CONTRIBUTION OF INTERNAL CONTROL SYSTEM TO THE FINANCIAL PERFORMANCE OF FINANCIAL INSTITUTION
A CASE OF PEOPLE’S BANK OF ZANZIBAR LTD

By
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A Dissertation Submitted in Partial Fulfillment of the Requirement for the Award of Degree of Master of Science in Accounting and Finance (MSC A&F) of Mzumbe University

2013
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled The Contribution of Internal Control System to the Financial Performance of Financial Institution: A case of People’s Bank of Zanzibar Limited in partial fulfillment of the requirement for the Masters of Accounting and Finance (MSc. A&F) at Mzumbe University.

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I, Khamis H Ali, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

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Date......................................................

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My sincere gratitude goes to my Supervisor, Mr. Freddy Feruzi who guided me from proposal writing up to the final report writing of this project report. His criticism, invaluable patience, intellectual guidance and support helped me not only to accomplish this study, but also to come up with the expected standards. Sincerely, he deserves all kinds of credits.

Furthermore, my thanks also go to all those who have contributed to this research in one way or another, such as my fellow students and others in the preparation of this paper. Kindly receive my gratitude. Lastly, but not least, my thanks go to all respondents and members of staff of PBZ who participated in this study as respondents, and all those who in one way or another contributed to the success of the study.
DEDICATION

I dedicate this dissertation to my lovely wife Khadija Omar Masoud, my mother and father Zuhra Othman, Hamad Ali Omar, my sisters Zuwena, Mwajuma and my brothers Ali, Juma, Abdallah, Al-hajj, Othman, Is-hak and Nabil.
# List of Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ACCA</td>
<td>Associate of the Charted Association of Certified Accountant</td>
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<td>BAFIA</td>
<td>Banking and Financial Institution Act</td>
</tr>
<tr>
<td>CIPFA</td>
<td>Chartered Institute of Public Finance and Accountancy</td>
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<td>COSO</td>
<td>Committee of Sponsoring Organization</td>
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<tr>
<td>EFQM</td>
<td>European Foundation for Quality Management</td>
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<tr>
<td>ERM</td>
<td>Enterprise Risk Management</td>
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<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<tr>
<td>ISA</td>
<td>International Standard of Auditing</td>
</tr>
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<td>NBAA</td>
<td>National Board of Accountancy and Auditors</td>
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<td>PBZ</td>
<td>People’s Bank of Zanzibar</td>
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<td>SPSS</td>
<td>Statistical Package for Social Science</td>
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ABSTRACT

The study sought to establish a relationship between internal control and organizational financial performance of People’s Bank of Zanzibar Limited. The study objectives were; to examine the effectiveness of internal controls used in PBZ, to establish the level of performance in PBZ and to establish a relationship between internal control and financial performance in PBZ.

A cross sectional survey was used in the course of the study. Qualitative data was gathered in order to establish the relationship between the independent and dependent variables, so as to examine how internal controls are used in PBZ and therefore account for the performance levels. The study comprised of 60 employees. Simple random approach was used during the study. Purposive sampling was also used to select only respondents for the researcher to attain the purpose of the study. Data was collected using both primary and secondary sources. After collecting data, the researcher organized well-answered questionnaire, data was edited and sorted for the next stage. The data was presented in tabular form, pie charts and bar graphs with frequencies and percentages. The researcher used Statistical Package for Social Sciences (SPSS) to analyze the relationship between the variables under study.

It was concluded; the study findings indicated that the internal controls used in PBZ were effective and satisfactory, the level of organizational performance was found to be adequate and a significant positive relationship between internal controls and organizational financial performance to some extent. It was recommended that; management of PBZ should design more effective internal control systems in all aspects.
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CHAPTER ONE

PROBLEM SETTING

The introduction part provides the overview of the study. It includes the background, statement of the problem, research objectives and research questions, scope, significant of the study, justification of the study.

1.1 Background of the Problem

Due to globalization and advancement of technology around the world, the business and public and Private Corporation have experienced various limitations so as to reach their organizational objectives. Fraud, money laundering and terrorism activities affect the corporate mission and vision. Due to the technological advancement, company’s and corporations establish the strategies within and out of their organization including modern way of dealing with customers, provision of service, corporate social responsibilities and successful procedure of control system (Ndamenenu K. Douglas 2011).

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 Organization of the Treadway Commission (COSO, 2011).

Because internal controls services many component purposes, there are increasing calls for better internal control systems; internal control is looked upon more and more as a solution to a variety of potential problems (COSO 2011). According to Chambers (1995), Cosserat (1999), Ridley and Chambers (1998), internal controls are systems comprising of the control environment and control procedures. They further state that the internal control systems include all the policies and procedures
adopted by the directors and management of an entity to assist in achieving their objective of efficient conduct of its business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completion of the accounting records and timely preparation of reliable financial information. Successful organizations ensure that they attain and consolidate continued survival in a competitive environment Drucker (1999). Thus successful organizations set performance measures that focus attention that identifies and communicates the success, support organization learning and provide a basis for assessment and reward (Brown, 1996).

Organizational financial performance is measured in terms of customer satisfaction, profitability, market share through reduced customer complaints (Kloot, 1999). In order to be able to perform organizations should critically look at customers and all stakeholders in business and know how best they are satisfying their needs. According to (Kloot, 1999) adds that organizations should continuously improve their services through assets accumulation, create value, improved quality services and flexibility. Internal control system is intervened with organization’s operating activities and it is most effective when controls are built into the organization’s infrastructure, becoming organization’s part of the very essence of the organizations success in terms of continued improvement on performance standards as part of the competitive advantage of the organization.

Globalization of business, technological advancement, increasing risk of business failures, the grand and other misappropriation in financial institution around the world and East Africa at large are essential for the proper maintenance of an effective internal control systems, since a system of effective internal controls is a critical component of bank management and a foundation for the safe and sound operation of banking organizations.

The most management of the financial institutions within the developed countries were strengthen the internal control system especially after the collapse of the leaded companies for instance Enron, General Motor in USA and other. In America was
introduced the law called the Sarbanes Oxley Act of (2002), among other thing require the corporation or organization to establish and maintain an adequate internal control. Structure and procedures for financial reported and maintain an assessment, of the effectiveness of the internal control System and procedures. The internal control system is among the important aspect in most financial institutions (banks) in both developed countries’ corporations and overall operation of the entities.

Tanzania as a developing nation tries to strengthen the internal control system, through their agencies such as the Central Bank. The Ministry for finance encourages the financial institutions to emphases on implementation of effective internal control system. The board of directors of every financial institutions shall approve proper policies and procedures, and adequate overall internal control systems, for monitoring and controlling the risks for each line of business and market served by such bank or financial institution, including credit, financial, market, operations, legal and any other risk affecting or likely to affect such bank or financial institution (BAFIA, 2006).

The Bank of Tanzania and other agencies supervise the financial institution through the following Acts Public Finance Act (2004), Public Procurement Act (2005), Banking and Financial Institution Act (2006), Bank of Tanzania Act (2006) and their regulation such as money laundering Act (2009).

The People’s Bank of Zanzibar Limited (PBZ) as a financial institution gradually its increased it financial performance during 2000’s after major restructuring made by the government such as; redundancies the incompetents and long term employees and employed the professional one, installing the new banking system called Core Banking System, new banking policies and introducing the new department called Risk Management Department and strengthened the internal audit department so as to improve the internal control system.
1.2 Statement of the Problem

Internal controls have been put in place to ensure safe custody of all bank assets; to avoid misuse or misappropriation of bank assets and to detect and safeguard against probable frauds. Control itself exists to keep performance of an organization within what is expected by the organization, control built within a process is internal in nature and takes place with a combination of interrelated components such as social environment affecting behavior of employees, information necessary in control and policies and procedures (COSO 2001).

Other literature expressed that internal control systems can help an organization to achieve its desired performance and profitability target service delivery and also prevent loss of resources and it can help to ensure reliable financial reporting. However, despite the internal controls that exist in the organization, financial performances (statement) are still poor (Musoke 1999). This may be because the internal controls that are in the organization are weak or undermined by the management.

Further studies suggest that, the internal control will influence the organizational performance by setting objectives; management can then identify risks to the achievement of those objectives. To address these risks, management of an organization may implement specific internal control (Douglas 2011).

Notwithstanding, internal controls only provide a reasonable assurance, and not absolute assurance, this is because it is people who operate the internal controls, break down can occur, use of sampling testing, human error, management override, and improper, collusion among people who are supposed to act independently can cause failure of internal control to achieve corporate objectives and corporate performance in general.

The most research works try to express the problem of internal control system at different angle. This is evidenced by the following research works, Ochoge John (2011), was emphasizing on the internal control and organizational performance, the
above research fail to show the direct contribution of internal control to the financial performance. Lembi Noorve (2006) and various journal and article try express the problem of internal control system such Angela. A and l. Inanga (2009), evaluation of internal control system both researches and journal and articles do not analysis the positive correlation between the internal control and financial performance of the financial institution.

The research will focus on the financial performance under the following aspects, accountability, liquidity, reporting and efficiency because the above research works and other literature do not dig much on the below aspect of the financial performance rather the most research concentrate with financial statement.

1.3 Objectives of the study

General Objectives

The general objective of the study is to assess contribution of internal control system to financial performance of the financial institution.

Specific Objective

(i) To explore the existing internal controls to the financial performance of the financial institution

(ii) To examine the relationship between internal controls and financial performance of the bank

(iii) To examine the efficiency of the existing controls on the financial performance of the financial institution

(iv) To examine the relationship between financial performance and internal audit function of financial institution

General Research Question

What is the contribution of internal control system to the financial performance of the financial institution?
1.4 **Specific Research Questions**

(i) What are the existing controls to the financial institution over the financial performance?

(ii) What is the relationship between the effective internal control and financial performance?

(iii) Are the existing controls efficient?

(iv) Are there any relationship between financial performance and internal audit Function and control environment to the financial institution?

