EVALUATION OF THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEM OVER PAYROLL IN TANESCO LTD

By
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A Dissertation Report submitted in Partial Fulfillment of the Requirements for Award of the Degree of Master of Science in Accounting and Finance (Msc.A&F), Mzumbe University

2013
CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the Mzumbe University Dar es salaam Campus College, a Dissertation entitled: “Evaluation of the Effectiveness of Internal Control System over Payroll, the case study of Tanzania Electrical Supply Company Limited (TANESCO)”, in partial fulfilment of the requirements for the degree of Masters of Science Accounting and Finance (Msc.A&F) of Mzumbe university.

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AND
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I, Jackson R.Kibasso, declare that this dissertation is my own original work. It has not been presented and it will not be presented to any other University for the award of a degree.

Signature:………………………………………………

Date:……………………………………………………..

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First of all, I thank God for his glory upon me to establishment of this work. I would like to, gratefully and sincerely, thank my research supervisor Mr. J.A.Mnzava, A lecturer at the Mzumbe University for his Sincere Support toward completing this dissertation. He encouraged me to not only grow as an administrator and accountable but also as an instructor and an independent thinker. I am not sure if many graduate students are given the opportunity to develop their own individuality and self sufficiency by being exposed to work with such independence. For everything you have done for me Mr. J.A.Mnzava, I thank you.

I would like to give my heartfelt appreciation to my family (Kibasso Family), for their love, encouragement and faith in me by allowing me to be as ambitious as I wanted. It was under their watchful eye that I gained so much drive and an ability to tackle challenges ahead of me. I give thanks to all my relatives who have always supported me, in all endeavours and who, so lovingly and unselfishly, care for me.

Most importantly, I would like to thank my uncle Mr. Donny Maige, his support, encouragement, patience and unwavering love.

Thanks to all who helped me directly and indirectly, May the Lord bless them always in their lives.

Finally, I declare that I remain personally responsible for all errors and shortcomings that might found in this work.
DEDICATION

I dedicate my dissertation work to my family. A special feeling of gratitude to Mr. Donny Maige (my uncle)

I also dedicate this work to my parent, Mrs. R. Kibasso (my mother). I give my deepest expression of love and appreciation for the encouragement that you gave and the sacrifices you made during this graduate program.

Finally, I dedicate this work to my late beloved father Mr. R. Kibasso. Without his prayers, love, support and insisting on Importance of education and hard working, I could not have completed this process. I pray that Lord rest his soul in eternal peace.

Amen!
<table>
<thead>
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<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organizations</td>
</tr>
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<td>TANESCO</td>
<td>Tanzania Electrical Supply Company</td>
</tr>
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<td>FICA</td>
<td>Federal Insurance Contributions Act</td>
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<td>NGO’s</td>
<td>Non-Governmental Organization’s</td>
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<td>IFAC</td>
<td>International Federation of Accountants</td>
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<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<tr>
<td>Msc.A&amp;F</td>
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ABSTRACT

The aim of this study was to evaluate the effectiveness of internal control system over payroll in Tanzania Electrical Supply Company Limited (TANESCO). The study sought to have the following objectives: (a) To explore whether/if employees are identified to the cashier by means of identity cards or by their foreman, (b) To explore whether the key procedures are followed in payment of salaries and wages, (c) To explore whether payroll section has full details necessary to support the net pay of each employees. (d) To determine whether time ticks production reports and other accounting data on which payroll calculations is based, are approved by department/foreman who taken no part in preparation and distribution of payroll. The sample of this study consisted of 39 respondents who were all selected randomly from the staffs and employees of the organization (TANESCO) head office in Dar es Salaam. The data selection methods were questionnaires, interview, Document review and observations.

The researcher through findings related to these objectives found out that, some of the employees in the organization are identified by means of their foremen especially for cheap labours, while other employees of the organization are professional employees are identified with the senior manager human resource office and its core department. It was also evident that internal controls used in TANESCO Limited were effective and satisfactory for the identifications of employees by cashier to avoid fraud and errors by means of updating of employees master file on monthly basis and Payroll department also identify the employers and employees by a federal code called company number. In addition, it was revealed that salaries and wages being paid through cheques by imposing and following controls to avoid ghost payroll payments, Fraud and Errors.

The researcher really hopes that output from this study shall be of practical use to TANESCO Ltd.
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CHAPTER ONE
AN OVERVIEW OF THE STUDY

1.1 Introduction
The research aimed on the evaluation of the effectiveness of internal control system over payroll. This section provides a background of the study and statement of the problem. The statement of the problem is given along with the emerging challenges, research objectives and research questions. It also included the scope of the study and significance of the study, as well as limitation and delimitation of the study.

1.2 Background of the Study

*Internal controls* exist to ensure payroll is properly disbursed to the organizations employees. Payroll internal controls procedures ensure that the payroll is accurately recorded, payroll disbursements are properly recorded and related legal requirements (such as payroll tax deposits) are complied with. Payroll transactions should be properly recorded and authorized. Checks should be appropriately distributed and employees validated.

Internal controls are put in place to keep organization on course towards profitability goals and achievement of its mission and to minimize surprise along the way. They enable management to deal with rapidly changing economic and competitive environment, shifting customer demands and priorities and restructuring for future growth. Internal controls promote efficiency, reduce risks of asset loss and help to ensure the reliability of financial statements and compliance with laws and regulations (Coso, 1992).

*Payroll* encompasses every employee of a company/organization who receives a regular wage or other compensation. Some employees may be paid a steady salary while others are paid for hours worked or the number of items produced. All of these different payment methods are calculated by payroll specialists and the appropriate paychecks are issued. Organization often uses objective measuring tools such as time –cards or
timesheets completed by supervisors to determine the total amount of payroll due each pay period.

After a payroll accountant multiplies an employee's hours by his or her pay rate, the gross income amount is entered into a calculator or computer program. Regular deductions such as tax withholdings, FICA payments (social security), medical insurance, union dues, charitable contributions and so on are then categorized and subtracted. The remaining balance is then converted to a check and becomes the employee's net pay for that time period. Payroll departments also identify the employer and employees by a federal code and keep a running tally on total income and deductions for the fiscal year. (Michael Pollick)

### 1.3 Emerging Challenges

On the researcher’s report concerning internal control over payroll, the following are the emerging challenges:

(i) There are some weaknesses in time keeping for the organizations department which pay wages on hourly basis.

(ii) Lack of complete segregation of duties among the payroll analyst and the management as general.

(iii) Lack/shortage of accounting manual which would have been used by the accounting department.

(iv) Lack of internal check that is the work done by one person should be exposed to other independent person.

(v) Restrictions to the access of computer room are not adhered to for organizations whose payroll accounting system is computerized.

### 1.4 Statement of the Research Problem

Payroll fraud has a long history. Before the period of social security records and computers, payroll records were often handwritten and incomplete. In this era of technological advancement where computers are in use, frauds and the incompleteness of records have been reduced, though in organizations they still exist.
Payroll fraud may occur where responsible officials place names of non-existing workers in order to misappropriate the money for their own benefits. This has been common in many governments and some private enterprises including non-governmental organizations (NGO’s).

Payroll fraud may also be caused by failure to adhere to the internal control policies. Sometimes-personnel responsible for preparation of payroll are not rotated and responsibility of recruiting new employees for preparation of payroll is done by them alone.

TANESCO Ltd is not different from other organizations; it involves employees, part-time workers, contract workers and other stakeholders. Its existence and operation depends much on effectives and efficiency of its internal control system.

The above mentioned cases prompted researcher to conduct a study aiming at evaluation of effectiveness of internal control system over payroll in TANESCO Ltd.

### 1.5 Research Questions

These are the questions which should be considered during the findings of the research study.

**1.5.1 The General Research Question**

How effective are the internal control systems over payroll in TANESCO Ltd?

**1.5.2 Specific Research Questions**

The following are specific research questions:

(i.) Are employees identified by the cashier by means of identity cards or by their foreman?

(ii.) Are the key procedures followed in payment of salaries and wages?

(iii.) Have the payroll section full details necessary to support the net pay of each employee?

(iv.) Is time ticks production reports and other data on which payroll calculation is based approved by department foreman who taken no part in preparation for distribution of payroll?
1.6 Research Objectives

1.6.1 General Research Objective
To evaluate whether internal control procedures in response to payroll system instituted are effective to provide relevant and reasonable information to the management, for implementing and monitoring of activities and that the assets (cash in terms of salary) of the organization are adequate safeguarded against from unauthorized use or disposition.

1.6.2 Specific Objectives
The specific objective of the research report was to evaluate the effectiveness of the internal control over payroll and recommend improvement in case of weakness by regarding and concentration on the following objectives;

(i) To explore whether/if employees are identified to the cashier by means of identity cards or by their foreman.

(ii) To explore whether the key procedures are followed in payment of salaries and wages.

(iii) To explore whether payroll section has full details necessary to support the net pay of each employees.

(iv) To determine whether time ticks production reports and other accounting data on which payroll calculations is based, are approved by department/foreman who taken no part in preparation and distribution of payroll.

1.7 Significance of the Study
Although there have been questions on effectiveness and value added by the procedures of internal control in payroll system in most organizations in Tanzania, so far no study has been done specifically to identify how it is effective/perceived in public sectors such as TANESCO Limited.

This study was seeking to determine how effective is the procedure for internal control over payroll, and how was it perceived by different stakeholders and therefore expected to contribute in the following areas:
(i) The study highlights to the management the areas of weakness, in the area such as personnel functions area, payroll distribution areas, overtime, payment employees, payment of salary by banks, payment of salary by cash, and other relevant variables.

(ii) The research/study served and stimulate to other company to view payroll procedures and improve them where necessary.

(iii) It will help company to improve the management of payroll accounting system.

