td>40</td>
<td>47%</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>85</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Source:** Researcher’s Field Data, 2013.

As you observed in the overhead table, an account of 47% responded that the factors that contribute to individuals to misuse public resources are the combination of those factors which are stated in the table above. Next to the combined factors the highest frequented response which account 14% of the total response is that the cause for the misuse of public resources is rationalization, for example by saying things like, I deserve more, I’m only borrowing the money, it’s for my sick child and it’s for a good cause. In general people are forced to use public resources inappropriately due to the following factors like; motivation, opportunity and rationalization. The motivation component is the pressure or need that a person feels. It could be a true financial need, such as the need to replace belongings after a house fire. Other real needs may include financial distress from a lost job, high medical bills, child support payments, investment losses, or
heavy personal debt.

The motivation could also be a perceived financial need, whereby a person strongly desires material goods but doesn’t have the money or means to acquire them. A person may also have an addiction such as gambling or drugs, and that could be a motivator. Nonfinancial pressures and motivators may be in play as well, and these could include such things as the expectation for good results at work, the imposition of unachievable goals, or the need to cover up a poorly performed job. Any pressure in one’s business or personal life could conceivably motivate someone to misuse the public resources.

The opportunity to misuse the resources includes the access to assets, people, information, and computer systems that enables the person not only to misuse the resources but also to conceal it. Employees are given all sorts of access to assets and records in order to carry out their job duties, and that access is one of the key components of misuse of public resources. This is why it is so important to limit employee’s access to only the assets, systems, and information that are necessary for them to properly perform their jobs.

As corporate structures have become more complex and managers have become responsible for a wider range of employees and functions, individual employees have been given more access and control. Increased access to resources and data, along with increased control over functional areas of companies, has created a situation in which it may be easier than ever to commit occupational misuse of resources. Obviously, these increased opportunities to misuse resources involve risk, but in many ways they are unavoidable in the modern business world.

The third and final piece of the component is rationalization. This is the process by which an employee determines that the misuse of public resources behavior is okay in
her or his mind. For those with deficient moral codes, the process of rationalization is easy. For those with higher moral standards, it may not be quite so easy; they may have to convince themselves that an act of misuse the public resource is okay by creating excuses in their minds. A thief may convince himself that his theft just makes up for the bonus or raise that he should have received but did not. An embezzler may tell herself that she or he is just borrowing money from the company and that she or he will eventually pay it back. May be the rationalization is that no one will miss the funds or assets, or that the company deserves the theft because of weak supervision and security.

Rationalization is probably the most dangerous piece of the components in the misuse of resource practice because it is the one that companies have the least control over. It is nearly impossible for management to eliminate the rationalization piece because they can’t control the minds of employees. Management has no way of knowing what lies an employee may tell himself in order to justify his practice in his mind, so there is virtually no way of counteracting the lies.

Management has the most control in curbing the misuse of public resources. It can limit access to assets and put controls in place that ensure monitoring of systems and people. Motivation can be constrained by management as well, although not to the degree that opportunity can be limited. The best way to reduce needs is by paying employees fairly (to reduce perceived financial burdens) and by creating performance systems that are reasonable (not requiring job performance beyond what is realistic).

**Research Question III: What ethical consideration should be followed by employees of the organization on top of the organizational internal controls in curbing misuse of public resources?**

In this regard all the respondents stress that organization should have an ethical value to combat misuse of resources on top of the organization’s internal control. An
organization's culture evolves from the values of its members and the culture, in turn, exerts a strong influence on the actions, decisions, and behaviors of all employees.

An ethical culture requires engaged employees and managers who understand why doing the right thing is important for the organization’s long-term viability; and they have the determination to see that in fact the right thing does get done.

What are some of the key attributes needed for an organization to be fully integrity-based?

- Employees feeling a sense of responsibility and accountability for their actions and for the actions of others.
- Employees freely raising issues and concerns without fear of retaliation.
- Managers modeling the behaviors they demand of others.
- Managers communicating the importance of integrity when making difficult decisions.
- Leadership understanding the pressure points that drives unethical behavior.
- Leadership developing processes to identify and remedy these areas where pressure points occur.

These attributes touch other aspects of the organization that go beyond the fundamental abilities of making a profit and maintaining high levels of quality and productivity: how well the organization adapts to change, or encourages employees to be engaged in decision making, how well the organization creates a collective sense of purpose around shared values. It is this broader set of skills and qualities that create the foundation needed to support an ethical culture. This indicates that if the organizations maintain their ethical value to the maximum they can then achieve the possibility of
minimum misuse of resource.