1.5 **Scope of the Study**

The study mainly focused on internal control system and its impact on corporate financial performance of an organization hence the researcher will only concentrate with testing internal controls apparel with internal audit, so as to assess the risk so management within the bank.

The proper internal control is the easier way of attaining (the bank plans and objectives) On understanding this the researcher will concentrate with finance department, internal audit department, branches and division within the financial institution (bank), to assess whether the financial institution comply with rules and regulations governing them such as Bank and financial institution Act (2006), Bank of Tanzania 2006 and their regulations to achieve financial performance of the bank.

1.6 **Significance of the Study**

This research finding will provide a conceptual frame work and standard against which corporations could assess their internal control system and their effectiveness. Also the result of the study will contribute to identify the gap within the system of internal control in financial institutions.

It is also believed that invaluable benefits to management and those charged with governance in financial institutions, will establish on how the internal control system will ensure of improving the financial performance and ultimately ensure attainment of corporate objectives.
To the researcher who will be interested on the same idea, it will provide the proper path, of what this research could not cover considering its limitations. The result of this research work will also help the financial institutions to sit up in following the control measures in their day to day management.

Moreover this research is to partially fulfill an academic requirement for the award of a master degree it is expected that recommendations will be provided to complement the policies by the regulatory bodies and the efforts of banking sector in addressing problems.

Financial performance is one area that is given a lot of prominence all over the world, it has been widely researched. A lot of literature has been written on financial performance, and external auditors normally place an emphasis on internal controls as a measure to ensure sustainable and improve financial performance, however, it is the perception of the researcher that there are still gaps in the research so far done. This study will therefore try to establish the linkage between internal controls and improved financial performance as measure by liquidity, efficiency and financial reporting overall corporate performance.
CHAPTER TWO

LITERATURE REVIEW

The research was interested on assessment of the contribution of internal control systems toward corporate financial performance with an emphasis on financial institutions. Attempted to establish whether there is a positive correlation between internal control system as an independent variable and financial performance as a dependent variable.

The review of literature particularly focused on control environment, internal audit, risk assessment and control activities as the main component of internal control. The review also examined financial performance and in particular focusing on liquidity, accountability and reporting and other performance for the purpose of the study. The ultimate objective of this review was therefore to examine the relationship between internal controls system and financial performance. The review examined the theory surrounding system of internal control and the methods used by previous researchers in dealing with internal control system.

2.1 Theoretical Literature Review

Internal Control and Internal Control System

Under the committee of sponsoring Organization of the Treadway Commission (2011), defined as a process, affected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objective in, effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations.

According to A.H Milichamp (2002), Internal Control System is defined as the whole system of control, financial and otherwise, established by the management in order to carry on the business of safeguarding the assets and secure as far as possible
the completeness and accuracy of the records. Further analyses the redefinition as follows.
The Financial and otherwise, the distinction is not important. Perhaps the financial would include the use of control accounts and otherwise may include physical access restrictions to computer terminal.

Ensure adherence to management policies, management has express policies such as budget and the adherence of budget can be achieved through the procedure such as variance analysis. Also it is defined as the integrations of the activities, plans, attitude, policies and efforts, of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission. Alan G. Hevesi, (2005).

Beside, (ISA 400) also defined internal control system, as all the policies and procedures (internal control) adopted by the management of an entity to assist in achieving management’s objective of ensuring, as far as practicable, the orderly and efficient conduct its business, including of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. The internal control system extends beyond those matters which relate directly to the functions of the accounting system and comprises; the control environment and control procedure.

Whittington and Pany (2004), attempt to explain the meaning significance and components of internal control, while they try to borrow the definition of the COSO. Whittington and Pany (2004), define internal control as “A process affected by the entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following areas: reliability of financial reporting, effectiveness and efficiency of operation, and compliance with applicable laws and regulations.”
They emphasize that internal control is a process and not an end itself. And they note that internal control provides only reasonable assurance but not absolute assurance about the attainment of an entity’s objective.

Gupta (2001) also acknowledges that internal controls can only provide reasonable assurance that management objectives will be achieved. According to Hayes et al, 2005 internal control comprises five components, such as the control environment, the entity’s risk assessment process, the information and communication. Gupta (2001), defines the internal control as “The plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and the timely preparation of reliable financial information.”

Chamsers (1995), Cosserat (1999), Ridley and Chambers (1998) defined internal control systems as comprising of the internal control environment and control of procedures. They further state that the internal control systems includes all the policies and procedures (internal controls) adopted by the directors and management of an entity to assist in achieving their objective of ensuring as far as practicable, the orderly and efficient conduct of the business, including allowance to internal policies, the safe guarding of assets, the prevention and detecting of fraud and error, the accuracy and completeness of the accounting records and timely preparation of reliable financial information.

It is therefore expected that the proper internal control system will be ensured. Completeness of all transactions, the safeguarding the entity assets, the good reputation to the customers and other stake holders, the transactions in the financial statements do exist, that all the assets presented in the corporate financial statements are recoverable and that the entity’s’ transactions are presented in the appropriate
manner according to the applicable reporting framework (ACCA Audit and Assurance Service).

Hitt, Hoskisson, Johnson and Moesel (1996) argued that there are two types of internal controls associated with the management of large firms, particularly diversified firms, which have an important effect on firm innovation; namely Strategic controls and financial control.

The Framework for internal control system in Baking Organization, place emphasis by defining the internal control as “a process affected by the board of directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the bank.

The board of directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness ongoing basis. The main objectives of internal control process can categorized as in COSO (2011). Efficiency and effectiveness of activities (Performance Objective) reliability, completeness and timelines of financial and management information (information objective), and Compliance with applicable laws and regulation.

According to Hayes et al (2005), the management objectives comprise: effective operations, financial reporting and compliance. Effective operations are about safeguarding the assets of the organization. The physical assets like cash, non physical assets like receivables and records of the company can be stolen, misused or accidentally destroyed unless they are protected by appropriate controls. The goal of financial control requires accurate information for internal decision because management has a legal and professional responsibility to ensure that information is prepared fairly in accordance with applicable accounting Standards.
Armor (2001) and Kinney (2000) are acknowledging the importance of the revised control criteria in achieving effective internal control. According to the chartered Institute of Public Finance and Accountancy (CIPFA), financial reporting comprises (CIPFA 2002), financial statement this comprise external reports of a general nature that relate to the organization’s financial position. Annual accounts are the most obvious example, but other examples might include the organization’s budget and periodic reports on financial performance.

Jensen (2005) found external control mechanisms such as external audits are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers. On the contrary as defined before internal control has a much broader purpose and cannot be superseded by external control processes. Rotenberg et al (2005) found subjects having an interest in the effectiveness of a company’s internal control system include manager board of directors, the audit committee, internal and external auditors, regulators, suppliers and customers, investors and lenders. There will be the following possibilities to this

The likelihood that the Company has addressed significant risks and can address them in the future and the likelihood that in terms financial data for decision making will be accurate.

2.1.1 Control Environment
The control environment sets the tone of an organization, influencing the 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 (Internal control Integrated Framework).
Whittington and Pany (2001) note that the control environment sets the tone of the organization by influencing the control conscious of people. They further assert the control environment is viewed as the control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, or audit committee, management philosophy and operating style and organizational structure, (which may be a well organized. Structure that provide for proper planning directing and controlling operation or a disorganized structure that may only serve to confuse the key player by creating unclear roles) The control environment means the overall attitude awareness and actions, of directors and management regarding the internal control system and its importance in the entity. The environment has an effect on the effectiveness of specific control procedures, a strong control environment for example, one with tight budgetary control and an effective internal and function. However, a strong environment does not, by itself, ensure the effectiveness of the internal control system (International Standard of Auditing ISA (400).

Beneish et al (2008), define the control environment as the tone of an organization and the way it operates. He further says that it concerns the establishment of an atmosphere in which people can conduct their activities and carry out their control responsibilities effectively. Likewise, COSO (2004) looks at the ethical environment of an organization to encompass aspects of upper management’s tone in achieving organizational objectives, their value judgments and management styles. The control environment represents the control atmosphere for the entity and is the foundation for the other components (Nicolaisen, 2004).

Bates (2001) considers the factors relating to the control environment to include the integrity, ethical values, and competence of employees and management, management’s philosophy and operating style, the manner in which authority and responsibility are assigned, the organization and development of employees, and the attention and direction of the board of directors towards organizational success.
Rotenberg et al. (2005) said that the control environment starts with the board of directors and management, who set the tone of an organization through policies, behaviors and effective governance. If the tone set by management is lax, then fraudulent financial reporting and performance is more likely to occur. Hook et al. (1994) and Simons, (1995) found out Flatter organizational structures and technological innovation have resulted in fewer middle managers, the traditional “gate keeper” of control, who were previously, responsible for the assembly and distribution of information, checking and authorizing transactions and the supervision of employees. Others emphasized on the presence and functioning of code of conduct and this must be adequately communicated to all levels of organization.

Also there must be an appropriate structure appropriate, which is not dominated by one or a few individuals and an effective oversight by the board of directors or audit committee. Management also needs to put a mechanism in place to regularly educate and communicate to management and employees the importance on internal controls, and to raise their level of understanding of control.

Whittington and Pany (2001) also believe that the control environment has several factors including management philosophy and operating style, the integrity and ethical values of personnel, that creates and administers controls and audit committees and board of directors. These factors set a basis upon which the other components can be built. They also provide a frame work within which the other components operate. However, these assertions have not always held true, since management in organizations has always overridden these controls, the lack of monitoring has always led to collapse of controls.