(iv) To extend knowledge in analysis of various issues and moreover being MSC.A&F Student, it is an academic requirement that I could have to present a paper of such kind to give a reflection of the accumulated knowledge that have been acquired during my study at Mzumbe University for the academic year 2011/12

1.8 Scope of the Study
The study/research reports covered the financial statements over an entire period of the year. However the real-time has been based on the financial accounting entity. the assumption was that, observations that covers the whole financial year have greater chances of yielding better results in evaluating the effectiveness of internal control over payroll system to the client and the research’s purpose those few months of study, covered in respect to the financial year 2011/2012 statements.

1.9 Limitations of the Study
In the course of this study there were lots of problems and difficulties. The following ware the some of those difficult which faced the study as follows.

I. Time Factor
The time provided for the study was not being enough to carry out intensive and extensive study since some of the information was not easily and quickly available. Also some of duties weren’t being done practically due to limited time. So sometimes the researcher forced him-self to use extra time, weekends so as to be able to collect, analyze and interpret the collected data.
II. Data Confidentiality

Most of the organizations department were not confidentially on the provision of their data, so they did not provide adequate and sufficient data. Therefore researcher worked honestly with the management and trust them so that, data that was being provided ware used for the research purpose only, and would not be disclosed to anyone who is not concern. Also some of data were not available due to improper documentation and record keeping in the organization.

III. Lack of Enough Funds

The fund provided was not enough to meet all expenses during the study like transport cost, meal allowance, photocopies and stationeries expenses. Hence researcher forced to conduct the studies in accordance with the fund provided by the sponsor and my own fund.

IV. Computer Knowledge

Little knowledge of computer application skills to some employees within the organization and researcher caused some problems in task provided since most of the task is done by using computers.

V. Poor Knowledge of Payroll System

In department of accounting and finance at the organization especially payroll department where researcher took as the case study most of staff employed they have got little knowledge about payroll and internal control over the system something which make the payment of salaries and other necessary payment to be difficult and take long time to payment.

1.10 Delimitations of the Study

Delimitations are restrictions/bounds that researchers impose prior to the inception of the study to narrow the scope of a study. A research was conducted at TANESCO (Head office) in Dar es Salaam and likewise the researcher; with this was not easy to conduct
the research especially in data collection process. The following are delimitations of the study.

(i) It might be provided that the time for the study to be enough to carry out intensive and extensive study since some of the information is not easily and quickly available.

(ii) On the information and data, the organization should give the information which are relevant to the study, and should forget on the issue of spreading of the data to the outsider.

(iii) The sponsors and organization as general should provide the enough funds for data collection and processing so that, the study to come up with good views and recommendation beneficial to organization and the other stakeholders.

(iv) On knowledge of computers and payroll system, the organization should provide seminars and workshops to come up with updating to worker which will result to improvement of the system.

1.11 Organization of the Dissertation
This dissertation is organised in six main chapters. Chapter one presents the background information to the research study, statement of the research problem, research objectives and questions, significance of the study, scope, and limitation and delimitation of the study. Chapter two presents the reviewed various theories and concepts which relate to internal control system. It also gives an integrated summary of internal control system over payroll. The review of empirical studies was also reviewed and it ends up with the conceptual model and hypothesis statements. Chapter three details study methodologies used to collect, present, and analyse findings. Chapter four presents main study findings while chapter five provides a discussion and analysis of the main findings.
Finally, study summary, conclusion, and recommendations are presented in sixth chapter and a fine list references and appendices come at the end
1.12 Summary of the Chapter
Chapter one tries to explain the background of internal control and payroll system, its objective as well as how does it contribute towards the growth and development of the organization objective.

The chapter also makes a brief history towards the evolution of payroll and fraud occurred within the organization due to weakness internal control procedure on payment of salaries and wages to employees around the world.

Finally, the chapter tries to evaluate the challenges that face internal control within the organization as well as statement of the problem that explains some mixed perceptions about causes of fraud within the organization. The chapter goes far by analyzing the research objectives and research questions that guided the researcher to produce good findings.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter briefly provided literature revises on by reviewing on matters presented by different authors on the same topic regarding to the Evaluation of Effectiveness of internal control over payroll system.
The literature review is divided into conceptual definitions which define different terms used, theoretical bases of the research which have been advanced to explain the effectiveness of the control in the organization and the empirical analysis of the past studies as to what other colleagues have wrote about the subject matter.

2.2 Definitions of the Main Concepts
Payroll: The term payroll generally refers to the process of identifying employees, calculating the pay and payroll taxes, recording the payroll transactions, making the payments, and completing required federal and state payroll tax forms. Payroll is unique from other basic accounting topics because payroll involves many federal (and state) payroll tax and income tax withholding laws, and pay rate calculation rules. Each of these legal rules imposes different requirements

Internal control: is the whole system of controls, financial or otherwise, established by the management in order to carry on the business of the enterprise in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of its records. A strong internal control system will produce information which is free from material errors whereas a weak internal control system is likely to produce materially misstated financial statements. (S K Tuteja & Elias Stephen Malubi (2011))

Internal Audit: An appraisal activity established within an entity as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control {IFAC}
As per Institute of Internal Auditors (IIA) definition; *Internal Auditing* is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the risk Management, control, and governance processes (Pickett, 2005).

**Control Activities** are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties (COSO, 2006)

**Control Environment** sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors (COSO, 2006)

**Effectiveness:** means the capability of producing an effect. In management, effectiveness relates to getting the right things done.

### 2.3 Theoretical Literature Review

Not all people who perform duties for a business are employees. It is very important to accurately identify which workers qualify as employees because the law imposes different requirements for workers who are employees and those who are not. Every business must comply with the requirements of these laws. Proper identification also reduces fraud and waste. The general rule (called *common law*) is that any person who performs services for a business is an *Employee* if the business controls: a.) What will be done, and (b.) How it will be done.
This definition must be applied to each individual. It makes no difference what job title or name is used, how the individual is paid, or whether the work is full time or part time.

2.3.1 Internal Control Procedures in Payroll

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, as follows

**Personnel File**

The employee's personnel/payroll file should contain his salary, benefits, job status, withholding paperwork (for example, his Form W-4) and his dates of employment. The organization/company should prepare a personnel handbook outlining the company's vacation, personal, sick leave and holiday policies. You should keep records of benefit days employees have taken to ensure they're complying with the company's policies.

**Timekeeping**

Department of Labour, Wage and Hour Division, can implement the timekeeping system of their choice, provided it's accurate and complete. A key aspect of payroll internal control is establishing a timekeeping system. The organization can use a time clock or a standard weekly time sheet, which the employee must complete. The employee's supervisor or manager must sign the time sheet before submitting it to payroll for processing. The individual who signs the time sheet is not the ideal person to handle payroll processing---a separate individual should be hired/employed for payroll tasks.

**Payroll Duties**

An individual besides the check signer should be assigned with specific payroll duties. This individual would be responsible for holding unclaimed payroll checks, reviewing the payroll register for each pay period, making payroll entries into the general ledger, reviewing payroll tax withholdings, taking care of deposits and filing, and issuing yearly W-2s to employees, plus correcting W-2s, if applicable.
Payroll Structure
A separate payroll checking account should be established and maintained. The payroll account should be used for paying employees and making tax payments to the government. Payroll registers should be printed for each payroll detailing employees' wages, taxes withheld, voluntary deductions and check numbers. If the organization’s payroll system is manual, payroll disbursements can be incorporated into the cash disbursement journal. The company/organization can also have their employees sign the payroll register to show they received their pay checks.

Payroll Service
The organization/company may opt to use a payroll service, which is responsible for the clients' complete payroll processing. If the organization/company using a payroll service, it's critical that they remember that they are ultimately responsible for ensuring that their employees and the appropriate taxes are paid on time and accurately. Still, the payroll service may be liable to some degree, particularly if it makes an error. Using a payroll service reduces the amount of time and money the company should have to spend on performing payroll duties or on employing a payroll staff.

Checklist
To know if company’s payroll internal controls need improvement, management should consider whether detailed time sheets are necessary to track employees' hours, employees' supervisors are signing the time sheets, employees' payroll records are being properly maintained, payroll taxes are being properly paid, appropriate higher-ups are reviewing payroll tax returns, policies for benefit days have been implemented, payroll check data are being properly documented, and the company has a designated bank account for payroll transactions.

2.3.2 Payroll Internal Control Practice
Payroll and related employee benefit costs are by far the largest component of nearly every organization (public and private sector) budget. The establishment of strong internal controls over payroll ensures that employees are paid the correct salary and
wages, and opportunities for payroll errors and fraud are controlled. Some examples of payroll frauds include ghost employees (someone receiving a paycheck who does not actually work for the local government); overstating regular or overtime hours worked; increasing rates of pay without board approval; and continuing employees on the payroll after termination. Internal controls also provide assurance that the large volume of information required for every payroll is processed quickly and accurately.

This section discusses internal controls designed to ensure the accuracy and the authenticity of payroll payments.

2.3.3 Authorization Procedures

(a) The governing board, or such other body or officer as authorized by law, should establish and approve all salary and hourly wages by position or as part of a collective bargaining agreement. Subject to statutory requirements and collective bargaining agreement provisions, the board or officer should also establish the frequency of all payroll distributions (biweekly, monthly, etc).

Reason for Control
Establishing salaries and wages and the frequency of payroll periods is generally part of the board’s oversight responsibilities. These authorizations prevent other officers or department heads from establishing new pay rates or schedules without proper approvals.

(b) The terms and conditions of collective bargaining agreements should be clearly communicated to those responsible for payroll processing.

Reason for Control
Terms and conditions of employment that are not clearly articulated to those responsible for executing payroll activities can lead to uncertainty about payments and benefits and the overall rights, duties, and responsibilities of employers and employees. This uncertainty could further result in unnecessary costs and/or grievances or litigation for a local government.