4.4. Secondary data

One respondent from National Audit office of Tanzania provided a researcher with a controller and Auditor General (CAG) report of 2008-2009. According to the CAG, the total breakdown and value of resources poorly spent, squandered or unaccounted for by the Tanzania’s Regional Administrative Secretariats (RAS) was as follows.

Table 4.7 Value of resources poorly spent

<table>
<thead>
<tr>
<th>Region</th>
<th>Audit Query</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arusha Regional Administrative Secretariat</td>
<td>• Purchased vehicle not delivered</td>
<td>47,798,500</td>
</tr>
<tr>
<td></td>
<td>• Missing payment vouchers</td>
<td>2,549,088</td>
</tr>
<tr>
<td></td>
<td>• Improperly vouchered expenditure</td>
<td>1,627,537</td>
</tr>
<tr>
<td></td>
<td>• Non Refunded unclaimed salaries</td>
<td>904,405</td>
</tr>
<tr>
<td></td>
<td>• Unspent balances in respect to various projects</td>
<td>253,156,540</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coast Regional Administrative Secretariat</td>
<td>• Stores not recorded</td>
<td>3,001,440</td>
</tr>
<tr>
<td></td>
<td>• Acknowledged payments</td>
<td>103,028,571</td>
</tr>
<tr>
<td></td>
<td>• Unauthorized variations in tenders</td>
<td>31,350,977</td>
</tr>
<tr>
<td></td>
<td>• Missing performance bond contracts</td>
<td>49,460,312</td>
</tr>
<tr>
<td></td>
<td>• Overstated contract sums</td>
<td>21,195,391</td>
</tr>
<tr>
<td></td>
<td>• Retention money not transferred to misc accounts</td>
<td>7,821,619</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dodoma Regional Administrative Secretariat</td>
<td>• Unsupported payments</td>
<td>9,002,000</td>
</tr>
<tr>
<td></td>
<td>• Revenue unbanked</td>
<td>5,578,200</td>
</tr>
<tr>
<td></td>
<td>• Payments based on single quotation</td>
<td>4,585,000</td>
</tr>
</tbody>
</table>
According to CAG report, in the years before 2008, there were reported instances of Regional Administrative Secretariats unnecessarily delaying channeling for funds to the district level. This later led to the central government putting in place a mechanism where some project funds were directly channeled at the district level by passing the expensive bureaucratic structure at the regional level.

This did help the situation on the contrary; it complicated the problem further as multiple accounts were opened at district level to receive the various project funds. This caused a problem of poor coordination and difficulties in ensuring prudent expenditure and oversight. The district authorities found themselves overwhelmed with bank accounts whose balances they could not reconcile and sometimes did not know. In some districts money disbursed for certain projects remained unspent for years, without the District treasury officers knowing.

This is the indication that there was poor prior training on the internal control procedures to cope with the changes when government established a mechanism where some projects funds were directly funded at district level.
CHAPTER FIVE
DISCUSSION OF THE FINDINGS

5.1. Introduction
The purpose of this study was to examine the impact of internal control in curbing misuse of resources in public sectors. This chapter presents the summary of the study, conclusion, recommendation, policy implications and suggestion for further studies. Based on the analysis presented on the preceding chapter the overall conclusions are presented below.

5.2. Discussion of the Findings
The organizational structure provides the decision-making framework of an organization. This structure groups, divides, and coordinates the tasks required to achieve identified goals. To be effective, the structure must make the best use of available resources while maintaining adequate controls to ensure compliance with state finance and other applicable requirements. In this respect the organizational structure of those of surveyed public enterprises are clearly defined in terms of line of authority and responsibility.

In the real world, many internal control activities still depend largely on the effectiveness and judgment of individuals. The quality of these individuals is a relevant issue for the simple reason that people, not machines, are currently the most effective defense against most of the misuse of the public resources. Consistent hiring and promotion of high - integrity individuals can be a visible demonstration that management is serious about setting the right tone and maintaining a control environment throughout the organization. The human resources function obviously
plays a prominent role in hiring and retaining a high-quality workforce. So it makes sense for organizations to ensure that appropriate standards exist for hiring and promoting personnel. For all employees, particularly senior management and those individuals with influence over financial reporting or who are involved in the preparation of the financial statements (including board of directors, audit committee, general counsel, CFO, and controllers), these standards may include a background investigation confirming prior education, work experience, evidence of integrity, and a search for evidence of criminal activity. Such steps taken should desirably be documented and reviewed by appropriate personnel. Management may also consider performing background investigations for existing employees being promoted into a position of trust and on a periodic basis for those serving in such positions. In this respect the researcher conclude that public enterprises have competent personnel in accounting areas. What I observed as a problem is that companies did not provide a sufficient training opportunity to the employees and this may in turn affect the individual’s competence and performance on their work area.