The independence of audit committee has largely been theoretical in most organizations. Boards of directors have on several occasions had very little time for company affairs, implying that their supervisory role has always been waiting. It is equally worth noting that most of the board members are select cal allegiance.
The audit committee, as a subcommittee of the board of directors, play a roles in protecting the owner’s interest by monitoring management action in term of financial reporting, risk management Internal control (Spira, 2002). On the other hand an active audit committee could consider the internal audit function as a necessary source of information to execute its monitoring responsibilities, thus the audit committee may push for better staffed internal audit functions. Wallace and Kreutzfeldt (1991) were among the first to demonstrate the importance of the control environment in explaining the existence of audit function. The Institute of internal auditors provides an evidence that the existence of an internal audit function, helps organization accomplish its objective, by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organization. The internal audit plays great role on risk management and result to the overall financial performance.

2.1.2 Financial Performance

According to Stoner (2003), performance refers to the ability to operate efficiently, profitability survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg and Anderson (1995) assert that, performance is measured by how efficient the organization is in use of resources in achieving its objectives. It is the measure of attainment achieved by individual, team, organization (EFQM, 1999)

Hitt, et al (1996) believes that many firm’s low performance is the result of poorly performing assets. Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. The financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives is being or has been accomplished. It is the process of measuring the results of a firm’s policies and operations in monetary terms.

It is used to measure firm’s overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare
industries or sectors in aggregation (Financial Performance Analysis Conceptual Frame Work).

**Measures of Financial Performance**

The financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the statement of financial position and statement of comprehensive income. In financial performance the following indicators for analysis, assess organization’s production and productivity performance, profitability performance, liquidity performance, working capital performance, fixed assets performance, efficiently performance. (Conceptual Frame work)

According to Dixon et al (1990) appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives.

Hilt, et al (1996) mention accounting based performance using three indicators; return on assets (ROA), return on equity (ROE) and return on sales (ROS). Each measure was calculated by dividing net income by total assets, to common equity, and total net sales, respectively.

**2.1.3 Liquidity**

It measures the ability of an organization to cover their short term obligation. Hilt, et al (1996) mention current ratio as a standard measure of liquidity in organization. Baysinger, (1989) also emphasized the importance of current ration as a measure of an organization’s liquidity. Liquidity ratios are the ration’s that measure the ability of company to meet its short term debt obligations. These ratios measure the ability of company to pay off its short- term liabilities when the fall due. The liquidity ratios are a result of dividing cash and other liquid assets by the short term borrowings and current liabilities. They show the number of times the short term debt obligations are covered by the cash and liquid assets.
A company must possess the ability to release cash from cash cycle to meet its financial obligations when the creditors seek payment. In other words, a company should possess the ability to translate its short term assets into cash. The liquidity ratios attempt to measure this ability of a company.

According to Bank of Tanzania (2010), liquidity position of the banking sector was considered satisfactory. The ratio of liquidity asset to demand liabilities and gross loan to total deposit (lending ratio) were 45.23% and 58.93% respectively compared to 2009. The deposit as the major source of the sector’s funding accounted for 81.77% of total funding (Annual report 2010)

Likewise, the loan component in the loan-to-deposit ratio would also benefit from a more differentiated analysis. The maturity structure of the loan and the degree of standardization of the loan agreements will have an important influence on the liquidity of the loan portfolio.

2.1.4 Accountability

According to Hayes, et al. (2005), Managers need regular financial reports so as to make informed decision. Reporting (particularly, financial reports) is one way through which managers make accountability for the resource entrusted to them.

As the primary users of financial reports, members of the public may be less financially sophisticated than users of other types of financial reports. They likely have less access to intermediaries, such as investment analysts, who can interpret the financial reports for them. Therefore, financial reports must place great emphasis on the understandability of the information reported in them. The financial reports cannot exclude complex transactions nor simplify complex transactions such that their substance is misleading but the emphasis on understandability would need to be considered in determining the reporting of items in financial reports. Preparers of financial reports should assume that users have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.
General purpose financial reports prepared to respond to the needs of the public and their elected representatives for accountability purposes may also provide information useful to other users and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by the financial reports useful for their own purposes.

Some users have the authority to require the preparation of financial reports tailored to meet their own specific information needs but may also use the information provided by general purpose financial reports for their own purposes (for example, regulatory and oversight bodies, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management and, in some cases, lending institutions and providers of development and other assistance). While these other users may find the information provided in general purpose financial reports useful, the reports would not be prepared to specifically respond to their particular information needs.

Reporting on accountability for governance, non-financial performance and sustainability is beyond the scope of financial statements, which largely portray the financial effects of past transactions and events. Only some of the accountability of an entity for its financial performance can be illustrated in financial statements. Some of the accountability of an entity for stewardship is represented by reporting on its financial condition but financial condition reporting is also beyond the scope of financial statements (conceptual framework consultation paper 2, 2012).

2.1.5 Reporting
Whittington and Pany (2001), emphasize on internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws, and regulations. They further note that “Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analysis that enable the executive to maintain control over the variety of activities and functions that are performed in a large
organization”. The mention internal control devices to include use of budgetary techniques, production standards.

John J. Morris (20011) believes that the enterprise Resource Planning System provide a mechanism to deliver fast, accurate financial with built-in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

2.1.6 Risk Assessment
This is the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. According to Lannoye (1999) this component of internal control highlights the importance of management carefully identifying and evaluating factors that can preclude it from achieving its mission.

Risk assessment is the identification and analysis of the relevant risks to achievement of the objective, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

COSO (2011) emphasizes the importance of objective setting in the entity and relates it to risk assessment as a precondition. However it should be emphasized that the company internal control framework should be established in order to have reasonable assurance to achieve established objective, risk identification and analysis are the critical components. In evaluating the effectiveness of internal control activities, it is essential to assess them against entity’s objectives and related risks.

Risk assessment is a systematic process for integrating professional judgment about probable adverse conditions and events, and assessing the likelihood of possible losses (financial and non-financial) resulting from their occurrence. The second internal control standard addresses risk assessment. Internal control should provide
for an assessment of the risks the agency faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

The objective of financial reporting and performance in the entity, the production of accurate, complete, relevant, timely and reliable financial information to demonstrate and maintain accountability, to meet statutory reporting requirements, to account for an organization’s stake holders for its financial performance (CIPFA 2002:24)

Table 2.1: The Principles of Internal Control- Risk Assessment

<table>
<thead>
<tr>
<th>Principle –Risk assessment</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial reporting and performance objective</td>
<td>A precondition to risk assessment is the establishment of the objective for reliable financial reporting and performance</td>
</tr>
<tr>
<td>Identification and analysis of financial reporting risk</td>
<td>The company identifies and analyses risk to the achievement of financial reporting objectives as a basis for determining how the risk should be management.</td>
</tr>
<tr>
<td>Assessment of fraud risk</td>
<td>The potential for material misstatement due to fraud is explicitly. Considered in assessing risks to the achievement of financial reporting objectives</td>
</tr>
</tbody>
</table>

Source: COSO 2005:9

2.1.7 Risk Identification

Management should perform a comprehensive analysis of identifiable risk, including all risks associated with departments and branches-wise and activity level objective (derived from the organization’s mission). The activities analyzed should include those that support both financial and non-financial objectives. Management must consider the significant interactions with external organizations as well as those
internal to their organization at both the department-wise and activity levels. Several means of risk identification can be used, including: management planning conferences, strategic planning, periodic reviews of factors effecting department’s activities, changing needs or expectations of agency officials or the public and natural catastrophes. (Lannoye, 1999)

2.1.8 Risk Analysis
After identifying department-wise and activity level risk, management should perform a risk analysis. The methodology may vary since risks are difficult to quantify; however, the process generally includes the following; estimating risk significance, assessing likelihood/frequency of occurrence, and considering how to manage risk.

Risk with little significance and low probability of occurrence may require special attention. After assessing the significance and likelihood of risk, management must determine how to control it. Approaches may differ among entity, but they must be designed to maintain risk within levels deemed appropriate by management, considering the concepts of reasonable assurance and cost-benefit. Once implemented, the approach should be continually monitored for effectiveness. (Lannoye, 1996)

2.1.9 Managing Risk
When change occurs in an organization it often affects the control activities that were designed to prevent or reduce risk. In order to properly manage risk, management should monitor any change to ensure that each risk continues to be managed as change occurs. Management should inform employees responsible for managing the organization’s most critical risks about any proposed changes that may affect their ability to manage those risks. Managers should continually monitor the factors that can affect the risks they have already identified as well as other factor that could create new risks. (Walker 1999).
2.2 Empirical Literature Review

Empirical literature review involves citing researchers and recent books and journals or recent time observations and experiments. Some of the studies that have been conducted on internal control system include information and communication as one of the internal control compact, which result the financial performance. Smooth flow of information and communication across and within the organization is influenced by the nature of the working relationship within the organization at all levels. (Steinhoff 2001) COSO framework (2005), try to show little relation between the two variable (internal control and financial performance), is the major function of internal control system that plays an important role in preventing and detecting fraud and protecting the organization’s resources.

According to Ndamenenu K. Douglas, (2011), express the topic of internal control has little relation with financial performance by recommending internal audit units for each branch across the country, so that there shall always be the availability of internal audit personnel’s to ensure compliance to the internal controls that exist in their organization. This is to make the internal audit part of the daily activities of the organization to ensure daily compliance to the internal controls but should not wait till at the end of the month. In as much as possible, this office should be part of the branch management team. In doing so, they will report directly to the country management team. The internal audit personnel should also be rotated at regular intervals to avoid any form of malpractices.

Furthermore the research work tries to research by expressing the relation with internal and performance based on the research submitted by Ochoge John (2011) to Makerere University provides a stronger test than prior studies which shows that there is a connection between control environment, risk assessment, control activities and performance of the organization. In their study, firstly they used data taken directly from interview rather than through questionnaires; secondly they employed a key internal control characteristic (management integrity).
The research works went further. In (2004), COSO developed an additional framework to address more specifically the risk management issues in an organization called Enterprise Risk Management (ERM); the frame encompasses all component of internal control frame work, but adds also the components of objective setting, event identification and risk response (Rittenberg 2005). Perry and Warner have proposed a five model for quantitative assessment of internal control called, choose the right control framework, document control against the selected model, develop a quantitative scoring process, assemble a group of examiners and score the internal control application.