(c) Limit access to computerized payroll applications and data files containing potentially confidential information such as social security numbers and deductions.
**Reason for Control**

The payroll process involves a range of confidential and personal information. Hence, access to computerized applications and paper files (such as personnel files) should be restricted to the fewest number of officers and employees possible.

**2.3.4 Payroll Change Procedures**

(a) All changes in employment status (e.g., additions and terminations), salary, and wage rates should be properly authorized, approved, and documented to support employment status changes. When appropriate, payroll change forms should be used to document and authorize wage and salary changes authorized by the governing board.

**Reason for Control**

When a formal process exists to document authorized changes to salaries and wages, the opportunity for fraudulent or erroneous payroll changes to occur without detection decreases.

(b) If payroll change forms are used, control access to these forms by keeping them in a locked cabinet or drawer.

**Reason for Control**

Limiting access to payroll change forms reduces the risk that fraudulent authorization could be made by forging authorized signatures and other information.

(c) Prior written authorization should be required for all nonemergency overtime hours and should be granted only for specific, verifiable purposes, consistent with any collective bargaining agreements. In emergency situations, supervisors should verbally pre-approve overtime to be incurred, and follow up with a review of overtime records to determine the appropriateness of overtime hours incurred.

**Reason for Control**

A simple way for hourly employees to perpetrate payroll fraud is to over-report overtime worked, particularly if supervisors are not on site during the overtime hours. Prior written or oral approval allows management to make sure that overtime is incurred for a
valid and needed purpose, and that funding for the nonemergency overtime is provided for in the budget.

2.3.5 Time and Attendance Records

(a) Require employees to document days and hours worked and leave credits used on either time sheets or time cards. Time sheets and time cards should be reviewed and approved by supervisory personnel who have direct contact with the employee.

**Reason for Control**
A lack of appropriate time and attendance records increases the likelihood that an employee could be paid for time not worked or for unauthorized absences.

(b) Using time clocks to record arrival and departure times will provide additional control over days and hours worked by employees. Electronic time clocks can also reduce manual processing of payroll data if the time clock and payroll application are compatible.

**Reason for Control**
For local governments with large numbers of employees or where shift work is involved, an electronic time clock system will help ensure that employees are paid accurately for hours and days worked. An electronic time clock can also reduce data entry work if time clock entries can be downloaded directly into the payroll application.

(c) Time clocks should be placed in an area where their use can be observed by supervisors.

**Reason for Control**
This will discourage employees from clocking in or out for co-workers who are not actually present.

(d) Require the use of leave request forms to document advance requests to use accrued leave credits and to document absences covered by the use of leave credits.

**Reason for Control**
Leave request forms provide an audit trail on the use of accrued leave credits and assist with the preparation of accurate gross payroll amounts for individual employees.
(e) Maintain leave accrual records and communicate leave balances to employees regularly.

*Reason for Control*
Maintaining and reviewing leave accrual records ensures that such records are accurate and that employees only receive payment for leave time they are entitled to.

### 2.3.6 Verification Procedures

(a) Even if not otherwise required by law, before checks are distributed, payroll registers or similar records should be certified by the officer or employee having direct supervision over specific departments or individual employees. The certification should indicate that to the best of the supervisor’s knowledge, services were actually performed by the persons listed on the payroll and those days and hours worked are accurate and justified.

*Reason for Control*
A review of the completed payroll register will help detect unusual or inaccurate payments requiring further verifications before checks are distributed.

(b) Management or the internal auditor should periodically review payroll change reports. When unusual changes are identified, those items should be traced to authorization documents (i.e., board minutes, payroll change forms, or collective bargaining agreements).

*Reason for Control*
Managerial review of this type of report provides assurance that payroll changes are being properly authorized and input correctly.

### 2.3.7 Reconciliation Procedures

(a) Establish a separate bank account for payroll transactions.

*Reason for Control*
A separate bank account segregates net payroll checks, direct deposit transactions and withholding payments from other cash disbursements. The establishment of a separate
bank account will ease the reconciliation of high volume payroll transactions and will also facilitate the identification of uncashed payroll checks.

**(b)** Reconcile the payroll account monthly.

**Reason for Control**

Payroll is often one of the last bank accounts to be reconciled because it is generally a zero balance account. It is important to reconcile this account monthly so that uncashed payroll checks can be promptly identified and rectified.

**(c)** The payroll bank reconciliation should be performed by an employee who is not connected with the authorization of payroll changes or with payroll preparation.

**Reason for Control**

Segregating reconciliation duties from authorization and preparation duties provides for an independent review of transactions that have been processed by the bank and of outstanding checks.

**2.3.8 Potential Losses**

(i). Payments to fictitious (“ghost”) employees: These payroll checks will be cashed by people who use false identification.

(ii). Misclassification of employees as independent contractors: An employer has liability to government taxing authorities for all amounts that should have been withheld (plus penalties) from the pay of workers who should be classified as employees. Moreover, owners, corporate officers, and even bookkeepers and accountants can be held *personally liable* for these amounts. If no form 1099 was issued to the worker, some of the amounts can be doubled.

(iii) Employers can be subject to lawsuits for failure to pay the gross pay, any overtime pay, and benefits that would have been payable to a person that should have been classified as an employee.
2.3.9 Personnel Department (Human Resources)

The mandatory use of a separate personnel department (also called the human resources department) acts as an internal control device to reduce the potential frauds and errors described above. In a small business that cannot afford a separate personnel office, the owner(s) should perform most or all of these functions. An outside employee search firm or consultant can be used to assist the employer and to perform background checks of job applicants.

2.3.10 Common Weaknesses of Internal Control Systems

Albrecht (1984), outlines twelve most common internal control weaknesses, in order of frequency as; Too much trust in employees, lack of proper procedure for authorization, lack of personal financial information disclosure (for bank frauds), lack of separation of transaction authority from custodian of assets, absence of independent checks on performance, lack of adequate attention to detail, failure to separate asset custody from accounting for assets, failure to separate accounting duties, absence of clear lines of authority, relaxed or absence of audit activities or reviews, no conflict of interest statement required and lack of adequate documents and records.

A view held by Buckoff (2002), and supported by literature by Mac Arthur, Waldrup and Fane (2004) is that lack of segregation of duties, lack of independent reconciliation on cash received and deposited, payroll system reconciliation and performing incompatible roles greatly facilitates internal fraud. The conditions for fraud to occur include an incentive to commit fraud (pressure), good reason for justifying fraudulent behavior (attitude) and an opportunity to commit fraud Albrecht et al (1984), it is pointed out that opportunity is easy to control by establishing strong internal system unlike pressure and attitude which are human factors that are usually beyond direct influence of management.
2.3.11 Challenges of Internal Control over Payroll

An important goal of any internal control system is safeguarding assets. Because payroll processes affect both human and financial resources, problems or weaknesses in payroll internal controls can be costly. Recognizing the risks inherent to the payroll process, understanding their potential affects and knowing how to address them can result in significant loss prevention over time.

**Risks**

Risks in the payroll process include financial reporting problems, such as understatement of payroll and employee benefit-related liabilities or misclassification of labor costs between cost of goods sold (COGS) and selling, general and administrative (SG&A) expenses. Operational efficiency can be compromised by paying phantom or terminated employees (usually the result of collusion) and by using incorrect wage and salary rates. Regulatory compliance is compromised through violation of federal and state wage and hour laws or violation of Internal Revenue Service (IRS) regulations related to employees versus independent contractors.

**Impact**

The potential financial, reputational and legal impact of payroll problems varies widely depending upon their timing, size and nature. Understanding the impact an event could have is important in knowing how to address it appropriately. Businesses must consider the following: Financial reporting errors may increase external audit fees. Incorrect financial data may result in poor management decisions and may negatively affect investors and other stakeholders, such as creditors. Payments to phantom employees and incorrect pay rates can negatively impact liquidity and increase tax burdens. Violations of wage and hour laws or IRS regulations can result in significant fines, legal fees, higher employee turnover rates and loss of reputation.
2.4 Empirical Literature Review

2.4.1 World Related Study

According to the U.S. Department of Labour, Wage and Hour Division, the company/organization can implement the timekeeping system of their choice, provided it's accurate and complete. A key aspect of payroll internal control is establishing a timekeeping system. The management can use a time clock or a standard weekly time sheet, which the employee must complete. The employee's supervisor or manager must sign the time sheet before submitting it to payroll for processing. The individual who signs the time sheet is not the ideal person to handle payroll processing---a separate individual should be hired/employed for payroll tasks.

2.4.2 Tanzania Experience

The government of Tanzania has established an audit software payroll programmed to detect flawed, suspicious and fraudulent moves before payments are made to civil servants. Internal Auditor General in the Ministry of Finance and Economic Affairs revealed this in Dar es Salaam on may 2012 when closing a four-day workshop for internal auditors. According to the Internal Auditor General, the programme to be implemented later this year will enable government institutions to have the software for independent payroll process.

“This is a great move for providing independent observation over the payroll process,” he said adding that the programme was being used in other countries including Kenya and would help control misuse of public resources, including payment of salaries to ‘ghost workers’, which has increased for some years to years as a result increases Government expenditures to worse than before.

2.4.3 Related Research Studies

There are various studies conducted on internal control especially over organization management and particularly on organization performance and expenditures. Despite of its importance in the daily, weekly and monthly operation/transaction and payments of
wages and salaries of workers and employees within the organization to reach the targeted objectives and goals, yet few studies have been conducted on the internal control over organization payroll. The studies which have conducted on internal control over payroll concentrated only on private entities rather than public sector organizations. Johnston (2000) argues that the organization should create a clear policy on organization expenditure including payroll system and payroll departments to insure that what has been paid to employees is what were required to be paid and the payment is made to the real employees not ghost employees. He argues that, recently there have been different ways of misuse of organization funds especially for salaries through fraud.