Segregation of duties is a primary principle in any internal control plan in order to provide adequate checks and balances. The basic goal of segregation of duties is that no one person should have excessive control over one or more critical processes. The fundamental premise of segregated duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. These are called incompatible duties when performed by the same individual. In this regard from what the researcher finds in the previous chapter he can conclude that the public enterprises apply the segregations of duties which are considered as the most important part of internal control in line with the theories and the internal control principles.

The respondents suggested that from their experience believed the following list of factors as the reasons for misuse of resources which includes living beyond once means, personal financial loss, and lack of internal control that are preventive or detective
measures of misuse of resources, failure to discipline, ignorance, apathy, and incapacity, lack of an audit trial and rationalization.

In general as per the level of the researcher understanding and the finding what he has got in the previous chapters the researcher conclude that if public enterprises designed, implemented and monitored strong internal control on the continuous basis then the probability of misuse of public resources become low or minimized.
CHAPTER SIX
POLICY IMPLICATION/RECOMMENDATIONS

6.1. Introduction
In this section the researcher present various comments and ideas directed toward finding solutions based upon the response that was obtained from analyzing the data.

6.2. Policy implication
According to the first internal control standard, which relates to control environment, management and employees of the public enterprises should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and hard-working management. There are several key factors that affect the accomplishment of this goal. Managers and evaluators should consider each of these control environment factors when determining whether a positive control environment has been achieved. The public organizations have to establish and uses a formal code or codes of conduct and other policies communicating appropriate ethical and moral behavioral standards and addressing acceptable operational practices.

Management of the organization should take appropriate disciplinary action in response to departures from approved policies and procedures or violations of the code of conduct and the organization should arrange training and counseling services in order to help employees maintain and improve their competence for their jobs.

The organization management must clearly specify the lines of Authority and responsibility; if they are clearly stated and assigned throughout the organization and there is clear communication between all employees across the organizations. Responsibility for decision making is clearly linked to the assignment
of authority, and individuals are held accountable accordingly. Along with increased delegation of authority and responsibility, management has effective procedures to monitor results.

There are two types of competencies - position and personal. Position competencies are the skills needed to perform the required duty. Personal competencies are the skills, knowledge, expertise, and experience of the individual employee, regardless of whether they are tied to the employee’s current position. Employees should have the skills to adequately perform their assigned duties. To make the employee force make competent it is better for the public enterprises to arrange training, to expose them to more updated and coup up with the advanced technologies.

Effective human resource policies strengthen an organization’s internal controls. These policies should address hiring, training, performance evaluations, responsibilities, appropriate behavior and disciplinary actions. If employees understand that they are responsible and accountable, the control environment is strengthened.

Each employee should be responsible for reviewing their business practices and processes to determine where misuse of resources exists and where and how controls can be established to mitigate them.

The management of each public enterprise should be responsible for establishing and maintaining an effective internal control structure. To fulfill this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs for internal control policies and procedures. The objectives of an internal control structure are to assist management in meeting objectives by providing reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition. The internal control structure also ensures that financial transactions are executed in accordance with management's authorization and are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).
A well-designed internal control structure will reduce improper activity. The responsibility of designing and implementing internal controls is a continuous process. As conditions change, control procedures may become outdated and inadequate. Management should anticipate that certain procedures will become obsolete and modify the internal control structure in response to these changes.

Physical security is the protection of personnel, clients, records, and assets. This includes protection from fire, natural disasters, theft, and terrorism. In the eye of researcher the physical security for majority of the surveyed organizations is not go beyond having a guard in the front door, so he recommends that they need to use various preventive techniques especially for accounting records and physical assets such as fraud reporting policy, increased attention management, increased role of internal audit committee, and fraud auditing.

Qualified and continuous supervision must be provided to ensure that internal control objectives are achieved. Supervision is the ongoing oversight, management and guidance of an activity by designated employees to help ensure that the results of the activity achieve the established objectives.

The successful operation of an accounting system requires procedures to ensure that people are able to perform the duties to which they are assigned. Hence it is necessary that all accounting employees be adequately trained and supervised to perform their jobs.

The theme of the research also considered as an initiation for other scholars who needs as to study on such areas as evaluating internal control and study on misuse of public resources especially financial statement fraud which is believed to be committed by management.
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APPENDIX 1

Questionnaire
Mzumbe University
Dar es Salaam School of business
Department of Accounting and Finance

Questionnaire:
The purpose of this Questionnaire is to gather data relating to the impacts of internal control in curbing misuse of public resources in public sectors. The research will be conducted to achieve the following objectives (1) To examine the current internal controls in public sectors (2) To examine the factors that contribute to individuals to misuse resources in public sectors. (3) To find out ethical consideration that could be followed by the employees of the organization on top of the company internal control to overcome misuse of public resources.