Figure 2.1: Conceptual Frame Work

Source: Developed from literature review

From the above conceptual framework it is clear that internal controls as an independent variable as measured by the control environment, internal audit, control activities and risk management affect the financial performance a dependent variable as measured by liquidity of an audit, financial accountability, efficiency, profitability reporting and financial reporting.

2.3 Research Hypothesis
The following research hypotheses are derived from the literatures, reviewed by the researcher for the purpose of the study in hand.
**Internal control Vs Financial Performance.**
There is a positive relationship between the internal control and the financial performance of the financial institute (bank)

**Internal audit Vs Financial Performance.**
The effective of control on internal audit and financial performance of the financial Institution

**Control environment and Financial Performance.**
There is a positive relationship between the internal control and the financial performance of the financial institute (bank)
CHAPTER THREE

RESEARCH METHODOLOGY

This chapter covers basic techniques and tools for data collection and analysis. This chapter shows how data has been collected and eventually analyzed. The chapter included the area of the study, research design, and data collection methods as well as data analysis techniques.

3.1 Type of Study
The researcher work was based on the case study type of research in qualitative in nature of the study. The researcher’s work, concern with two qualitative variables, independent variables and independent variables that result the financial performance of the financial institution.

3.2 Study Area
This research was conducted at People’s Bank of Zanzibar Limited (PBZ) head office and four branches located within in Zanzibar municipality, this is for the purpose of assessing whether the internal controls system (control environment, internal control activities, and risk management) operated within the bank.

On the other hand, the study was decided to be conducted in the above mentioned area, due to easy of availability of information and cost saving from the researcher.

3.3 Study Population
The study focused on finance department, and internal audit department and other of the bank particularly in finance, accounting personnel, internal audit personnel departments were interviewed and all mentioned branches managers. The researcher was selected at 10 personnel in each department in the head office and 6 personnel including the branches managers of respective branches located in Unguja.
3.4 Unity of Analysis

The study conducted in the finance department and internal audit and other. And from each department the researcher picked 10 personnel and 10 personnel for each branch. The research adopted such analysis to avoid the cost structure during his study and time constraints, because other branches are located in Pemba Island and Dar-es-salaam.

Each sample enabled to provide the appropriate and sufficient information for the data collection, because the researcher used appropriate technique for selecting the sample for the purpose of data collection and analysis.
<table>
<thead>
<tr>
<th>Variables</th>
<th>Operational definition</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquidity</strong></td>
<td>• Cash position indicator&lt;br&gt;• Capacity ratio&lt;br&gt;• Deposit ratio&lt;br&gt;• Purchase fund ratio&lt;br&gt;• Quick ratio</td>
<td>• Do the bank depend loan performance for its financial performance?&lt;br&gt;• Do the bank increase the deposit ratio is unfavour for the performance?</td>
</tr>
<tr>
<td><strong>Reporting</strong></td>
<td>• Validity of reporting&lt;br&gt;• Time line of report&lt;br&gt;• Appropriate source of report</td>
<td>Does the report show true and fair view&lt;br&gt;What is the relevance of the report</td>
</tr>
<tr>
<td><strong>Accountability</strong></td>
<td>Review the transaction and report&lt;br&gt;Provision of reasonable assurance of the information</td>
<td>Does the management act on behalf of shareholder and other stake holder&lt;br&gt;Does the agency theory exist</td>
</tr>
<tr>
<td><strong>Control environment</strong></td>
<td>Proper planning and control&lt;br&gt;Presence and functioning of board of director&lt;br&gt;Proper organization policies&lt;br&gt;Measure taken to the correction of the proper operation of internal control system</td>
<td>Does the management committed to the operation of the system?&lt;br&gt;Does the management closely monitor and implement the control system?&lt;br&gt;Are the policies and procedure exist and functioning&lt;br&gt;Does the organization structure clearly defined?</td>
</tr>
<tr>
<td><strong>Risk assessment</strong></td>
<td>Risk identification&lt;br&gt;Risk analysis&lt;br&gt;Management of risk&lt;br&gt;Inherent and detection risk&lt;br&gt;Control risk</td>
<td>Have proper strategies for managing risks been established&lt;br&gt;Is there appropriate measure of controlling the risk&lt;br&gt;The internal audit exist</td>
</tr>
<tr>
<td><strong>Financial performance</strong></td>
<td>Increase turnover ratios&lt;br&gt;Positive financial position and performance&lt;br&gt;Accounting system is adequate&lt;br&gt;Sufficient cash to cover to the short-term and long term obligation</td>
<td>Does the financial institution (bank) has enough cash to meet its obligation&lt;br&gt;Are fees and interests charged are sufficient to cover the costs of operation&lt;br&gt;Are the loan covered on due date</td>
</tr>
</tbody>
</table>

Research data 2013
3.6 Sample size and Sampling Technique

The research work basically selected top, middle, lower level management and employees because they are the custodian of internal control system. Accordingly both department heads and branches were targeted as respondents; however, higher emphasis was laid on attaining members in finance department and internal audit department and other departments.

The researcher interviewed about 85% of the both departmental heads and all staff in the finance and internal audit department. Sample sizes larger than 30 and less than 500 are appropriate for most research”. Therefore, in this research a researcher included the sample size of 60 people as shown in the table 3.2.

Table 3.2: Sample Distribution

<table>
<thead>
<tr>
<th>Category of respondent</th>
<th>Population</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Loan department employees</td>
<td>40</td>
<td>12</td>
</tr>
<tr>
<td>Marketing department employees</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Accounting and Finance department</td>
<td>200</td>
<td>30</td>
</tr>
<tr>
<td>Auditing department</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>290</td>
<td>60</td>
</tr>
</tbody>
</table>


The sampling techniques used based on probability and non probability involving purposive sampling and random sampling.

3.6.1 Purposive Sampling

This is a technique with regard to which item should be included or exclude in the sample rest on the researcher’s judgment and intuition. According to Kothari (2004), purposive technique enabled the researcher to choose respondents basing on the fact that they have desirable characteristic and variables related to the issue being studied.
The internal control within the bank depends on effectiveness of custodian of the internal control system. It also ensures that only people with relevant information are sampled.

3.6.2 Random Sampling
This technique has the property that every possible combination of objects in the population studied has an equal chance of being selected (Ndunguru 2004). In that case the researcher includes everyone in the study considering that all respondents have common observable characteristics.

3.7 Types and Sources of Data

Data Collection Methods
In order to attained adequate, appropriate and reliable information, the research work used both secondary and primary information. The following instruments have been applied: questionnaire, interview, and documentary review.

3.7.1 Primary Data
This is information received directly from the respondent based on the researcher needs

3.7.2 Questionnaires
This is a direct consultation to the concerned staff, concerning variables of interest to an investigation. This is an easiest way of collecting data that can help to get response from unreachable persons and give respondent enough time to think and give well thought out answers. Questionnaires were distributed to concerned staffs, and these questionnaires were containing both closed and open questions so as to facilitate coding and data analysis. The questionnaires were provided to selected staffs from head office and at the branches level to both finance department and internal audit department. The researcher has given the questionnaire to selected staffs by hand due to the samples being easily reachable by researcher the physically and thus collected in the same way.
3.7.2 Interview
This method employed to find information necessary from the group more quickly just to allow individual self expression. The expert such as seniors’ staffs of the finance and internal audit department has been researched for interview.

3.7.3 Observation
Significant data should not be left behind/ ignored thus observation put into practice, participatory and non-participatory observation. The aim of this technique will be to obtain the primary data that lay the stepping stone for the secondary data which together produce a meaningful version for analysis. The researcher participates in the day to day activities of internal auditor head office; finance department will observe the activities of the office.

3.7.4 Secondary Data
The collected data through documentation will include a review from earlier studies on the topic, from the books, journals, reports, and some documents. The researcher reviews the Banking and Financial Institution Act (2006), and the regulation, and COSO Framework.

These documents assists on knowing exact size of the organization by looking at organizational charter, internal control procedures, how the effective of the plan skill and knowledge and the auditor have influenced internal control system to the financial performance of the bank.
Also by using organizational charter/structure, report, and plan it enabled to know for how much management and internal control complied with guidelines provided and recommendations made by them.

3.8 Validity and Reliability
In order to reduce the possibility of getting the wrong answer, attention needs to be kept to the particulars on the research design, reliability and validity (Saunders et. al; 2003).
3.8.1 Validity
Validity was concerned with whether the findings are really about what appear to be (Saunders et. al; 2003), validity defined as the extent to which data collection methods accurately measures what they were intended to measure (Saunders, et. al, 2003). Cooper and Schindler (2003) believe that validity refers to the extent to which a test measures what we actually want to measure.

3.8.2 Reliability
According to Saunder et al; (2003), reliability refers to the degree to which data collection method will yield consistent findings, similar observations would be made or conclusions reached by other researchers or there is transparency in how sense was made from source. Cooper and Schindler (2003) have defined reliability as many things to people, but in most contexts the notion of consistency emerges.

3.8.3 Reliability and Validity of the Data Collected
The primary goal of validity and reliability is to minimize the risk of having error and avoid biasness in the study.

To ensure the reliability and validity of this study, the researcher cautiously in his capacity interpreted all gathered information throughout the entire research. Data that were collected from respective catering institution was carefully compared and evaluated to obtain the highest possible level of reliability and validity.

To ensure that the data was reliable and bares validity researcher conducted though investigation and comprehension of the appropriate literature, articles and website that gave insight to that aspect of the study.

3.9 Data Analysis and Presentation Technique
Data analysis is the ways of sorting the data so as to establish statistical patterns and identification of relationships. Mostly descriptive statistics analysis used to analyze data obtained from respondents through questionnaire. These include percentages, and frequencies and tables were major types of the descriptive statistic analysis of the
study. The Statistical Package for Social Sciences (SPSS) and Microsoft Excel Computer Software were used to enter data collected from respondents.