Gauthier, (1996) ascertain internal control is a process affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories;

(i) Effectiveness and efficiency of payroll system and operations
(ii) Reliability of financial reporting
(iii) Compliance with applicable laws and regulation on payroll system

2.5 Conceptual Frame Work Model

Definition(NDUNGURU,2007) a conceptual frame work is an assemblage set of research concepts cum variables together with logical relationships often represented form of diagram, charts, graphs, pictographs, flow-charts, organ gram or mathematical equations.

It is grounded upon the assumption that in order to have effective Control system Practice must be technically sound accepted by user.

Conceptual frame work of this study consists of two variables dependent and independent variables. (KAMUZORA, 2008) defines independent variables are the variables whose effect we would like to establish in a study, while dependent variables are variables that researchers measure in order to establish the change or effect created them. For this study independent variables are internal control system and the dependent variables are payroll systems.
2.5.1 Description of the Model

Basing on the objectives of the study, the researcher found it is necessary to explain internal control systems in a wide manner. Internal control according to Leslie R. Howard is defined as not only internal check and internal audit but the whole system of controls, financial and otherwise, established by the management in order to carry out the business of the organization in orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of its records.

For the internal control system to be effective, it must contain the following characteristics;

(i) Proper Identification System
(ii) Proper payment methods
(iii) Existence of full details to support payments
(iv) Adequate separation of duties— which prevent both fraud and errors. Allowing on person to perform two related functions increase the risk of that person to make fraud and errors
(v) Proper authorization of transaction and activities— every transaction must be properly authorized if controls are to be satisfactory. Management should establish policies and subordinates are instructed to implement these policies.
(vi) Adequate documents and Records— documents and records are the physical objects upon which transactions are entered and summarized. They include such diverse items such as time-ticks records, employees’ monthly payroll documents, payment record and other records within the organization.

Taking into consideration on the above mentioned characteristics, the researcher came up with the following model.
Figure 1 Conceptual Framework: Problem Modeling

Source: Designed by Researcher’s model, 2013
2.5.2 Assumption behind the Conceptual Framework
The independent variables (Internal Controls) and the dependent variable (Payroll System) have been taken into consideration by this study. The assumption for this model was that when Internal Control practice implemented effectively within the organization is like to increase organization Payroll System effectiveness as a result the organization will not suffer more in payment of ghost employee and any other kind of frauds would be minimized if not totally eliminated.

2.6 Statement of Hypotheses
Based on literature review and conceptual model developed, the following hypotheses tested:

2.6.1 Hypothesis One
The first hypothesis is on identification methods and is stated in form of null (H₀) and alternative (H₁) hypotheses as follows:

H₀: There are good methods for identification of employees
H₁: There are no good methods for identification of employees

2.6.2 Hypothesis Two
The second hypothesis is on payment methods and is stated in form of null (H₀) and alternative (H₁) hypotheses as follows:

H₀: All important procedures for payment of salaries and wages are followed.
H₁: All important procedures for payment of salaries and wages are not followed

2.6.3 Hypothesis Three
The third hypothesis is on existence of full details necessary to support net pay of each employee and is stated in form of null (H₀) and alternative (H₁) hypotheses as follows:

H₀: The payroll section has full details necessary to support the net pay of each employee
H₁: The payroll section has not full details necessary to support the net pay of each employee.
2.6.4 Hypothesis Four

The fourth hypothesis is on independent approval and authorization of payment and is stated in form of null ($H_0$) and alternative ($H_1$) hypotheses as follows:

$H_0$: Time ticks production reports and other data on which payroll calculation is based are approved by department foreman who has taken no part in preparation for distribution of payroll.

$H_1$: Time ticks production reports and other data on which payroll calculation is based are not approved by department foreman who has taken no part in preparation for distribution of payroll.

2.7 Chapter Summary

Literature review tries to define some conceptual definitions that define different terms that used in the whole research process.

The chapters also evaluate the theoretical base of the research, the empirical part, internal control weakness internal control practice. Internal control procedures and other parts relating to literature review.

So, you can reduce the likelihood or the impact of a payroll problem if you implement strong payroll controls. However, the benefit of implementing payroll controls should not outweigh the cost. Regular and timely payroll account and data reconciliations to the general ledger and to third party processors' data, file transmissions and other records may prevent or detect financial misstatements. Review of employee labour classifications between direct and indirect costs can help identify classification problems. Segregation of duties between payroll data entry, processing and payment authorization and release personnel is ideal but can be difficult in small companies with limited resources. Higher level management review, approval and communication of pay rates, rate changes, personnel promotions, job changes and terminations may be appropriate where segregation of duties is not cost effective. Appropriate management and supervisor training programs for legal and HR issues may help increase regulatory compliance.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter discussed the theories of the research methodology, and also justified the choice of the methodology and study area. The chapter discussed the chosen research design, population, sampling procedure and sample size. It also further discussed the data collection methods, data processing and analysis, and data presentation. This chapter, therefore, had given a reader the insight of the methodology that was used in conducting the research and the evidence of the reliability of the method, and of the data collected.

3.2 Research Design
Kithara C.R (2006 pg 31), defined research design as arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purposes with the economy in procedures. The research design is the conceptual structure within which research is conducted. It constitutes the blueprint for the collection, measurement and analysis of data. The researcher used case study whereby the answer to the research questions raised through questionnaires, interview and observation.
But the method was applicable accordance with availability of personnel in Tanesco who was been really willing in giving information which are useful to the researcher.

Research design is a master plan, specifying methods and procedures for collecting and analyzing required data (Saunders et al, 2005). The design is helping the researcher with the collection and analysis of data, and it reflects decisions about the priority being given to a range of dimension of research process (Bryman ibid, 2004).
The survey method was been used for the collection of data for this study and descriptive approaches in the assessment of internal control over payroll. The descriptive survey design is the method of collecting information by interviewing/ administering a
questionnaire to sample of individuals (Kombo, 2006). This approach was chosen because it enabled the researcher to describe and analyze the same in Tanzania context.

3.2.1 The Research Strategy
Bryman (2000, p20) describes research strategy as the general orientation towards the conduct of social research. He goes further to identify two research strategies qualitative research strategy and quantitative research strategy.

**Qualitative:** Non-numerical data or data that have not been quantified
Qualitative was used predominantly as synonyms for any data collection technique (such as interview) or data analysis procedures (such as categorising data) that generates or use non-numerical data.

**Quantitative:** was predominantly used as synonyms for any data collection technique (such as questionnaire) or data analysis procedures (such as graphs or statistics) that generates or use numerical data.

The terms qualitative and quantitative are used widely in business and management research to differentiate both data collection techniques and data analysis procedure.

The literature suggests three types of research designs:
(i). **Exploratory research design:** Approach to data analysis that emphasises the use of diagrams to explore and understand the data.

(ii). **Descriptive study:** Study whose values cannot be measured numerically but can be distinguished by classifying into set (categories)

(iii). **Explanatory study:** Research that focuses on studying a situation or a problem in order to explain the relationship between variables.

These three research design has been used in my study through exploration.

Common to these three research design was the case study method.

In this study, the case study method was an appropriate research method to be used because, it helps in understanding, analysing and interpreting complex organisational
phenomenon. The major research strategy that was used in the whole research process was exploratory study.

3.3 Population
Krishnaswami (2002) defined population as the target group to be studied in a particular place. Population is therefore, a total collection of elements about which one wishes to get information (Krishnaswami, ibid). Population of the study depended to the number of the employees of the organization, and also determined by the department concerned in the organization with regard to the nature of the research topic. The inquiry likely to focus in every member of the organization, who’s task in one way or another deal with payroll and internal control i.e. internal auditor, payroll department, CFO.

3.4 Sample Size and Sampling Techniques
The researcher used simple random and purposive sampling procedures. Simple random was employed because it is a probability sampling where all members in the population have equal chance of being selected to form a sample hence it is less biased technique. Since it is costful and time consuming almost to study the whole population comprising of whole accounting and finance employees, whole managements of the organization, whole Employees of the organization, this study therefore intended to make use of sample size as the best way for a successful research.
A sample size chosen by a researcher was a size of 50 respondents from the organization, whom was a group of respondents drawn from a population under study with age between 18 and above, was contacted and provides sample information. Due to the nature of this study, purposive sampling and random sampling was used.
<table>
<thead>
<tr>
<th>Category of respondents</th>
<th>Numbers of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Males</td>
<td>30</td>
</tr>
<tr>
<td>Females</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
</tr>
</tbody>
</table>

**Source: Researcher Data**

Total sample size of 50 respondents was selected for the study.

### 3.5 Data Collection Methods

In this study, four primary methods of data collection such as interview, questionnaire, observation and documentary evidence was used.

The reason for using more than one method of data collection was that no single method or technique is perfect or that can give all data for the study independently and accurately as each techniques reveals different aspects of empirical realities.

#### 3.5.1 Interview

Interview is the method of collecting data that involves presentation of oral-verbal stimuli and reply in terms of oral-verbal responses. The study passed through personal interviews (one to one) and telephone interviews. This method was aiming in gathering deep knowledge on the respondent’s views on the studied phenomena.

Key informants have been approached at all levels and a checklist was being used to gather information from all interviewed persons.

#### 3.5.2 Questionnaire Administration

An open ended and closed questionnaire was being used in this study. This is due to the reason that, for sensitive topic that require fixed answers and where less articulation is required closed questions are suitable.

A questionnaire consist of a number of questions printed or typed in a definite order on a form or set of forms. *Kothari* (2004). This method had of advantages because: - There is low cost even if its universe is large and widely spread geographically. It is free from the bias of the interviewer; answers ware in respondents own words. Respondents had
adequate time to give well thought out answers. Respondent who were not easily approachable would also being reached conveniently. Only open ended questionnaires were being prepared.