The information that will be gathered through this questionnaire will be used for academic purpose only. Your response will be totally anonymous and the highest degree of confidentially and will be maintained. You, your firm or your organization will not be identified in any way. I therefore request you to answer the following questions as honestly and as openly as you can.

Thank you

Section A: Respondent profile
Please tick where appropriate

1. Gender?
   (i). Female ( )
   (ii). Male ( )

2. What is your level of Education?
   (i). Less or equal to Standard seven ( )
   (ii). Secondary Education ( )
(iii). Certificate in any training ( )
(iv). Diploma ( )
(v). First degree ( )
(vi). Master degree ( )
(vii). PhD ( )

3. Age:
(i). 20-29 ( )
(ii). 30-39 ( )
(iii). 40-49 ( )
(iv). 50-59 ( )

4. Area (Filed of specialization) or major field of study
(i). Accounting ( )
(ii). Management ( )
(iii). CPA ( )
(iv). Economists ( )

Others please specify ________________________________

5. Years of work experience
(i). 0-5 years ( )
(ii). 6-10 years ( )
(iii). 11-20 years ( )
(iv). More than 20 years ( )
Section B: Evaluation of the following proposals in light of internal control function (Tick where Appropriate)

Question I: What are the current internal controls of public Organization?

6. The organization structure of the company is clearly defined in terms of lines of authority and responsibility
   (i). Agree (    )
   (ii). Disagree (    )
   (iii). Neutral (    )
   (iv). I don’t know (    )

7. Appropriate policies and procedures have been developed and implemented for each of function’s in major processes
   (i). Agree (    )
   (ii). Disagree (    )
   (iii). Neutral (    )
   (iv). I don’t know (    )

8. There are adequate controls designed to ensure for payroll related expenditure
   (i). Agree (    )
   (ii). Disagree (    )
   (iii). Neutral (    )
   (iv). I don’t know (    )

9. The usage of check is accounted for by person other than those who have custody of unissued check
   (i). Agree (    )
   (ii). Disagree (    )
10. Areas where materials and supplies are held protected against access by unauthorized personnel
   (i). Agree ( )
   (ii). Disagree ( )
   (iii). Neutral ( )
   (iv). I don’t know ( )

11. Organizations have a formal code of conduct for employees regarding acceptable operating practices and expected standards of ethical and moral behavior
   (i). Agree ( )
   (ii). Disagree ( )
   (iii). Neutral ( )
   (iv). I don’t know ( )

12. There is a clear assignment of responsibility and delegation of authority to deal with such matters as organizational goals and objective, operating functions and regulatory requirements
   (i). Agree ( )
   (ii). Disagree ( )
   (iii). Neutral ( )
   (iv). I don’t know ( )

13. The organizations have an internal audit committee that is appropriate for the size and nature of the entity
   (i). Agree ( )
(ii). Disagree ( )
(iii). Neutral ( )
(iv). I don’t know ( )

**Question II: What are the factors that contribute to individuals to misuse resources in public sectors?**

14. Are sufficient training opportunities available to improve competency and update employees on new policies and procedures?
   (i). Yes ( )
   (ii). No ( )

15. Do you think that effective internal control alleviate misuse of resource problems?
   (i). Yes ( )
   (ii). No ( )

16. In your opinions, what factors motivates peoples to misuse public resources. (You may tick in more than one opinion)
   (i). Living beyond once means ( )
   (ii). Personal financial losses
   (iii). Lack of or circumvention of internal controls that prevent or detect misuse of resources ( )
   (iv). Failure to discipline fraud perpetrators ( )
   (v). Ignorance, apathy, and incapacity ( )
   (vi). Lack of an audit trail ( )
(vii). Rationalization (by saying like I deserve more, I’m only borrowing the money, It’s for my sick child and It’s for a good cause)

( )

(viii). If there is any other reasons not mentioned above you may state them below

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Question III: What ethical consideration should be followed by employees of the organization on top of the company internal control in curbing misuse of public resources?

17. The following are some of the key attributes (ethical practices) needed for an organization to be fully integrity-based in order to avoid misuse of public resources. (Tick on the practice that seems familiar in your organization)

(i). Employees feeling a sense of responsibility and accountability for their actions and for the actions of others (   )

(ii). Employees freely raising issues and concerns without fear of retaliation. (   )

(iii). Managers modeling the behaviors they demand of others. (   )

(iv). Managers communicating the importance of integrity when making difficult decisions in the organization matters. (   )

(v). Leadership understanding the pressure points that drives unethical behavior. (   )

(vi). Leadership developing processes to identify and remedy these areas where pressure points occur. (   )
18. In your opinions, what other ethical practice can be followed by employees apart from company internal control system

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