The collected data/information from primary sources were edited, coded, summarized and analyzed by using Statistical Package of Social Science (SPSS) and Microsoft excel computer software, and tabulation also were used to enter data collected from sources through questionnaire

3.9.1 Qualitative Technique
Qualitative methods based on analysis, meanings derived from numbers, numerical and standardize data. Those data accessed through the study, past research works, journal, magazines, articles, and reports. Using this method the numerical data analyzed through statistical method percentages, cross-tabulation, and frequencies. The SPSS and Microsoft excel were used to enter data collected from respondents.

3.9.2 Qualitative Technique
Qualitative methods used for non-standardize data the interpretation and meaning express through words. The data analysis in these methods gave the quality of data such as good, true and many other qualities. This method that dealt with non quantitative data can help in flexible ways to perform data collection. Subsequent analysis and interpretation of collect information. The sources of information was the past research works, journal, magazines, and articles.
CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter presents the results obtained from questionnaires and explains the findings obtained from the field work. The tables and figures are some of the results presentation techniques which were employed in this study. Data which were collected and analyzed were based on the specific research objectives and questions, which were used as a guide during the actual research work. The questionnaires were distributed to 60 people instead of 80 which the researcher planned. This is because of the time limit and how busy of the staffs in this industry are.

4.2 Profile of the Respondents

This study involved sixty (60) respondents. The respondents were People’s Bank of Zanzibar employees. All these respondents were interviewed at their respective areas. The profile of the respondents covers their age, gender and education as presented in the following subsections:

4.2.1 Gender of the Respondents

The study involved 60 respondents whereas 58.33% were male and 41.66% were female. This is indicating that majority of the respondents who were employed in that institution were male, but showed as a good indicator that the female were increased in percentage wise in every season of employment opportunity, PBZ in-cooperates females in the management that helps on making decision due to gender balance contributing to any type of business more efficient and effective. The table 4.1 below depicted that situation
Table 4.1: Gender of Respondents

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>25</td>
<td>41.7</td>
</tr>
<tr>
<td>Males</td>
<td>35</td>
<td>58.3</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field data 2013

This indicate that the institution work together for the purpose of bringing effective control for the attainment of financial impact or financial performance. The female is nearly half of the total population of the researcher’s sample. Also the researcher considers the gender in this study so as to see if there are gender equality in PBZ as we know gender equality denotes women having the same opportunities in life as men, including the ability to participate in the public sphere.

4.2.2 Current position of the Respondents

During the field work the researcher found that about 88.33% respondents were others these include i.e. (cashiers/tellers, bank officers, customer cares, loan officers, operation officers, marketing officers, IT officers). And 3.33% of respondent were chief internal auditor and assistants internal auditors, 3.33% were chief accountant and accountants, 3% were branch managers and finally the rest 1.66% were finance director and assistant finance directors. This helps the researcher to attain the valuable and reliable information 88.33% of the respondents were others who are involved deal operation and contact directly to the customers and other interested parts, that group of respondents were concerned personnel’s for the implementation and compliance of the internal control of the financial institution. The table 4.2 and figure 4.0 depicted the research finding.
Table 4.2:  Current Position of the Respondents

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance director</td>
<td>1</td>
<td>1.66</td>
</tr>
<tr>
<td>Chief accountant</td>
<td>2</td>
<td>3.33</td>
</tr>
<tr>
<td>Chief internal auditor</td>
<td>2</td>
<td>3.33</td>
</tr>
<tr>
<td>Others</td>
<td>53</td>
<td>88.33</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field work data 2013

Other 41.25% were among the core conductors of the entity’s’ objectives that in one way they need internal control functions for the purpose of accomplishing the organization objectives properly. Therefore, the researcher intended to get their perception concerning the internal control services and how it facilitates the entity’s financial performance. But on other hand can also provide bias information due to some of them being involved in the management level.

Figure 4.1:  Current position of the Respondents

Source: field data 2013.
4.2.3 Respondents’ Composition by Age

The researcher found that the age of the respondents ranged from twenty to sixty years. Grouping the respondents was based on their age at the interval of twenty years and from that four categories were found from the researcher finding. The larger number of the respondents lied into second category of the age distribution 21 to 40 years; the respondents under this category were (55%), while that of the respondents whose age ranged between 41 to 60 years and 39 years were (41.66%). However, the number of respondents whose age ranged between above 60 and below 20 found only (1.66%) respectively. The majority of respondents were young (55%) who were aged between 20 to 41 years. This distribution is as presented in Table 4.3

Table 4.3: Respondents’ Composition by Age

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 20 years</td>
<td>1</td>
<td>1.66</td>
</tr>
<tr>
<td>21 – 40 years</td>
<td>33</td>
<td>55</td>
</tr>
<tr>
<td>41 – 60 years</td>
<td>25</td>
<td>41.66</td>
</tr>
<tr>
<td>Above 60</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: field data 2013

Respondents Educational Level

Education is the most important input for planning purposes, generally, the education facility influences proper performance of an individual and any other occupational. It has more prone effects on entity operation and control. In this study, the educational level of the respondents differs in relation to specialization and experience in business operation. The findings from Table 4.1.3 and figure 4.1.1 depicted that, 41.66% of respondents attained Advance Diploma/First degree level while 23.33% of the respondents are the Postgraduate Diploma. On other hand 16.66% attained Ordinary diploma and 10% others (certificates, O’level, A ‘level and short courses) and finally the researcher found that only 8.33% attained Master degree. This shows on the table 4.4 and figure 4.1.
Table 4.4: Respondents Educational level

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advance diploma/Degree</td>
<td>25</td>
<td>41.66</td>
</tr>
<tr>
<td>Post graduate diploma</td>
<td>14</td>
<td>23.33</td>
</tr>
<tr>
<td>Diploma</td>
<td>10</td>
<td>16.66</td>
</tr>
<tr>
<td>Master degree</td>
<td>5</td>
<td>8.33</td>
</tr>
<tr>
<td>Others</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Research finding 2013*

Also this level of education possessed by respondents enabled the researcher to get reliable data concerning the functionality and efficiency of internal control placed by the entity, because the person who have this level of education has got good understanding and reasoning so can provide more reliable information concerning the efficiency and effectiveness of internal control and how it contributes to the organization success.

**Figure 4.2: Respondents Educational Level**

*Source: Field work data 2013*
Presentation of specific Objectivities one
To explore the existing internal controls to the financial performance of the financial institution

4.2.4 The study of Internal Control to the Financial Performance
In this study the researcher found that about 88.33% of the respondents said that there was an internal control to the financial performance, this indicates that the entity introduced the proper procedure to deal with customers for the better satisfaction as well the operation within the entity. Also the researcher found that about 11.66% said that there was no internal control within the institution for the financial performance of the entity, this refers to table 4.5 in reality most of the respondents in the field believe that the internal control exist as shown on the bank regulation.

Table 4.5: Internal control to the financial performance

<table>
<thead>
<tr>
<th>Internal control</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>53</td>
<td>88.33</td>
</tr>
<tr>
<td>No</td>
<td>7</td>
<td>11.66</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: field data 2013

This variable tested the respondent’s knowledge of the existence of control systems, the types of the control systems and the people responsible for setting those internal control systems in the entity.

4.2.5 The types of Internal Control Placed With The Bank for the Financial Performance
The researcher in his finding found that, all of the respondents concluded that there was internal control in the bank operation. About of 35% of the respondents showed that there was asset and liability control. This was the indicator of safeguarding the bank’s assets and liabilities, 21.66% of respondents showed that there is internal
control (risk management) under this bank it was concluded that there was special division dealing with risk the bank. Further research found that 6 respondents 10% supported that there was control over cash and proper authorization respectively, this implies that the existence of control helps the bank to achieve objectives of financial performance.

This was evidenced through the table 4.6 and figure 4.2 the results indicate the commitment of the People’s Bank of Zanzibar towards the satisfaction of the customers and effective operation for achieving the financial performance, even though it is believed that there are different challenges on the operation of it.

**Table 4.6: Types of Internal Control Placed With the Bank**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segregation of duties</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Authorization</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Internal audit</td>
<td>7</td>
<td>11.66</td>
</tr>
<tr>
<td>System control</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Control over cash</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Control activities</td>
<td>1</td>
<td>1.66</td>
</tr>
<tr>
<td>Asset and liabilities control</td>
<td>21</td>
<td>35</td>
</tr>
<tr>
<td>Risk management</td>
<td>13</td>
<td>21.66</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher finding 2013
Figure 4.3: Types of Internal Control Placed With the Bank

![Pie chart showing types of internal control](image)

Source: Research finding 2013

4.2.6 The response of Benchmark and Involvement of Employees in Setting Materiality Level (Risk Assessment)

It is found that, all employees from different departments within the People’s Bank of Zanzibar responded on it. The researcher showed most of the respondents said yes, but for the existence of benchmark of materiality level within the bank as a part of internal control operated for the attainment of organizational objective of financial performance, the finding has shown that was about 78.3% to the fact that there is appropriate benchmark of setting risk assessment of materiality level while 21.7% gave no response, that is they have no idea or no appropriate benchmark. This as shown in the table 4.7

Table 4.7: Involvement of Employees in Setting Materiality Level

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>47</td>
<td>78.3</td>
</tr>
<tr>
<td>No</td>
<td>13</td>
<td>21.7</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field finding 2013
Also the researcher depicted it in the figure 4.3 below

Figure 4.3: Involvement of Employees in Setting Materiality Level

On other hand the respondents showed that, there was involvement in the setting materiality level within the organization, about 65% of the respondents agreed all level of management within the bank were involved in setting materiality level for the success of the bank while twenty one respondents equal to 35% were not sure/agreed that there was involvement of employees.