3.5.3 Observation
Observation was the most commonly used in data collection. Under this technique the information was sought by way of observation without asking from the respondent. The main advantage of this technique is the subjective bias is limited. There are two ways of research observation one of it be participants observation where investigator become totally involved in the situation being researched and the other one be non-participants observation where the investigator is attached from the situation but record what is happening hence the study used only participants observation.

3.5.4 Documentary Review
The published and unpublished documents being official or private was been effective sources of data collection. Generally, sources of secondary data in this study included books, publications and article and electronic media that have the literature regarding internal control and payroll system was being of valuable information. The method involved viewing various documents; they obtained from library, reports pertaining to the study. Rationally, the researcher was been in a position to extract some important related information confined to the subject matter of the research.

3.7 Data Processing and Analysis
Processing means editing, detect errors and omissions and to correct them, where possible coding. Data was been arranged in groups or classes on the basis of common characteristics and tabulations. In fact any qualitative research has large amount of data. In this case the process of organizing, and systematizing data becomes very necessary as there is no right way to go about organizing, analyzing and interpreting qualitative data.
The results of the discussions with focus groups, and officials in different institutions was been summarized and the qualitative features was used to qualify the information from the survey. The discussions provided very key inputs into the merging issues from the survey as well as providing insightful inputs into the researcher’s recommendations. Data obtained through in depth interview and documentary review was been used to cross validate findings, patterns and conclusion. Categories were formulated for each research objectives. Data collected using questionnaire was been processed and analyzed by using a computer programs such as MS-Word and MS-Excel.
CHAPTER FOUR
PRESENTATION AND ANALYSIS OF THE FINDINGS

4.1 Introduction
This chapter presents and analyses the findings concerning Internal Control System over Payroll: The Case of TANESCO Ltd. It consists of respondents’ profile and presentations of findings which resulted from all field research questions in relation to each specific objective. The presentations and analysis of this work were the output of processed research data that were collected from the field.
This chapter is useful because it tries to answer key questions raised as research questions, within the framework of limitations associated with sample size collected. Data collected were analysed based only on qualitative and quantitative methods of data analysis.

4.2 Respondents Profile
The here under tables show the profile of the respondents according to their sex, age, job, year at work, academic qualification, professional qualification and designation.

Table 2: Application of data collection methods to respondents

<table>
<thead>
<tr>
<th>Stratum of Respondents</th>
<th>Responses through questionnaires data collection method</th>
<th>Responses through Interview Data collection method</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>16</td>
<td>10</td>
<td>66.7%</td>
</tr>
<tr>
<td>Female</td>
<td>7</td>
<td>6</td>
<td>33.3%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>23</td>
<td>16</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*

From the *Table 2* above, findings reveal that, 41.02% of total primary data (responses) were collected from interview method and 58.98% were collected through questionnaires, whereas 66.7% of primary data were collected from males’ respondents and 33.3% were collected from females’ respondents. The respondents were mainly males implying that, probably male staff comprises a bigger percentage of the human resource at TANESCO Limited.
Table 3: Marital status of respondents

<table>
<thead>
<tr>
<th>Status</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>11</td>
<td>28.2</td>
</tr>
<tr>
<td>Married</td>
<td>28</td>
<td>71.8</td>
</tr>
<tr>
<td>Divorced/separated</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table 3 indicates that 71.8% of the respondents were married and 28.2% were single. The respondents were mainly married.
Figure 3: Marital status of respondents

Source: Field Data, 2013

Table 4: Age of respondents

<table>
<thead>
<tr>
<th>Age (years)</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-30</td>
<td>7</td>
<td>17.95</td>
</tr>
<tr>
<td>31-40</td>
<td>20</td>
<td>51.28</td>
</tr>
<tr>
<td>41-50</td>
<td>12</td>
<td>30.77</td>
</tr>
<tr>
<td>Above 50</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data, 2013

According to table 4 above 17.95% of the respondents were between the age 21-30, 51.28% were between the age of 31-40, 30.77% were between the age of 41-50 and none of the respondents were above the age of 50. Findings indicate that majority were in the age group of 31-40 years. This implies that respondents of this age group mainly contribute to the organizational payroll system of TANESCO Limited influenced by the internal controls.
### Table 5: Education level

<table>
<thead>
<tr>
<th>Level</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate</td>
<td>1</td>
<td>2.56</td>
</tr>
<tr>
<td>Diploma</td>
<td>11</td>
<td>28.22</td>
</tr>
<tr>
<td>Degree</td>
<td>18</td>
<td>46.15</td>
</tr>
<tr>
<td>Masters degree</td>
<td>6</td>
<td>15.38</td>
</tr>
<tr>
<td>Professional</td>
<td>3</td>
<td>7.69</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*

Findings in table 5 above show that 2.56% of the respondents held certificates, 28.22% diploma, 46.15% degree, 15.38% Postgraduate (Masters) and 7.69% held professional i.e CPA TZ. Majority were degree holders indicating that TANESCO Limited human resources especially Payroll and Stuff Debtors department is mainly occupied by an educated staff, thus they can easily evaluate the effectiveness of internal controls used in the organizational payroll system.

### Table 6: Length of service

<table>
<thead>
<tr>
<th>Length of service (years)</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>3</td>
<td>7.69</td>
</tr>
<tr>
<td>1-3</td>
<td>10</td>
<td>25.64</td>
</tr>
<tr>
<td>3-6</td>
<td>20</td>
<td>51.29</td>
</tr>
<tr>
<td>Above 6 years</td>
<td>6</td>
<td>15.38</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*

Findings in table 6 above show that 7.79% of the respondents served for less than 1 year, 25.64% served for 1-3 years, 51.29% served for 3-6 years and 15.38% served for above 6 years. Majority served for 3-6 years indicating that TANESCO Limited is managed by experienced staff, so possibility of evaluating controls regarding payroll are in high percentages.
4.3 Research Findings on Ways of Identifying the Employees

The first objective was to explore whether employees are identified to the cashier by means of identity cards. The table below provides the responses from the respondents.

Table 7: Responses on whether there are ways of identification for employees to cashier

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>15</td>
<td>38.46</td>
</tr>
<tr>
<td>Agree</td>
<td>9</td>
<td>23.08</td>
</tr>
<tr>
<td>Not sure</td>
<td>8</td>
<td>20.51</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>12.82</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>5.13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*

Results in table 7 above show that 38.46% of the respondents strongly agreed that there are ways in which cashier can identify employees and workers within the organization, 23.08% agreed, 20.51% were not sure, 12.82% disagreed and 5.13% strongly disagreed. Majority of the respondents were in agreement and this implies that there are ways in which cashier can identify the employees within TANESCO Limited.

4.4 Research Findings on Payment of Salaries and Wages

The second research objective was to explore how salaries and wages are paid. This section presents and analyses the findings on seven key procedures involved in payment of salaries and wages. They include:

a.) Availability of ways of paying salaries and wages
b.) Availability of Procedure notes for the Payroll Function which are separate to financial regulation
c.) Reconciliation of Payroll and Personnel Systems
d.) Checking for Accuracy overtime hours, rates and computations.
e.) Segregation of Responsibilities
f.) Assessment on whether payroll and personnel policies governing compensation are in accordance with state requirements or grant agreements
g.) Monthly, Quarterly or Annually Reconciliation of Gross and Net Pay Amounts as shown on tax returns

4.4.1 Presentation and Analysis of Data on How Salaries are paid

Table 8: below provides the responses on how salaries and wages are paid.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>26</td>
</tr>
<tr>
<td>Not sure</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data, 2013

Results in table 8 above show that 31% of the respondents strongly agreed that there are ways of paying salaries and wages within the organization, 26% agreed, 21% were not sure, 15% disagreed and 7% strongly disagreed. Majority of the respondents agreed and this implies that there are ways in which salaries and wages are being paid in the organization.

4.4.2 Availability of Procedure notes for the Payroll Function which are separate to financial regulation

Table 9: below provides the summary of responses on availability of procedure notes for the payroll function which are separate to financial regulation.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>9</td>
<td>23.08</td>
</tr>
<tr>
<td>Agree</td>
<td>15</td>
<td>38.46</td>
</tr>
<tr>
<td>Not sure</td>
<td>5</td>
<td>12.82</td>
</tr>
<tr>
<td>Disagree</td>
<td>8</td>
<td>20.51</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>5.13</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data, 2013

Results in table 9 above show that 23.08% of the respondents strongly agreed that there are procedures notes for payroll function which are separate to financial regulations, 38.46% agreed, 12.82% were not sure, 20.51% disagreed and 5.13% strongly disagreed. Majority of the respondents were in agreement and this implies that there are procedure
notes for payroll function separate to financial regulation done by management of TANESCO Limited

4.4.3 Reconciliation of Payroll and Personnel Systems

Table 10 below presents the findings on whether payroll and personnel systems are reconciled.

Table 10: Responses on whether Payroll and Personnel Systems reconciled

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>26</td>
</tr>
<tr>
<td>Not sure</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data, 2013

Results in table 10 above show that 31% of the respondents strongly agreed that Payroll and Personnel systems reconciled, 26% agreed, 21% were not sure, 15% disagreed and 7% strongly disagreed. Majority of the respondents agreed and this implies that payroll and personnel system reconciled in the organization.

4.4.4 Responses on whether overtime hours, rates and computations are checked for accuracy

The Table below summarizes the responses on whether overtime hours, rates and computations are checked for accuracy.

Table 11: Responses whether overtime hours, rates and computations checked for accuracy

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>20</td>
<td>51.28</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>25.64</td>
</tr>
<tr>
<td>Not sure</td>
<td>7</td>
<td>17.95</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>5.13</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data, 2013
Results in table 11 above indicate that 51.28% of the respondents strongly agreed that overtime hours, rates and computations checked for accuracy, 25.64% agreed, 17.95% were not sure, 5.13% disagreed and none of the respondents strongly disagreed. Majority of the respondents agreed and this implies that overtime hours, rates and computations checked accurately.

