

**THE ROLE OF INTERNAL AUDIT FUNCTION IN
CORPORATE GOVERNANCE: A CASE OF VOCATIONAL
EDUCATION AND TRAINING AUTHORITY (VETA) OF
TANZANIA**

**By
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**The Research Report is submitted in Partial Fulfillment of the Requirements
for Award of the Degree of Master of Science in Accounting and Finance**

2013

CERTIFICATION

We the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation/thesis entitled *The Role of Internal Audit Function in Corporate Governance: The case of Vocational Education and Training Authority (VETA) of Tanzania*, in partial fulfillment of the requirements for award of the degree of Master of Accountancy and Finance of Mzumbe University.

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DEDICATION

To my beloved husband Patrick, my daughter Charisma and my son Emmanuel.

ABRIVIATION/ACCRONYMS

VETA	Vocational Educational and Tanning Authority
MVITC	
VETA	Vocation Education and Training
CEO	Chief Executive Officer
SACCOS	Society
CG	Corporate Governance
UK	United Kingdom
US	United State
NED	Non Executive Director
IA	Internal Auditor
IIA	Institute of Internal Auditors
DG	Director General
BAC	Board Audit Committee
FGD	Focus Group Discussion
VIA	Vocational Education training Authority Internal Audit

ABSTRACT

This study assessed the role of internal audit in corporate governance taking Vocational education and training authority as the case study. The study employed the case study design accompanied by qualitative research approach with quantitative aspects.

Using purposive sampling, a total of 20 respondents took part in the study involving the audit function staff member, finance and procurement department and the senior staff.

Methods of data collection used were documentary analysis, interview, observation and focus group discussion. Tools or instruments used were interview questions, questionnaires, observation schedule, documentary review and focus group discussion. All the generated data were subjected to content analysis for the purpose of obtaining themes and sub-themes of the study.

The study indicated that (i) VETA have well established board and audit committee (ii) internal audit is a vital catalyst machine for the corporate governance operation to be successful. (iii) The corporate governance rely on the internal audit information to make their strategic decisions.(iv) the internal audit function must be supported to ensure that audit function is done effective(vi) the organization system should not undermine the power of the internal audit.

The study recommends that, (i) there should be effort to make all parties involved in the internal audit function understand the role of the internal audit in the betterment of the organization thus create understanding which will enhance the corporation of the internal audit and its parties. (ii) Also having in mind the role that internal audit play in corporate governance, there should be initiative to ensure that the system does not act as a hurdle to the audit function. (iii)The organization should have its own audit charter for internal audit functions which clearly articulate both the functional and administrative reporting lines for the function as well as its principle activiti

TABLE OF CONTENTS

CERTIFICATION	i
DECLARATION AND COPYRIGHT	ii
ACKNOWLEDGEMENT	iii
DEDICATION	iv
ABRIVIATION/ACCRONYMS	v
ABSTRACT	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	xi
LIST OF FIGURES	xii
CHAPTER ONE	1
PROBLEM SETTING	1
1.1 Introduction	1
1.1.1 Organization Background	4
1.2 Statement of the Problem	6
1.3 Objective of the Study.....	8
1.3.1 General Objective.....	8
1.3.2 Specific Objectives.....	8
1.4 Research Questions	8
1.4.1 Main research question	8
1.4.2 Specific Questions.....	8
1.5 Significance of the Study	9
1.6 Limitations and delimitation of the Study.....	9
1.6.1 Methodological Limitations	9
1.6.2 Practical Problems.....	10
1.6.3 Operational problems	10
1.8 Chapter Summary/Organization of the Dissertation	11