4.2.7 Management Involvement on Setting Organizational Objectives

All the respondents said yes, but for the employees representation of the setting of the organizational objectives, the majority of the respondents did respond that managements were involved in setting bank’s objectives out of 60 responses, 40 responses equivalent to 66.66% while 40 responses equal to 33.33% responded, that there were not sure or of involvement of setting organizational objectives. This implies that involvement of management in objectives setting will result proper control and compliance of the control. This is found under the following table 4.8
Table 4.8: Management Involvement on Setting Organizational Objectives

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>40</td>
<td>66.7</td>
</tr>
<tr>
<td>No</td>
<td>20</td>
<td>33.3</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field data 2013

4.2.8 Response on Whether There Organization Strategies in Managing Risks
Results in table 4.2.4 above show were that 43 of the respondents equal to 71.66% agreed that performance of the bank results from involvement of the management in setting the strategies for managing the risk, while 20 respondents equal to 33.33% gave responses no responses that they have no idea as to whether there were appropriate strategies for managing risk. This implies that financial performance of the bank results from appropriate strategies in risk management.

4.3 Presentation Objective two
The relationship between internal control and financial performance

4.3.1 The Response on Whether There Was Relationship between Internal Control and Financial Performance
The results in the table 4.9 and figure 4.4 above indicate a significant positive relationship between internal controls and organizational financial performance of the bank. The fifty two (52) respondents equivalent of 86.7% showed that there relation between internal control and financial performance, while 13.3% indicated that there is no relation or not sure of internal control and financial performance.
Table 4.9: Relationship between Internal Control and Financial Performance

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>52</td>
<td>86.7</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>13.3</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher finding 2013

Figure 4.4: Relationship between Internal Control and Financial Performance

4.4. Presentation of objective three
The examination of efficiency of internal controls within the bank for the financial performance

4.4.1 Response of Organizational Structure of The Bank and Responsible Personnel In Setting It
It is found that, the organizational structure of the People’s Bank of Zanzibar Limited as evidenced by most of the respondents in all departments in the bank and all levels of the management, as depicted under the following percentage-wise, about 78.3%
clearly state that the structure is clearly defined to provide the room for effective control while only. 21.7% gave no response, that is, the structure is not clearly defined or not sure on this. This is shown the following table 4.10.

Table 4.10: Organizational Structure of the Bank

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>47</td>
<td>78.3</td>
</tr>
<tr>
<td>No</td>
<td>13</td>
<td>21.7</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher Finding 2013

However, the researcher found that, 60% of the respondents believed that is group managements (head office management, branch managers and other share holders), who are responsible in setting the organization structure, 33.33% showed that its head office management only is involved in organizational structure’s setting and 5% and 1.7% responded that it is the others and branch managers who are involved in setting the organizational structure as shown in the table below 4.11

Table 4.11: Responsible Personnel’s in Setting out Organization Structure

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group management</td>
<td>36</td>
<td>60</td>
</tr>
<tr>
<td>Head office management</td>
<td>20</td>
<td>33.33</td>
</tr>
<tr>
<td>Branch management</td>
<td>1</td>
<td>1.7</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher finding 2013
4.4.2 The Existence of Management Accounting System

The researcher found that, there was proper management of accounting system within the bank as one among the internal control. This has shown that about 78.33% responded that there was management accounting system in all departments while 21.7% response that no which means, first there was no management accounting system within the bank and/or they were not sure of the management accounting system.

For the total response from a population, the researcher concluded that the bank has management accounting system for the purpose of achieving organizational objectives of financial performance. This as shown in the figure 4.5 below

Figure 4.5: The Existence of Management Accounting System

4.4.3 The Responses of the Commitment of Management in Operation of the Internal Control

On the extent of commitment of management in the operation of internal control, People’s Bank of Zanzibar’s contribution of the financial performance indicates that 86% of the respondents at all management levels were looking after their responsible employees and 12% of respondents were not sure that the management was not
committed on operation of management of internal control. The Table 4.12 indicates this.

**Table 4.12: The Commitment of Management in Operation of the Internal Control**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>52</td>
<td>86</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: field finding 2013*

**4.4.4 Presentation of Internal Audit**

**4.4.4.1 The Existence of Internal Division and Autonomous and Independence of the Duties from the Management**

The internal audit department was the major question asked by the researcher and it is found that, 40% and 38.33% of the respondents strongly agreed and greed respectively that there was effective and functioning internal audit division, this implies the bank has effective internal control system for achieving the organizational objectives of financial performance, 16% of the responses responded that they were not sure that the bank has internal audit division while 3.33% and 1.66% responded that they strongly disagreed and disagreed that there was an internal audit division. This is shown in the table 4.13 below.

On other hand it is found that, 40% and 30% responded that the internal auditors operate their duties without interference from the management, this implies that the auditors were fully independent in performing their duties. 25% were not sure while only 5% of the respondents disagreed on the autonomous of the internal auditors in the performance of the operation. This is shown in the figure below 4.6
Table 4.13: Presentation of internal audit

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>Agree</td>
<td>23</td>
<td>38.33</td>
</tr>
<tr>
<td>Not sure</td>
<td>10</td>
<td>16.66</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>3.33</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>1.66</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Researcher finding 2013

Figure 4.6: Presentation of Internal Audit

Source: Researcher finding 2013

4.4.5 Control Environment

4.4.5.1 The Response of Impossibility of Staffs to Have Access to All Valuable Information without Consent of Senior Staff

It was investigated that, the lower level employees were prohibited from access of valuable customer’s information without consent of senior staff. This was found from the researcher’s finding that 33% and 31% of respondents respectively agreed and disagreed on that control, 20% of respondents were not sure while 8.33% and
6.66% strongly disagree and disagree that there is a restriction of accessing of customer’s information. This is shown in the table 4.14

**Table 4.14: Impossibility of Staffs to Have Access on Information**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>19</td>
<td>31.7</td>
</tr>
<tr>
<td>Agree</td>
<td>20</td>
<td>33.3</td>
</tr>
<tr>
<td>Not sure</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>8.3</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>5</td>
<td>6.7</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher’s finding 2013

**4.4.5.2 The Review Of Actual Expenditure Budget Compared With Budgeted Expenditure Budget**

It is shown in the table 4.15 and figure 4.4.5 that the management review the actual and budgeted and correct the variances in each department, so as to be efficient in their control and operation, the 28 and 18 of respondents equally 40% and 30% respectively were strongly agree and agree on it, 15% were not sure and 5% and 3.33% of respondents respectively strongly disagree and disagree

**Table 4.15: Comparison between Actual and Budget Expenditure**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>Agree</td>
<td>28</td>
<td>46.66</td>
</tr>
<tr>
<td>Not sure</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>3.33</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher finding 2013
Figure 4.7: Comparison between Actual and Budget Expenditure

Source: Researcher finding 2013
CHAPTER FIVE

DISCUSSION OF RESEARCH FINDING

5.1 Introduction
This chapter provides the discussion of research findings arising from the field work. It focuses on the finding from the respondents who were provided with a questionnaire and how they relate within research objectives and hypothesis. The research sample was about 60 respondents from different departments within the People’s Bank of Zanzibar. The specific objectives of the study are: To explore the existing internal controls to the financial performance of the financial institution, secondly to examine the relationship between internal controls and financial performance, thirdly, to examine the functionality and efficiency of the existing control to the financial performance.

5.2 Specific Objective One
To explore the existing internal controls to the financial performance of the financial institution
There were positive responses from respondents on the existing internal controls over financial performance to the People’s Bank of Zanzibar Limited. In general under this category the results showed that a large number respondent affirmed with the existence of internal controls on financial performance. As shown, in the above chapter it was reported that 78.3% of the total respondents agreed that the general internal controls are available at the bank.

Apart from that the above general explanation, the individual variables also confirmed to a great extent. For example, as it has been found in this study in the variable of the types of internal control placed with the bank for the financial Performance, it was depicted that there are various controls to the bank as shown in the figure 4.2.0 that about 99% of responses confirmed that the Bank introduced various controls for the purpose of achieving bank’s objective on financial performance.
Other variables also showed the positive relation that there was appropriate benchmark of setting organizational materiality level of the transaction, and the involvement of employees and division which was affected by the material activities and transaction. About 78.3% and 65% respectively showed the benchmark of setting materiality level and the involvement of the division and employees for setting it.

In addition to that 66.7% of the total respondents stated that the entire bank’s management levels were involved in objectives setting of the bank. This helps the bank in effective operation and evaluation of the daily activities through the various departments, divisions and branches as result achieving the bank’s objectives of financial performance.

5.3 Specific Objective Two

To examine the relationship between internal controls and financial performance

Results in table 4.3.0 indicate a positive relationship between internal control activities as a component of internal control systems with financial performance of the financial institution.

Internal control activities further relate positively with accountability, reliability of financial reporting and performance, effectiveness, efficiency and overall organizational objectives. This seems to agree with Ray and Pany (2001)’s belief that “control activities are policies and procedures that help ensure that management directives are carried out”. Therefore, internal control activities affect financial performance, thus hypothesis one (H1), Functionality of internal control activities and financial performance of financial institution are related is accepted.

While Whittington and Pany (2004), “depicted that internal control affected by the entity’s management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following areas, reliability of financial reporting and performance, effectiveness and efficiency of operation, and compliance with applicable laws and regulations. The researcher’s finding depicted that about 52
out of 62 respondents equal to 86.7% agreed the existence of internal control within the bank and there is positive relationship between two components.

However, some of the respondents about 33.3% provided the opinion that not only the internal controls facilitate the achievement of bank’s objective set by the management but also some other variables contributed the objectives of the bank. They tried to state that monopoly of the bank for a long time; it has been an governmental bank and finally the culture the customer who are proud of their bank. This is shown through the bank name “Peoples Bank of Zanzibar”.

The results seem to re-enforce the correlations established under the correlation table 4.3.1. This finding further confirms the explanation given under the correlation analysis. Finally it is generalized that there was middle level of relationship between the internal control and performance of the bank as shown.

5.4 Specific Objective Three

To examine the efficiency of the existing controls on the financial performance of the financial institution.