4.4.5 Segregation of Responsibilities

The Table below summarizes the responses on whether the responsibilities for the supervision and time-keeping functions segregated from those for personnel, payroll processing, check distribution, and general ledger functions.

Table 12: Segregation of Supervision Responsibilities and other Functions

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>5</td>
<td>12.8</td>
</tr>
<tr>
<td>Agree</td>
<td>15</td>
<td>38.45</td>
</tr>
<tr>
<td>Not sure</td>
<td>12</td>
<td>30.8</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>10.25</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>7.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*

Results in table 12 above show that 12.8% of the respondents strongly agreed that there are responsibilities for the supervision and time-keeping functions segregated from those for personnel, payroll processing, check distribution, and general ledger functions, 38.45% agreed, 30.8% were not sure, 10.25% disagreed and 7.7% strongly disagreed. Majority of the respondents agreed. This implies that responsibilities for the supervision and time-keeping functions segregated from those for personnel, payroll processing, check distribution, and general ledger functions in the organization.

Under segregation of responsibilities the respondents were also asked on whether the responsibilities for preparing the payroll are separate from other payroll duties (e.g., time keeping, distribution of checks. Their responses are summarized in table 13 below.
Table 13: Segregation of Payroll Preparation and Other Payroll Duties

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>4</td>
<td>10.26</td>
</tr>
<tr>
<td>Agree</td>
<td>20</td>
<td>51.28</td>
</tr>
<tr>
<td>Not sure</td>
<td>5</td>
<td>12.82</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>12.82</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>5</td>
<td>12.82</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*

Results in table 13 above indicate that 10.26% of the respondents strongly agreed that there are the responsibilities for preparing the payroll separate from other payroll duties (e.g., time keeping, distribution of checks), 51.28% agreed, 12.82% were not sure, 12.82% disagreed and 12.82% strongly disagreed. Majority of the respondents agreed, this implies that there the responsibilities for preparing the payroll separate from other payroll duties (e.g., time keeping, distribution of checks) in the organization.

4.4.6 Responses on whether payroll and personnel policies governing compensation are in accordance with state requirements or grant agreements

The Table below presents the responses on whether payroll and personnel policies governing compensation are in accordance with the state requirements or grant agreements

Table 14: Summary of Responses on Payroll and Personnel Policies

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Not sure</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*

Results in table 14 above reflect that 21% of the respondents strongly agreed that payroll and personnel policies governing compensation in accordance with the State requirements or grant agreements, 25% agreed, 31% were not sure, 15% disagreed and
8% strongly disagreed. Majority of the respondents are not sure, this implies that payroll and personnel policies governing compensation are not well known if they are in accordance with the State requirements or grant agreements at the organization.

4.4.7 Monthly, Quarterly or Annually Reconciliation of Gross and Net Pay Amounts as shown on tax returns

The Table below presents the responses on whether there is monthly, quarterly, or annually reconciliation of gross and net pay amounts as shown on tax returns to total payroll on the payroll register and general ledger.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>15</td>
<td>39</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>Not sure</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*

Results in table 15 above indicate that 39% of the respondents strongly agreed that Monthly, quarterly, or annually, is there a reconciliation of gross and net pay amounts as shown on tax returns to total payroll on the payroll register and general ledger, 31% agreed, 10% were not sure, 13% disagreed and 7% strongly disagreed. Majority of the respondents agreed implying that the company`s gross and net pay amounts being reconciled as shown on tax returns to total payroll on the payroll register and general ledger

4.5 Availability of full details necessary to support the net pay of each employee

The third research objective was to explore whether payroll section has full details necessary to support the net pay of each employees. This section provides the summary of responses on whether personnel files contain at least information on: employment application and new employee screenings, date employed, pay rates, changes in pay
rates and position, authorizations for payroll deductions, earnings records, W-4 form, specimen signatures, and termination data where appropriate.

Table 16: Availability of full details necessary to support the net pay

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>17</td>
<td>44</td>
</tr>
<tr>
<td>Agree</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Not sure</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Field Data, 2013

Results in table 16 above depict that 44% of the respondents strongly agreed that personnel files contain at least information on: employment application and new employee screenings, date employed, pay rates, changes in pay rates and position, authorizations for payroll deductions, earnings records, W-4 form, specimen signatures, and termination data where appropriate, 21% agreed, 21% were not sure, 12% disagreed and 2% strongly disagreed. Majority of the respondents agreed. This implies that company’s personnel files contain at least important information needed on employees.

Respondents were also asked on whether the checks and salary slip contain detail of gross pay and deductions. Table 17 below provides the summary of the responses.

Table 17: Responses on whether the checks and salary slip contain detail of growth pay and deductions.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>25</td>
<td>64</td>
</tr>
<tr>
<td>Agree</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>Not sure</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Disagree</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Field Data, 2013

Results in table 17 above show that 64% of the respondents strongly agreed that the company checks and salary slip contain detail of gross pay and deductions, 23% agreed,
13% were not sure; none of respondents disagreed nor strongly disagreed. Majority of the respondents agreed. This implies that the company checks and salary slip contain detail of gross pay and deductions to influence internal control effectiveness.

### 4.6 Independent Approval of Time Ticks Production Reports and other Accounting Data

The fourth research objective was to determine whether time ticks production reports and other accounting data on which payroll calculations is based, are approved by department/foreman who taken no part in preparation and distribution of payroll. The collected information is summarized in the table below.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>20</td>
<td>51.28</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>25.64</td>
</tr>
<tr>
<td>Not sure</td>
<td>7</td>
<td>17.95</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>5.13</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*

Results in table 18 above indicate that 51.28% of the respondents strongly agreed that time tick production and other accounting data approved by department and foremen, 25.64% agreed, 17.95% were not sure, 5.13% disagreed and none of respondents strongly disagreed. Majority of the respondents agreed and this implies that there are better way for improvement of the records and data in the organization.

### 4.7 Other Findings on Approval and Authorization for Effectiveness of Internal Controls used in TANESCO Limited

#### 4.7.1 Approval and Authorization of all Changes in Employment, Salary and Wage Rates

Table 19 below presents the summary of responses on whether all changes in employment (additions and terminations), salary and wage rates, and payroll deductions properly authorized, approved and documented.
Table 19: Approval and Authorization of Employment, Salary and Wage Rates

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>14</td>
<td>36</td>
</tr>
<tr>
<td>Agree</td>
<td>20</td>
<td>51</td>
</tr>
<tr>
<td>Not sure</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Disagree</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*

Results in table 19 above show that 36% of the respondents strongly agreed that all changes in employment (additions and terminations), salary and wage rates, and payroll deductions properly authorized, approved and documented, 51% agreed, 13% were not sure; none of respondents disagreed nor strongly disagreed. Majority of the respondents agreed implying that all changes in employment (additions and terminations), salary and wage rates, and payroll deductions properly authorized, approved and documented at TANESCO Limited.

4.7.2 Existence of the Procedures for Authorization, Approval and Recording of Vacations and Sick Leave

Table 20 presents responses on whether there are procedures exist for authorizing, approving and recording vacations, holidays, sick leave and for approving and controlling compensatory time.

Table 20: Existence of the Procedures for Authorization, Approval and Recording of Vacations and Sick Leave

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>10</td>
<td>25.6</td>
</tr>
<tr>
<td>Agree</td>
<td>14</td>
<td>35.9</td>
</tr>
<tr>
<td>Not sure</td>
<td>10</td>
<td>25.6</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>10.3</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>2.6</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*
Results in table 20 above reveal that 25.6% of the respondents strongly agreed that procedures exist for authorizing, approving, and recording vacations, holidays, and sick leave and for approving and controlling compensatory time, 35.9% agreed, 25.6% were not sure, 10.3% disagreed and 2.6% strongly disagreed. Majority of the respondents agreed, this implies that the procedures exist for authorizing, approving, and recording vacations, holidays, and sick leave and for approving and controlling compensatory time in the organization.

4.7.3 The Requirement for Approval of Department Head Prior to Preparing Payroll

Table 21 presents and summarizes the responses on whether the approval of department head or supervisor required on time sheets or other attendance record prior to preparing payroll.

Table 21: Responses on whether there is requirement for Departmental Approval Prior to Preparing Payroll

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Agree</td>
<td>17</td>
<td>44</td>
</tr>
<tr>
<td>Not sure</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*

Results in table 21 above show that 21% of the respondents strongly agreed that the approval of department head or supervisor required on time sheets or other attendance record prior to preparing payroll, 44% agreed, 15% were not sure, 13% disagreed and 7% strongly disagreed. Majority of the respondents agreed implying that the approval of department head or supervisor required on time sheets or other attendance record prior to preparing payroll.
4.7.4 Independent Approval of Completed Payroll Registers

Table 22 below presents and summarizes responses on whether completed payroll registers reviewed and approved before disbursements are made by someone independent of payroll preparation and time keeping.

Table 22: Independent Approval of Completed Payroll Registers

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequencies</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Not sure</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Disagree</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Field Data, 2013*

Results in table 22 above show that 23% of the respondents strongly agreed that completed payroll registers reviewed and approved before disbursements are made by someone independent of payroll preparation and time keeping, 25% agreed, 21% were not sure, 23% disagreed and 8% strongly disagreed. Majority of the respondents agreed, this implies that completed payroll registers reviewed and approved before disbursements are made by someone independent of payroll preparation and time keeping.
CHAPTER FIVE
DISCUSSION OF THE FINDINGS

5.1 Introduction
The discussion of these findings was done in relation to the four specific objectives about effectiveness of internal control system over payroll: The Case of TANESCO Limited. The study investigated four aspects: Examining whether/if employees are identified to the cashier by means of identity cards or by their foreman, Assessment of whether payroll section has full details necessary to support the net pay of each employees, Assessment of whether time ticks production reports and other accounting data on which payroll calculations is based, are approved by department/foreman who taken no part in preparation and distribution of payroll and Examine whether salaries and wages are paid through cheque or cash.