CHAPTER TWO	12
LITERATURE REVIEW	12
2.1 Introduction	12
2.2 Theoretical literature review	12
2.2.1 Corporate Governance	12
2.2.2 Corporate Governance in the UK and US	15
2.2.3 Corporate Governance in Tanzania.....	16
2.2.4 The Board.....	17
2.2.5 Audit Committee.....	19
2.2.6 Internal Audit	20
2.2.7 Internal Audit Function in the Organization Structure.	23
2.2.8 Challenges of internal audit reporting to board’s audit committee.....	25
2.2.9 Determinants of Internal Audit Function	25
2.2.10 The internal audit charter	26
2.2.11 Internal Audit and Corporate Governance	27
2.2.12 Effectiveness of Internal Audit	28
2.2.13 Challenges in measuring internal audit effectiveness	32
2.2 Empirical Literature	32
2.3 Conceptual Frame Work	33
CHAPTER THREE	36
RESEARCH METHODOLOGY	36
3.1 Introduction	36
3.1.2 Study Area.....	36
3.2.1 Research Design.....	36
3.2.2 Research Variables.....	37
3.2.3 Research Approach	38
3.2.4 Population	38
3.2.5 Sample and Sampling Techniques	39
3.3 Sources of Data	39
3.3.1 Data Collection Methods and Tools.....	40

3.3.2 Observation	40
3.3.3 Interview	40
3.3.4 Documentary Analysis	41
3.3.5 Focus Group discussion (FGD).....	41
3.4 Validity and Reliability of the Research Instruments	41
3.4.1 Validity of instrument	41
3.4.2 Reliability.....	42
3.5 Data Analysis Procedure	43
CHAPTER FOUR.....	44
DATA PRESENTATION, ANALYSIS AND DISCUSSION OF THE FINDINGS	44
4.1 Introduction.....	44
4.2 VETA Operation System	45
4.3 he BAC operation with internal audit	46
4.4 Effectiveness of the internal audit function	49
4.4.1 Purpose of an audit.....	49
4.4.2 Commitment of internal audit	52
4.4.3 Capability of the VIA.....	53
4.5 Challenges facing VIA in its practice	54
4.5. 1 The geographical location of centers.	54
4.5.2 Lack of corporation with the audited centers	55
4.5.3 Time limit.....	55
4.5.4 Budgetary controls	55
4.5.5 Inadequate tools	56
4.5.6 Understaffing.....	56
CHAPTER FIVE.....	57
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	57
5.1 Summary of the Study.....	57
5.2 Summary of the Study Findings.....	57

5.3 Conclusions	58
5.4 Recommendations	59
REFERENCES	61
APPENDECES	

LIST OF TABLES

Table 2.1 Functions of internal audit	23
Table 2.2 Effectiveness of Internal audit (Synthesis of the literature).....	30
Table 2.3 Effectiveness of internal audit (Synthesis of research)	31
Table 4.1: Completion of audit plan	51

LIST OF FIGURES

Figure 2.1 Internal Auditors role in corporate governance	35
Fig. 4.1: Reliance of the Board to VIA (In percentage).....	48

CHAPTER ONE

PROBLEM SETTING

1.1 Introduction

The "agency problem" inherent in the separation of ownership and control of assets was recognized as far back as in the 18th century by Adam Smith. Jensen and Meckling (1976) defined an agency relationship as a contract under which one or more persons (the principals) engage another (the agent) to perform a service on their behalf.

Typically the shareholders, or the principals, delegate the day-to-day decision making to the managers or agents. Managers are charged with the responsibility of using and controlling the economic resources of the firm. However, they may not always act in the best interest of the shareholders partly due to adverse selection and moral hazard (Anthony and Govindarajan, 2007).

The concept of corporate governance has come into its own in the past twenty years, deriving its analytical framework from theoretical developments in financial, industrial and institutional economics and its policy implications from empirical studies seeking to explain the micro foundations of international economic competitiveness.

Corporate governance has achieved growing recognition in recent years in response to financial reporting scandals such as Enron, WorldCom and Parmalat, which diminished confidence in the independence and reliability of not only the auditing firms involved, but also the accounting profession and financial markets as a whole (Ibrahim El-Sayed Ebaid, 2011).