The result from 4.4.1 and 4.4.2 indicate that there is positive relationship between the organization structure and financial performance of the bank as shown in the researchers’ finding that most of the respondents in all departments within the bank and all level of the management, that there was clear organization structure about 78.3% clearly state that the structure is clearly defined to provide the room of effective controls while only 21.7% give no response, that is structure is not clearly defined or not sure on this.

In addition, it has been found that, 60% of the respondents believed that it is group managements (head office management, branch managers and other share holders) who are responsible in setting the organization structure. This implies that the management is effective in the operation of the daily activities; hence enable the bank to achieve its objectives of the financial performance.
However, the result from figure 4.4 shows that there was direct relationship between the management accounting system, and management accountability toward the operation and financial performance of bank. This was shown in the presentation of the data above figure 4.4. It has been found that, there was proper management accounting system within the bank as one among the internal control.

This was shown about 78.33% of that that respondent there was management accounting system in all departments. For the total response from a population, the researcher concluded that the bank has management accounting system for the purpose of achieving organizational objectives of financial performance.

Furthermore, the extent of commitment of management in the operation of internal control, People’s Bank of Zanzibar’s contribution to financial performance indicate that 86% of the respondents at all management levels were looking after their responsible employees and 12% of respondents were not sure that the management was not committed on operation of management of internal control. The Table 4.4.3 indicates this.

This is evidenced through the audited financial statement of the Peoples Bank of Zanzibar for the financial year 2011 and 2012. Total assets of the bank stood at TZS 227,926.21 million as at December 31, 2012 compared with TZS 169,864.96 million reported in previous year. There was an increase of TZS 58,061.25 million equivalents to 34.18%. Earning assets made 76.24 % of total assets and comprised of loan and advances (39.17%), Islamic financing (2.45%), investment in debt securities (24.74%), interbank placement (2.44%), foreign banks – nostro accounts (7.30%) and equity investment (0.15%). Total liabilities of the bank as at the end of year 2012 amounted to TZS 206,080.97 million as compared with TZS 149,462.95 million reported in the year 2011. Customers’ deposit represented 94.91% of total liabilities. The deposits from customers increased by 39.69% from TZS 140,016.42 million in the year 2011 to TZS 195,593.46 million as at December 31, 2012.

Generally, the bank has maintained liquid assets to total assets ratio of 31.81%.
5.5  Presentation of Objective Four

To examine the relationship between financial performance and internal audit and control environment function of financial institution

The results in table 4.4.0 indicate a positive relationship between internal audit and financial performance and internal audit is positively related to accountability and positively related to reporting. These results seem to agree with Sebbowa (2009) where he notes that “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes”. This is also in line with Whittington and Pany assertion that “internal auditing is performed as part of the monitoring activity of an organization”. Since there is a positive relationship between the internal audit function and the dimensions of financial performance; liquidity, accountability and reports, hypothesis two (H2); an effective internal audit function is related with the financial performance of financial institutions.

Apart from that general discussion above, the individuals’ variables were also confirmed to a great extent. For example, as it has been found in this study in table 4.4, that almost 40% and 38.33% of responses confirmed that there is an internal audit department within the bank and operates effectively. Another example is seen to those who said that the internal auditors operate independently without management interfering from their operation; this is evidenced by one among of branch managers by saying that “The internal auditor’s report submitted directly to the board of directors of the bank”

In addition to that about 70% of the total respondents stated that the internal auditor’s report was showing the bank strengths and weakness on daily operation. This seemed to agree within internal audit manual of the bank that the internal auditor should add value to the bank.
5.6 Control Environment

There was positive relationship from respondents on the existing controls environment over financial performance to the People’s Bank of Zanzibar Limited. And it’s agreed to the hypothesis three (H3). In general under this category the results showed that large respondents affirmed the existence of controls over financial performance to the bank. As shown, in the above chapter, it was reported that 40% and 33.3% of the total respondents agreed that the general internal controls are available at the bank.

Apart from the general explanation above, the individual variables were also confirmed to a great extent. For example, as it has been found in this study in the variable of it is impossible for the staff to have access to all valuable information. This seems to agree with the internal control procedure and manual that there should be separation of duties between the person within the entities to result effective and efficient operation and the achievement of organizational objectives within the time bound.

This has been shown under table 4.4.5, that about 33% and 31% of respondents agree and disagree on that control, 20% of respondents were not sure while 8.33% and 6.66% strongly disagree and disagree that there is a restriction of accessing of customer’s information. In connection to that it is impossible for on staff to have access to all information without the consent of senior staff; this implies that the bank has established control on the authorization in all material items so as to avoid fraud and irregularity within the bank. This result seems to agree with Anti money laundering Act (2006) and its regulation (2007)

In addition, the result from table 4.4.5 that the management review the actual and budgeted and correct variances in each department, so as to be efficient in their control and operation, the 28 and 18 of respondents equal to 40% and 30% respectively were strongly agree and agree.
CHAPTER SIX

SUMMARY, CONCLUSION AND POLICY IMPLICATION

6.1 Introduction
This chapter presents the summary of the research results as indicated and explained in chapter five. It gives conclusion, remarks and recommendations to the approaches and strategies that can be adopted in order to ensure that there is contribution of internal control to the financial performance of financial institution.

The study was conducted at PBZ Unguja, (head office, four branches) and this study was concerning with the contribution of internal contribution and their financial performance to the success of the organization. The objectives intended to study the internal control in Peoples Bank of Zanzibar from previous five years from 2008/2009 – 2012/2013, to evaluate the performance of internal control in relation to the financial performance during the five years, to access the effectiveness of internal control in performance and to recommend any improvement in the internal control to the PBZ. The literature was reviewed and after that research questions were developed. Then answers were obtained from the research questions after critical analysis which resulted to the following conclusion:

6.2 Summary and Conclusion
There is a general fact from findings that the internal audit planning as a function in the office is very important function that the office cannot do without, it adds value to the performance of the PBZ. It is further seen that contribution of internal control depends largely on the performance of various variables: internal audit, control environment, accountability, reporting so as to achieve bank’s objectives of the financial performance. The researcher concluded that;

In this study the researcher determined the effectiveness of internal control in public Parastatal sectors for the five years (2008/2009 – 2012/2013) as far as PBZ was concerned. The findings obtained from the questionnaires distributed were as
follows: the researcher on conducting this study considered age, gender, education and current position of the respondent because in one way they can facilitate in effectiveness of internal contribution and help the researcher to get reliable information by asking the question to the graduate as shown in table 4.1.3 about 41.66%, 23.33%, 8.33% were Advance Diploma/First Degree, Postgraduate Diploma and Master Degree respectively.

In PBZ at lest they try to mainstream gender balance, findings show the researcher took 60 as a sample of the study in which males were 58.3% and the rest 41.7% were females as indicted in table 4.0 and the majority of them lying on the ages of 21 – 40 and 41 – 60 which is equal to 55% and 41.66% respectively (refer table 4.1.2). Also experience is matter on contributing to the effectiveness of internal controls in the study the result show respondents works on PBZ about 88.33% worked in division of cashiers/tellers, bank officers, customer cares, loan officers, operation officers, marketing officers, IT officers which involved high internal control and with full knowledge of the organization that drive him/her to plan well by knowing areas having high risk that need to put more effort so as make organization meet their goals.

To explore the Existing Internal Controls to the Financial Performance of the Financial Institution

It has been found that about 88.3% of the total respondents agree that there is internal control within the bank by introducing several of control elements to enable the bank to operate efficiently and effectively to achieve the organizational objectives of the banks. In this case the financial performance. In line with this the bank established the bench mark of assessing the material transaction and risk so as to operate safely from the irregularities and comply with Anti Money Laundering Act (2006) and Bank and Financial Institution Act (2006) and their regulations respectively.

The internal controls established within the bank have great contribution to the bank because it resulted in the customer’s satisfaction and performance of the bank. This was shown through the summary of financial statement (performance) of the bank of
the 2012 compared to the 2011 as shown in the Chapter Four of the discussion of the research finding.

The effective internal controls operated in 2007/08 after the government had restructured the whole bank system by terminating the some of the employees and injected fund for improvement.

Although the internal control and also researcher revealed that PBZ’s internal auditors and management use checklists as a guide and other forms (custodian form, cashier opening balance form) on conducting their works, this makes them to be effective in the operation. Due to this measure the researcher concluded that there are no effective plans to the internal auditors that lead not to perform well on their daily activities.

**The relationship between internal control and financial performance**

To measure performance of internal control in organization is very important because can help the management to know whether the internal control contributes the financial performance of the bank and adds value to the organization. In this study about 86.7% said that there is positive relationship between the internal control and financial performance of the bank and other 13.3% said there is no relationship between two variables, but in reality there is relationship between two variables relationship because the performance of the bank depends on various variables other than it, for instance monopoly of the bank, culture and other factors.

But no one has measured the performance of their internal control even the management themselves they measure performance of their staff, because in the fieldwork the researcher asked them to mention in what percentage if the better performance of the of financial matter was a result of the contribution of internal control of the management, some of them failed to respond on it and did not provide exact percentage that was used as a benchmark that can help them to evaluate the performance of the internal control to the performance of the bank.
The researcher concluded that there was middle level relationship between the internal control and the financial performance of the financial institution (PBZ), because the performances depend on several variables.

To Examine the Efficiency of Internal Controls within the Bank for the Financial Performance

Based on the findings of the study, it is concluded that the institution has an effective and efficient internal control system as supported by the study findings of clear separation of roles, supervision, training, and commitment of management. However, there are challenges in the implementation of controls especially considering that the audit function is not well extended to the branches which clearly has affected their efficiency as revealed by this study.

On financial performance of the institution, the study concludes that the liquidity position of the bank is not appropriate, details of which are directly in the study, although the study reveals an improved clearly organization structure and involvement of management in the operations contributed the bank to achieve its objectives of financial performance.