5.2 Identification of Employees to Cashier in the Organization
Generally, the findings related to these objectives reveal that some of the employees in the organization are identified by means of their foremen especially for cheap labours who perform day to day works and other activities such as maintenance for either where there are some problems in Pre-paid Metering System(LUKU), Line services and other daily minor activities, but also other employees who are the highly percentage of the human resource of the organization who are the above 85% of the employees of the organization are professional employees who are normally identified with the senior manager human resource office, though it is obliviously some workers are being identified by the head of departments for daily attendance and daily performance activities schedule.

The above results against Employees Identification was documented by the following scholar Gregory Mostyn, CPA, That The mandatory use of a separate personnel department (also called the human resources department) acts as an internal control device to reduce the potential frauds and errors described above in previous chapters. In a small business that cannot afford a separate personnel office, the owner(s) should
perform most or all of these functions. An outside employee search firm or consultant can be used to assist the employer and to perform background checks of job applicants. So for not being effective in identification of employees and workers in the organization, is where now a company can introduce errors and fraud in its payroll mainly in three ways:

**Paying fictitious employees:** Causing checks to be issued to fictitious or “ghost” employees is outright fraud, and it can be the work of multiple employees working together (called collusion) or one employee (if controls are weak). It occurs when a fake employee is entered into the payroll system and starts receiving pay checks.

**Paying terminated employees:** When employees separate from a company, most have exit interviews during which human resources questions them about their reasons for leaving and gathers all company-owned equipment. At that time, human resources should update the employee master file showing the termination and date. If a terminated employee gets paid by mistake or because of a breakdown in controls, the result is an error. But manipulation of the terminated employee’s payment method is fraud. An example would be changing the terminated employee's payment from direct deposit to a paper check mailed to an address controlled by the fraudulent employee. Larger companies often require their employees to use direct deposit to cut costs. However, you still occasionally find an employer that hands out checks on payday or mails them.

**Paying current employees who haven’t worked:** Fraud can be quite simple to perpetrate in this scenario. After all, the employee is already in the system, so no changes to the employee master file need to be authorized and entered. A department manager could agree to pay an employee when she isn’t at work, and the fraudulent payment is divvied up between the two employees.
5.2.1 Examine of the effectiveness of internal controls used in identification of Employees by Cashier in TANESCO Limited

Findings revealed that the internal controls used in TANESCO Limited were effective and satisfactory for the identifications of employees by cashier to avoid fraud and errors by means of updating of employees master file on monthly basis and Payroll department also identify the employers and employees by a federal code i.e. in TANESCO they do call it company number and keep running tally on total income and deductions for the fiscal year to avoid *ghost employees, paying current employees who haven’t worked and paying terminated employees*.

Findings rhyme with studies by Coopers and Lybraud (1993) who argued that there was need to consider whether the following control objectives are met; management conveys the message that integrity and ethical cannot be compromised, the organization structure provides a moral framework for planning, directing, and controlling operations, management ensures that appropriate responsibility and delegation of authority is assigned to deal with goals and objectives and the Board of Directors and audit committee are sufficiently independent from management to construct a challenge to management decision and take an active role in ensuring that an appropriate “tone at the top exists”.

5.3 Payment of Salaries and Wages

During researcher’s findings within the organization, it observed that many duties takes place during preparation of salaries to payment to employees and other worker within the company through payroll system. These duties are assigned to different specific accountants and other departments concerned, especially human resources office for further approve of the number of human resource the organization have before payments of salaries and wages.

It is the policy of the organization that all cash payments bellow Tshs.100, 000/= are being paid by cash but after being approved by the department accountant, but most of TANESCO payments are paid in form of cheques including salaries and wages. So it’s the duty of payroll department to make sure that all salaries and wages to Employees and
other worker reach to the respective payee on time to minimise if not eliminating some
doughty within the organization.

Within the organization, findings observed that the salaries and wages being paid
through cheques by imposing the following controls to avoid ghost payroll payments,
Fraud and Errors.
(i) Submitting month end Salaries (CHEQUES) to various banks and distributing
bankers cheques to respect employee`s bank
(ii) File all memos authorizing preparation of banker`s cheques
(iii) Maintain dispatch books for cheques dispatched to banks
(iv) Ensuring all receipt sign before collecting cheque
(v) Packing Salary-Pay slip, credit Transfers, Copies of Payrolls and Bank pay in slips in
  Envelop  Regional wise then dispatch to mail room
(vi) Packing head office staffs salary-pay slips in envelopes and distribute the same to
  staffs.

5.4 Finding for Payroll section if there are full details necessary to support the net
  pay of each Employee

Net pay is what's left after taxes, health benefits and other deductions are taken out of
your check. Net pay is the remaining amount after deductions from the gross salary,
where net means ultimate.

Example deductions: income taxes, trade union dues, authorized deduction for
a retirement fund.

Net pay, sometimes referred to as "take-home pay", is the amount left over after
deductions from the gross salary.

From above meaning and explanations is where now Updating of employee`s master file
on monthly basis i.e. updating of employee personal data eg.dealings with all changes as
instructed by SMHR and other senior head from other departments is the most, best and
important within payroll department to come up with details necessary for net payment
support to each employee.
Researcher findings revealed that, within the organization salaries and wages cannot be paid without some of updating needed from human resources department as well as other senior from other department for further details regarding the employee’s benefits and expenses from within the organization and outside partners such as miscellaneous and other statutory reduction.

The following are some of the details needed ant taken within the department of payroll to each employee:

- Computation of basic over-dues, over time over dues and other allowances over due
- Data and Information dealing with salary promotions and annual increment
- Information of various deductions needed to be deducted on payroll monthly basis,

Such as:

(a) Statutory payment i.e. PAYE, TUICO, NSSF, PPF
(b) Voluntary payments i.e. NIC, JUBLEE INSURANCE
(c) Third party payment i.e. SACCOS, BANK LOANS, FURNITURE CENTER

Research findings also revealed that payments of various staffs loans and deduction i.e. salary loan, education loan etc. Are made only by ensuring that all proper procedure has been followed such as ensuring that all loans payments and deduction have supporting by SMHR authorized memos, and are being deducted in the instalments prescribed by Human Resource Senior Manager and these are done after filling and keeping all authorized loan documents and loan printouts monthly wise for references.

The findings revealed that it is the responsibility of SMHR to administer salary programs such as:

(i) Review and approve salary structures and job titles for all positions covered by these policies; respond to, and adjudicate, concerns and inquiries regarding classification standards, benefits, salary rates, or ranges for classes.
(ii) Review and formulate equitable solutions to issues related to equal pay or salary discrimination, and monitor the progress of the organization in dealing with such issues.

(iii) Develop guidelines to insure standard application of pay policies.

(iv) Review and recommend and/or approve exceptions to salary policy, deductions and procedure limitations where appropriate.

5.5 Whether time ticks production reports and other accounting data on which payroll calculations is based, are approved by department/foreman

Some employees may be paid a steady salary while others are paid for hours worked or the number of items produced. All of these different payment methods are calculated by payroll specialists and the appropriate pay checks are issued. Organization often uses objective measuring tools such as time cards, time ticks or timesheets completed by supervisors to determine the total amount of payroll due each pay period, after a payroll accountant multiplies an employee’s hours by his or her pay rate, the gross income amount is entered into a calculator or computers program.

The research findings revealed that the organization payroll department do always based on ticks production or sometimes time sheet report approved by the foreman for workers and attendance from the senior heads from the department within the organization for payroll calculation of hours worked during the week.

Payroll processing is a very stressful job function for management and payroll department in general. For employees paid hourly, the organization need to keep very careful records and payroll, human resources departments and foremen have to be diligent in order to make sure that they are always correctly. There are federal employment laws within the organization that govern the processing of payroll and the retaining of specific pieces of information regarding the number of hours that each of employees worked during every time period. In order to maintain these records efficiently, the organization most likely to be using some type of payroll software. For
one thing, electronic records require for less space than paper records. For another, it is for an electric record to ever disappear without a trace.

5.6 summary of the chapter
This chapter was dealing with discussion of major findings and interpretation. The analysis of the study was done through qualitative and quantitative methods. The chapter also showed the relationship between study findings and secondary data. The next chapter will concentrate on conclusion and recommendations. It describes important issues like summary of the findings, main conclusions recommendations and agenda for further research.
CHAPTER SIX
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction
This chapter presents the following: Summary of the research findings, Conclusion and recommendations emanated from this study. It also points out suggestions for further research studies in relation to decision making process in work organizations.

6.2 Summary of the Research Findings
The study investigated four aspects: Examining whether/if employees are identified to the cashier by means of identity cards or by their foreman, Assessment of whether payroll section has full details necessary to support the net pay of each employees, Assessment of whether time ticks production reports and other accounting data on which payroll calculations is based, are approved by department/foreman who taken no part in preparation and distribution of payroll and Examine whether salaries and wages are paid through cheque or cash.

Findings for the identification of employees by cashier and payroll department in general revealed that, it is the duty of payroll and cashier department to identify the employees who are going to be paid his/her salaries and wages by updating the employees master files on monthly basis such as updating of employees personal data before going to other company identifications i.e. identity cards (with company number) and foremen for labours.

Findings revealed that mandatory use of human resources department in TANESCO as the personnel who can only approve the payment or changes of salary to any worker or deletion of employees from the payroll system etc. acts as an internal control device to reduce the potential frauds and errors such as Ghost employees, Falsified hours and salary and others. So findings indicate that the organization especially human resources
department and payroll department have put much effective control in identification of employees to minimize if not eliminating the fraud which some time may lead to goals and objective of the company unreachable due to increase in expenditure due to ghost salaries to the employees who didn’t participate in production within the organization.