Within this framework of modern business world, the role of an internal control system is catalytic since it is regarded as a source from which core abilities are given or drawn and are subsequently transformed into competitive advantages. Internal

audit function is one of the pillars of corporate governance which is supposed to be instituted by all Public Authorities and Other Bodies. Cohen *et. al.*, (2002) defined internal auditing as an integral part of the corporate governance mosaic in both the public and the private sectors, while traditionally the role of internal auditors was to help the organization to maintain the system of internal control of its financial statement, a whole range of new opportunities, possibilities present themselves in the wake of corporate governance.

The internal auditing is now defined as an independent, objective assurance and consulting activity designed to add value and improve an organization operation. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. (Institute of Internal Auditors).

Hald. E (1944) stated that necessity created internal auditing and is making it an integral part of modern business. No business can escape it. If they haven't got it now, they will have to have it sooner.

The internal audit function has build a strong relationship with those charged with organization governance, “and communicates directly to the audit committee. There is much evidence today that such a reporting relationship is being widely viewed as a best practice in the most progressive corporation committed to enhancing governance structure.

Corporate governance has achieved growing recognition in recent years in response to financial reporting scandals such as Enron, WorldCom and Parmalat, which diminished confidence in the independence and reliability of not only the auditing firms involved, but also the accounting profession and financial markets as a whole (Ibrahim El-Sayed Ebaid, 2011).

The Global Corporate Governance Forum notes in its mission statement that:

“Corporate Governance has become an issue of worldwide importance. The Corporation has a vital role to play in promoting economic development and social progress. It is the engine of growth internationally, and increasingly responsible for providing employment, public and private services, goods and infrastructure. The efficiency and accountability of the corporation is now a matter of both private and public interest, and governance has, thereby, come to the head of the international agenda.”

Recent events have highlighted the critical role of boards of directors in promoting good corporate governance as a recent World Bank report stated, “Corporate governance is concerned with holding the balance between economic and social goods and between individual and communal goals, the aim being aligning as nearly as possible the interest of individuals, corporations and society”. Corporate governance developments both locally and around the world have reaffirmed the board’s responsibility for ensuring the effectiveness of their organization’s internal control framework.

According to the Institute of Internal Auditors of Australia (2001), Risk management is primarily the responsibility of the Chief Executive Officer (CEO), Effective governance arrangements require directors to identify risks, as well as potential opportunities, and ensure the establishment of appropriate and practices to manage all risks associated with the organization’s operations.

In particular, boards are being charged with ultimate responsibility for the effectiveness of their organizations ‘internal control systems. Although IA departments are not a legal requirement, the combined code on Corporate Governance recommends it as the best practice.

Considering corporate governance in general i.e. the demands, pressure and tasks of the audit committee, management and the board in general, and the expectations of

the different stake holders the position of the internal auditor within the organization, an impact on the work load and the responsibilities of internal audit appears unavoidable.

Internal Audit can be a major source of assurance in relation to implementation of an organization's risk management program and in ensuring the ongoing effectiveness of its practices for managing risk. An effective internal audit function plays a key role in assisting the board to discharge its governance responsibilities.

Internal audit are not only seen as the right hand of management in ensuring that policies, plans and procedures are adhered to, they now also fulfill a consulting role, investigating and reporting on crucial issues such as business risk threatening the organization.(Krogstad et al 1999). Therefore internal auditors have the responsibility of being aware of business risks, as well as the effect these risks may have on the various aspects of a business, such as the control environment.

1.1.1 Organization Background

The Vocational Educational and Training Authority (VETA) was established by an Act of Parliament No. 1 of 1994 charged with broad tasks of coordinating, regulating, financing, Promoting and providing vocational education and training in Tanzania.

The history of VETA dates back to 1940 when the Apprenticeship Ordinance was enacted to guide training in the industry. The Vocational Training Act of 1974, which established the National Vocational Training Division, was replaced by the Vocational Educational and Training Act.