The final conclusion of this study is that there is a significant positive relationship between internal control system (control environment, internal audit, and control activities) with financial performance (liquidity, accountability, and reporting).

The co-operation between the upper level management, internal audit office, and other departments is very important in the success of organization. The findings show that 86% of the respondents said that the commitment and cooperation between them were good, and 40% said that there is independent operation of the internal auditor’s functions.

The effectiveness of internal audit 40% contributes to the success of the office. In this category the finding shows that about an average of 78.33% agreed on this fact and about 21% they didn’t agree on this fact. This indicates that an adequate planning helps to ensure all places of the organization, works and programs, which
are valuable to risks, are covered, a valuable resources are optimally utilized for conducting the audits and the works are completed well.

And in case of internal audit planning provide framework for conducting their activities. On the average about 40% agreed on the fact that internal audit provides framework to audit work and 4% said satisfactory meaning they didn’t know whether the internal auditors are independent on their operation.

6.3 Limitation of the Study
The limitation of the study will those associated with time allowed conducting the research work by the university, availability of information as well as its cost involved in this undertaking. Despite of these limitations, however it is expected that the research finding will be adequate enough to full fill the purpose of the study will be conducted in People’s Bank of Zanzibar Head Office, Unguja branches and division (Islamic division) which will focuses on of internal control system to its contribution effectiveness to financial performance of the financial institution (bank). In addition the intended perfection of the study is limited to the following areas.

Sample Size
PBZ’s documents were studied; to full fill the basic requirement of the study, but in due time all information cannot be reviewed to reflect the reality.

6.4 Policy Implication
In order to improve the contribution of the internal control to the financial performance the researcher recommends the following.

6.4.1 Recommendations to the Management
The effectiveness of internal control depends on management involvement and requirement. Therefore, the management in PBZ should increase its co-operation and support to the internal audit department and other department approving the internal audit charter to promote efficiency and effectiveness of internal control.
Management should establish the indicators and put benchmarks that can help them to measure the performance of internal control so as know exactly if the internal controls add value to organization.

The management of PBZ should promote involvement of all level management in objectives setting of the bank, so as to attract excellent internal control. An efficient internal auditing department should be regarded as a good place to develop employees’ careers, because internal auditors can understand the whole operation in organization.

Among the challenges faced by the auditors is lack of sufficient audit training. It is advisable to encourage and support internal auditors to participate in short term training such as seminars and workshops conducted by NBAA, IIA or other institutions or they can conduct in-house training by hiring expert from outsider to facilitate some issue such as risk assessment and the like. Management initiates and facilitates the risk-based internal audit this can help the internal auditor to add value in their organization by concentrating in the area which has high risk.

Management should establish a system of quality control designed to provide reasonable assurance that the PBZ’s management and its personnel comply with regulatory and legal requirements, code of ethics and standards on quality of control and auditing is a crucial to the office. Management should in co-operate different skills and knowledge in the operation of internal control of the entity so as to make them conduct their work properly.

6.4.2 General recommendations to the Employees

Education is one among the important indicator of efficient of internal control’s function. A good education and training should provide by the all employees in all department in collaboration with the management to meet bank’s needs or objectives. Since it was evident in the study that the staffing level in the internal audit department is not adequate to cover the entire bank set up, evidenced by not
conducting regular review activities, not operating efficiently as well as their reports not being regular, the study therefore recommends competence profiling which should be based on what the bank expects the internal audit to do and what appropriate number staff would be required to do this job.

The study also recommends that the institution establishes and manages knowledge/information management system within the institution so as to enable all parties within the institution to freely access and utilize the official information.

The study also recommends that the institution establishes a strategy for improving the generation of additional finances for the operations of the bank and establishment of new branches in all regions in Tanzania. This could be done through writing projects, other competitive endeavors which are directly aimed at winning funds for the bank.

Internal control is very complicated professional field, which needs a wide range of knowledge, experience, insight, and maturity, in order to execute its control well. Therefore, professional license, integrity, independence, objectivity, knowledge and experience are all very important.

Communication ability is also very important. Employees should regard communication as the tools to manage relationship with their customers and management in order to create mutually reliability, and furthermore to reach the organizational goals.

Employees should also involved in setting the objectives of the bank

### 6.5 Areas for Further Studies

The researcher focused specifically on the contribution of internal control in relation to the financial performance of the financial institution.

The researcher only focused on the component of internal control and their contribution of the financial performance of the financial institution (bank). Since it advised that there other area for farther study in this perspective such as follow
(i) The contribution of ICT on the effectiveness on internal control system
(ii) The effect of cultural and behavioral factors on the performance of the financial performance
(iii) The contribution of internal auditor to performance of the entity
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APPENDICES

Appendix 1: Questionnaire on Contribution of Internal Control System to the Financial Performance of Financial Institution

My name is KHAMIS H ALI currently; I’m a student at Mzumbe University taking Msc. Accounting and Finance. I conduct this research as a partial fulfill of my master degree. Therefore kindly I forward my questionnaire to you to help me on getting these information concerning internal control system and its contribution to the financial performance. The information gather will not be used in any other way and will keep strictly confidential.

PART I: GENERAL BACKGROUND INFORMATION
The questions will ask in this section will be used for classification purposes only. The information gather will not be used in any other way and will be kept strictly confidential. Please Tick [✓] the most appropriate alternative/s

1 What is your gender?
   (i) Female [ ]
   (ii) Male [ ]

2 What is your current position?
   (i) Finance director [ ]
   (ii) Chief internal auditor [ ]
   (iii) Chief accountant [ ]
   (iv) Branch manager [ ]
   (v) Others (specify) [ ]

3 Which of the following categories described your age?
   (i) Below 20 years [ ]
   (ii) 21 – 40 years [ ]
   (iii) 41– 60 years [ ]
   (iv) Above 60 years [ ]
4  Which of the following categories your level of education?
   (i) Diploma [ ]
   (ii) Advance diploma/ first degree [ ]
   (iii) Post graduate [ ]
   (iv) Master degree [ ]
   Other (specify) .................................................................

5  Field of study.
   (i) IT and computer science [ ]
   (ii) Auditing [ ]
   (iii) Accounting and/or finance [ ]
   (iv) Social science [ ]
   (v) Human resource [ ]

PART II
To explore the existing internal controls to the financial performance of the financial institution

1  Are there any internal controls to the financial performance?
   (i) Yes [ ]
   (ii) No [ ]

2  Identify the existing controls placed over financial performance of the financial Institution.
   .................................................................
   .................................................................

3  Does the bank have appropriate benchmark for setting materiality level of risk?
   (i) Yes [ ]
   (ii) No [ ]
4. Do the employees involve in setting materiality level?
   (i) Yes [ ]
   (ii) No [ ]

5. Which section/division within the bank is affected with high material transaction?
   (i) Cashier [ ]
   (ii) Treasure division [ ]
   (iii) Loan division [ ]
   (iv) Marketing division [ ]
   (v) All of them [ ]
   (vi) Others [ ]

6. Do all levels of management participate in setting organization objectives?
   (i) Yes [ ]
   (ii) No [ ]

7. Have overall strategies for managing important risks been established?
   (i) Yes [ ]
   (ii) No [ ]

8. Have specific assignments and activities necessary to implement the strategies been identified and communicated to the responsible employees?
   (i) Yes [ ]
   (ii) No [ ]
PART III

To Examine the Relationship between Internal Controls and Financial Performance of the Bank

1. Is there a relationship between internal control systems and financial performance?
   (i) Yes [   ]
   (ii) No [   ]

2. What is the level of correlation between two above variables?
   (i) Upper level/strong [   ]
   (ii) Middle level [   ]
   (iii) Lower level [   ]
   (iv) None of the above [   ]

3. In your opinion. Briefly point out the existing relationship between internal controls and financial performance.
   ………………………………………………………………………………………………………
   ………………………………………………………………………………………………………
   ………………………………………………………………………………………………………
PART IV

To examine the functionality and efficiency of the existing control to the financial performance of the financial institution/bank

1. Is the organizational structure in People’s Bank of Zanzibar Limited clearly defined?  
   (i) Yes [ ]  
   (ii) No [ ]

2. Who is responsible for setting the organization structure?  
   (i) Group management team [ ]  
   (ii) Head office management team [ ]  
   (iii) Branch management team [ ]  
   (iv) Other [ ]

3. Is your financial institution has an accounting financial management system?  
   (i) Yes [ ]  
   (ii) No [ ]

4. Is the management committed to the operation of the internal control system?  
   (i) Yes [ ]  
   (ii) No [ ]

5. Are there adequate policies to ensure effective collection and follow up of due account?  
   (i) Yes [ ]  
   (ii) No [ ]

6. Is the management closely monitors implementation of existing internal control system in your institution?  
   (i) Yes [ ]  
   (ii) No [ ]
7. Are there appropriate measures taken to correct misfeasance in operation of accounting and finance management system?

(i) Yes [ ]
(ii) No [ ]

8. Are the management acts with a great degree of integrity in execution of the roles?

(i) Yes [ ]
(ii) No [ ]
PART V

INTERNAL AUDIT AND CONTROL ENVIRONMENT

1. Please rank the following statement on like scale ranging from strongly disagree to strongly agree.

Where;
(i) Strongly disagree
(ii) Disagree
(iii) No sure
(iv) Agree
(v) Strong agree

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<thead>
<tr>
<th>INTERNAL AUDIT</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>The institution has an internal audit department</td>
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<td>The internal auditor perform their duties with a greater degree of autonomy and independence from management</td>
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<td>Internal auditor report address weakness in our internal control system</td>
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<tr>
<th>CONTROL ACTIVITIES</th>
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<tr>
<td>It is impossible for one staff to have access to all valuable information allocated fund</td>
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<td>Departments have budget review where actual expenditure is compared with budgeted expenditure and explanations for the variance given</td>
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<td>It is impossible for on staff to have access to all information without the consent of senior staff</td>
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THANK YOU