Findings on whether the payroll department have full details necessary to support the net pay of employees depict/revealed that the company has put much internal control for such thing so that each employees to get what she/he was required to get at the end of each month payroll according to the rules and policy of the organization. For making sure that employees get what he/she required to get at the end of the month, the SMHR and payroll department ensure that each employees files are well documented and updating if there any various payments required to be deducted on payroll on monthly basis such as statutory payments, voluntary payments and other staff loans to be deducted within the gross salary of the employees but by the approval from the Senior Manager Human Resource(SMHR) and Senior Manager General Accounts(SMGA).

For the overtime before and after payment, findings revealed that there are procedures within the organization which are being followed to ensure that the net pay during the end of the month is not miss-interpreted or wrongly paid to the employees.

(a) Over time claim forms must bear all authorized signatures and stamps:
- This is done to avoid the falsified hours and salary. The dishonest employees commonly exaggerate the time they work in order to increase their compensation. Moreover, some crooked payroll clerks look for internal control deficiencies that will permit them to adjust their own salaries. For a share of the extra money, supervisors sometimes approve an employee’s falsified hours.

(b) Batching of overtime claims forms alphabetically and serially to avoid double interpretation and records

(c) Checking the correctness of overtime and keying in the payroll system, this help the payroll department not to have some errors either in their calculation and other matters.
(d) Checking overtime after payments; this is done to make sure if what has been paid to employee as overtime is what he/she required to be paid or there are some errors to be collected.

Findings whether time ticks production reports and other accounting data on which payroll calculations is based, are approved by department/foreman who taken no part in preparation and distribution of payroll, revealed that within the organization it is usual for the human resources department to approve the accounting data of the employees on which payroll calculation is based as well as the duty of the foremen to approve some time tick production report for the employees of the company who are part time i.e. labour for what he/she has done during each day of the month for payroll calculation, preparation and distribution.

Since payroll records are based on objective criteria of the company such as time cards or time ticks or time sheets and tax forms, outside accountants (payroll department) who do not approve the report of employees perform all of the calculations, store all of the year to date data and issue paycheck in timely fashion. So most of respondents revealed that the people who approve their report are exactly separate to the one who prepare and distribute their payroll.

Findings whether salaries and wages are paid through cheque or cash revealed that within the organization it is a policy that any payment above Tshs.100, 000/= are done through check though in cash of petty cash payment only, department accountant approves them for the payments bellow Tshs.100, 000/=. So most of the employees’ salaries within the company are above such amount of money i.e. Tshs.100, 000/= that makes the findings revealed that all payments are made through cheques. Respondents within the researcher questionnaire and interviews revealed that it’s the policy of the company to post cheque of each employee within the company to respective bank account and distribute only pay slips to employees to control some errors and fraud.
within the payroll department and organization in general, but this is done after ensuring that all receipts sign before collecting pay slips and cheques.

6.3 Conclusion
This study had been investigating about Evaluation of the effectiveness of internal control system over payroll: The Case of TANESCO Limited, The study investigated four aspects: Examining whether/if employees are identified to the cashier by means of identity cards or by their foreman, Assessment of whether payroll section has full details necessary to support the net pay of each employees, Assessment of whether time ticks production reports and other accounting data on which payroll calculations is based, are approved by department/foreman who taken no part in preparation and distribution of payroll and Examine whether salaries and wages are paid through cheque or cash.

The findings had revealed that there are many effective internal controls within the company to ensure that there are no any possibility of any fraud and error which may occur within the payroll system, payroll department, employees and their supervisors/foreman that may lead to the high expenditure on payroll especially in salaries and wages aspects. So the study findings indicated and conclude that the internal controls used in TANESCO Limited especially in payroll system aspects i.e. payroll software and means/ways of payment of salaries and wages to employees and other workers were effective and satisfactory.

6.4 Recommendations 5.2. Conclusion and recommendations
The management of TANESCO Limited should design much and tough effective internal control systems by ensuring that adequate control are much imposed on the identification of workers to eliminate if not minimizing the number of ghost employees and workers which is the among of the challenges within the company (TANESCO Limited) and other companies payroll department’s as whole around the world.

The management of TANESCO Limited should ensure that it strengthens strategies aimed at improving organizational payroll software and department as general for
effective payments to all categories of staff and this should continuously be used to ensure that payroll system are satisfactory

6.5 Areas for further research
The study did not exhaust all the dependent variables that influence the organization/company’s payroll system to be effective thus the need for other researchers to conduct an exhaustive study on variables under listed;

(a) Entity’s risk assessment process
The entity’s risk assessment process involves processes the entity has put in place to identify business risk relevant to financial reporting objectives including payroll, estimating the significance of the risk, assessing the likelihood of their occurrence, and deciding upon actions to address those risk.

(b) Inherent risk that affect the Internal Control System over payroll
Example;
- Human error
- Collusion between employees
- Controls being by-passed or overridden by management

(c) What are payroll’s Application Controls in a computerize environment
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APPENDICIES
APPENDIX I
DATA GATHERING QUESTIONNAIRE

Dear Sir/Madam,

I am carrying out a study on the evaluation of internal control system over payroll in TANESCO Limited. The study is for the partial fulfilment of the requirements for the award of masters of Science degree in accountancy and finance (MSc.A & F) at Mzumbe University. There are no wrong and right answers, I therefore requesting you to fill in all the questions with an assurance that your answers will be kept private and confidential used for academic purposes only. Thus your names are not required. Many thanks for your profound contribution towards this study.

SECTION ONE: GENERAL INFORMATION

Please Tick your appropriate Choice

1. Age (Years): 21-30  □  31 – 40 □  41 – 50 □  Above 50 □
2. Gender: Male □  Female □
3. Marital Status
   Single □  Married □  Divorced/Separated □
4. Level of Education
   Professional □  Masters Degree □  Bachelor Degree □  Diploma □
   Certificate □  Any other □  please specify
   ..............................................................
5. Length of service at TANESCO Limited
   Less than one year □  1 – 3 years □  3 – 6 years □  above 6 years □
SECTION TWO: EFFECTIVENESS OF INTERNAL CONTROLS OVER PAYROLL

In this section the researcher seeks to establish the effectiveness of internal controls over payroll in TANESCO Limited. Please Tick the appropriate alternative

**KEYs**: Where **SA**-strongly agree, **A**- agree, **NS**-not sure, **SD**-strongly disagree **D**-disagree

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<thead>
<tr>
<th>STATEMENT</th>
<th>SA</th>
<th>A</th>
<th>NS</th>
<th>SD</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the organization have procedure notes for the Payroll function, which are separate to Financial Regulations?</td>
<td></td>
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</tr>
<tr>
<td>Are payroll and personnel systems reconciled?</td>
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<td>What controls are in place to ensure that a leaver is removed from the next Payroll run?</td>
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<tr>
<td>Are the responsibilities for the supervision and time-keeping functions segregated from those for personnel, payroll processing, check distribution, and general ledger functions?</td>
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<tr>
<td>Are the responsibilities for preparing the payroll separate from other payroll duties (e.g., time keeping, distribution of checks)?</td>
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<td>Are payroll and personnel policies governing compensation in accordance with the State requirements or grant agreements?</td>
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<td>Are all changes in employment (additions and terminations), salary and wage rates, and payroll deductions properly authorized, approved and documented?</td>
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<tr>
<td>Question</td>
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<td>-------------------------------------------------------------------------</td>
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<tr>
<td>Do procedures exist for authorizing, approving, and recording vacations, holidays, and sick leave and for approving and controlling compensatory time?</td>
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<td>Is approval of department head or supervisor required on time sheets or other attendance record prior to preparing payroll?</td>
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<td>Are overtime hours, rates, and computations checked for accuracy?</td>
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<td>Are completed payroll registers reviewed and approved before disbursements are made by someone independent of payroll preparation and time keeping?</td>
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<td>Monthly, quarterly, or annually, is there a reconciliation of gross and net pay amounts as shown on tax returns to total payroll on the payroll register and general ledger?</td>
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<tr>
<td>Do checks and salary slip contain detail of gross pay and deductions?</td>
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<tr>
<td>Do the personnel files contain at least information on: employment application and new employee screenings, date employed, pay rates, changes in pay rates and position, authorizations for payroll deductions, earnings records, W-4 form, specimen signatures, and termination data where appropriate?</td>
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Thank You
## SCHEDULE OF ACTIVITIES

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</table>
APPENDIX III

INTERVIEW CHECKLIST

A: Introduction
Dear Sir/Madam
This interview aims to get your views about the effectiveness of internal control system over payroll in your organization (TANESCO Ltd). The study is for the partial fulfilment of the requirements for the award of masters of Science degree in accountancy and finance (Msc.A & F) at Mzumbe University. Please feel free to provide your views and be assured that all the information you provide shall be used solely for the purpose of this study.

B: Biographic Data
1. Sex: male ( ), female ( )
2. Number of years in the post....

C: Interview Questions
1. Are payroll and personnel systems reconciled?
2. Are all changes in employment (additions and terminations), salary and wage rates, and payroll deductions properly authorized, approved and documented?
3. Is approval of department head or supervisor required on time sheets or other attendance record prior to preparing payroll?
4. Are overtime hours, rates, and computations checked for accuracy?
5. Are the responsibilities for preparing the payroll separate from other payroll duties (e.g., time keeping, distribution of checks)?
6. Does the organization have procedure notes for the Payroll function, which are separate to Financial Regulations?
7. Are Salaries and Wages paid through cash or cheques?
8. How do payroll/cashier department identify employees to be paid salaries and wages?