Of 1994.VETA is responsible for the overall management of the Authority. The Director General is being assisted by a management team of nine members, of which eight are at the head office and the Principal of MVITC. There are nine Regional

Directors managing nine zonal offices. The Director General is responsible to the VET Board which has the overall mandate of managing the Authority.

The overall objectives of VETA according to Act No. 1 of 1994 are:

- i. To provide vocational education opportunities, and facilities for such training.
- ii. To establish a vocational education and training system which includes both basic and specialized training to meet the needs of both the formal and the informal sectors
- iii. To satisfy the demands of the labor market for employees with trade skills in order to improve production and productivity of the economy.
- iv. To ensure that the system of vocational education and training is based on demand, is cost effective and given a gradual decentralized planning and implementation authority to the regions to ensure maximum utilization of resources and relevance of training programmers
- v. To foster and promote entrepreneurial values and skills as an integral part of training programmers
- vi. To promote on-the-job training in industry for both apprenticeship training and for skill up-dating and upgrading
- vii. To promote access to vocational education and training for disadvantaged groups

- viii. To secure adequate and stable financing of the vocational education and training system
- ix. To raise the quality of vocational education and training being provided
- x. To promote and provide vocational education and training according to needs, within the frame
- xi. To promote a balancing of supply and demand for skilled labor in both wage employment and for skills needed for self-employment in rural and urban areas.
- xii. To promote and provide short tailor-made course programmers and in-service training in order to improve the performance both of quality and productivity of the national economy
- xiii. To provide a dual vocational education and training system, combining broad based training with gradual specialization and practical experience from work and
- xiv. To promote flexible training approach and appropriate teaching methodologies

1.2 Statement of the Problem

The role of internal auditor, particularly with regard to corporate governance, can only be fully appreciated if the internal auditing function within the profession is properly understood. The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

In the annual general report of the controller and auditor general on the audit of public authorities and other bodies of Tanzania for the financial year 2010/2011 in Tanzania it was observed that corporate governance had some areas of weakness which needed attention among which is the issues of composition and performance of internal audit units in public authorities. This implied that the corporate governance performance cannot be effective with ought effective internal audit.

Also in the study/ survey of the role of internal audit in promoting good corporate governance in SACCOS done by university of Nairobi at business school found out that Internal auditing has become one of the means of enhancing corporate governance in organizations. This is especially true if an organization adequately structures and provides resources to the internal audit function

Leung *et al.* (2004), investigated the role of internal audit in corporate governance in Australia. Questionnaires were sent to internal auditors and directors of Australian financial institutions. Research objectives were the identification of internal audit's objectives, the determination of the internal control' nature and the importance of corporate governance within the economic units. The main output from their research was the fact that the culture and the support of the Board of Directors are key factors that directly affects internal audit's effectiveness.

Ibrahim El-Sayed Ebaid (2011) explore the nature and characteristics of internal audit function in Egyptian listed firms and assess its ability to fulfill its role in corporate Governance. The study has been carried out through a questionnaire survey. The results showed that internal audit function in Egyptian listed firms, in its current status, faces many difficulties that affect negatively its effectiveness in corporate governance. Therefore, extensive efforts should be made to enhancing the internal audit profession in Egypt in order to fully explore the contribution of Internal Audit in corporate governance.

Although the role of internal audit is great in the business success, there is no such a study examining the interaction between internal auditing and corporate governance (Karagiorgos *et al.*, 2010). Despite the conceptual link, there is limited empirical evidence of the role of internal auditor in corporate organizations.

The problem is in regard to lack of up to date and reliable information on the performance of Internal Audit in the corporate governance. Little or no effort has been put to understand our situation in Tanzania especially in public organization. It is from this reason that a researcher want to study on the role of internal audit in corporate governance in public organization a case of VETA Tanzania.

1.3 Objective of the Study

1.3.1 General Objective

The overall objective was to study the role of internal audit function in corporate governance.

1.3.2 Specific Objectives

- i. To find out how does the corporate governance operate
- ii. To find out the expectations of corporate governance to the internal audit function.
- iii. To find out the effectiveness of internal audit function.
- iv. To assess the challenges of internal audit in corporate governance.

1.4 Research Questions

1.4.1 Main research question

What are the roles of internal audit function in corporate governance?

1.4.2 Specific Questions

How does the corporate governance system operate?

What are the functions of Internal Audit to Corporate Governance?

How effective is the internal audit function?

What are the challenges of internal audit in corporate governance?

1.5 Significance of the Study

This shows the rationale and/or justification of the study by providing the significance of the study as explained here under;

- The study will help to provide better understanding of audit function in public organizations especially VETA.
- The study will enable VETA group and other public organization to improve audit function environment in order to enhance organizations competitiveness/productivity.
- Researchers and lenders may use the study findings in future researches or improvement of the whole systems.
- The findings will contribute in formulating and improving the existing strategies and policies for the better practices of corporate governance.
- The study will provide a deep understanding of Corporate Governance in VETA.

1.6 Limitations and delimitation of the Study

Constraints which limited my study divided into three groups:-

1.6.1 Methodological Limitations

Confidentiality and trust of the auditors and senior staffs limited the data accessibility to researcher. This was minimized by seeking special permission to the Chief internal auditor who upon understanding the reason for the study asked for corporation from other parties to the researcher.

Time Limitation; most of senior managers and auditors were very busy with a lot of travelling; hence some were not available in time for a discussion. The researcher used mail questioners to meet those who were not present when required.

1.6.2 Practical Problems

Expense and time: the sponsor has just offered the tuition fee. The whole process of data collection and report writing needs financial support, so the financial constraints limited my study. Time given for data collection was also limited to accomplish this task on time and effectively.

To minimize the impact of these constrains the researcher choose VETA to be a case study and also used office equipment like printer and internet service to ensure that the research objectives are attained.

1.6.3 Operational problems

The main limitation of this study is that it only examines the theoretical relationship between internal audit and corporate governance. For this reason, there are many opportunities for further research. Studies could explore via empirical evidence the interaction between the internal audit and components of corporate governance. Finally, more work is needed to gain a better understanding of how Board of Directors and Audit Committee can complement each other in strengthening corporate governance.

Problems of securing research permits and data collection

The internal audit involves data which are considered sensitive to the organization. The internal audit function is very reluctant to give out the truth as they believe it can sometimes be misused by others. The researcher used an introductory latter from the university to gain trust and also to make everyone concerned understand the purpose of the study.

1.8 Chapter Summary/Organization of the Dissertation

Chapter one discussed the background to the problem, statement of the problem, objectives, research questions, significance of the study, limitation and delimitation of the study. The whole dissertation is divided into Five chapters whereby chapter two covered literature review, chapter three research methodologies and budget of the research, Chapter four research findings, analysis and discussion and Chapter Five Conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers literature review, which includes theoretical literature review empirical literature and conceptual frame work. It reviews appropriate concepts to the research problem looking at the key concepts such as corporate governance, internal audit details and their role, their relationship and the importance of each in any organization.

2.2 Theoretical literature review

2.2.1 Corporate Governance

John and Senbet (1998) defined corporate governance (CG) as the mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected.

In the business dictionary CG is defined as, “the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations.” It includes mechanisms which companies, and those in control, are held to account.

CG can also be said to be the frame work of rules and practices that a board of directors ensures accountability, fairness and transparency in a company’s relationship with its all stakeholders (financers, customers, management, employees, government and the community) Richard, (2005) shows the Components of governance being share holders, the board, Executive management, Statutory auditors ,and Internal auditors.

CG has a direct influence on company's attitude, accountability and responsibility, towards all stakeholders, including employees, shareholders, and customers alike. Superior CG plays a fundamental role in strengthening the integrity and efficiency of financial markets. Inadequate corporate governance however undermines a

company's potential and at worst leads to financial difficulties and even may results in fraud. Well-governed companies usually outperform other companies and are able to attract new investors whose support can help to finance further growth.

Therefore CG is concerned with creating a balance between economic and social goals and between individual and communal goals while encouraging efficient use of resources, accountability in the use of power and stewardship and as far as possible to align the interests of individuals, corporations and society. Corporate governance includes a set of relationships between management, board of directors, shareholders and other stakeholders.

It also provides a structure to determine the means to achieve the company's goals and to monitor the performance within the company. Good corporate governance should provide proper incentives to the Board of Directors and the company's management to seek to achieve the goals that are in the interest of the company and its shareholders and should facilitate effective control (OECD, 2004).

CG it is about promoting:

Fair, efficient and transparent administration of corporations to meet well-defined objectives.

Systems and structures of operating and controlling corporations with a view to achieving long-term strategic goals that satisfy the owners, suppliers, customers and financiers while complying with legal and regulatory requirements and meeting environmental and society needs An efficient process of value-creating and value-adding; and to ensure that:

- i. The Board has set strategic objectives and plans and put in place proper management structures [organization, systems and people] to achieve those objectives and plans.

- ii. The structures put in place function to maintain corporate integrity, reputation and responsibility towards all stakeholders.
- iii. The Board acts as a catalyst, initiating, influencing, evaluating and monitoring strategic decisions and actions of management and holds management accountable.
- iv. Ensuring that the Board is not a mere formality which takes a back seat, leaving management to make all strategic decisions.
- v. The Board has established and put in place mechanisms to ensure that the corporation operates within the objects established by shareholders, the mandate given to it by society, utilizes the resources entrusted to it efficiently and effectively in pursuit of the stated mandate, and meets the legitimate expectations of its various stakeholders.
- vi. There are established mechanisms, processes and systems to constantly ensure the following are being observed
- vii. Governance practices are effective and appropriate,
- viii. There is transparency and accountability to the various stakeholders,
- ix. The corporation complies with legal and regulatory requirements
- x. There is disclosure of all relevant information to stakeholders

- xi. There is effective monitoring and management of risk, innovation and change
The Corporation remains relevant, legitimate and competitive; and The Corporation is viable, solvent and sustainable.

2.2.2 Corporate Governance in the UK and US

It is widely thought that the US and the UK share an Anglo-American approach to corporate governance. Indeed they share common language; similar ownership structures high levels of transparency and unitary board models which seems to justify such an assumption.

However, their historical origins and underlying principles are distinct and lead to different corporate governance practices. Boards and institutional investors are therefore mutually responsible for acting in the best interests of a shared beneficiary. Despite these shared purpose there are conflicting perspectives between market participants in the US and the UK about their roles and the level of control that each agent should maintain.

In the UK, board directors are responsible for directing the affairs of the company and are accountable to shareholders for the stewardship of their investment. The fact that UK shareholders have the authority to appoint or remove a director encourages an environment where the use of such power is rarely needed. The threat alone is sufficient to ensure that boards take shareholders' concerns seriously and are sensitive to shareholder opinion on governance matters.

In contrast, US shareholders can do little to influence board composition except to withhold votes to signify their dissatisfaction. In fact, shareholders in the US have little redress in holding boards to account save for resorting to litigation or, provided that their portfolios are not index-linked, selling their shares (Staciokas & Rupsys, 2005).

There is a higher concentration of shareholding among fewer institutions in the UK compared with the US, which has led to unique engagement behavior. Close proximity of institutions facilitates an organized and generally cohesive approach to engagement.

The UK regulatory environment supports shareholder collegiality by permitting dialogue between boards and investors and not presuming disclosure, which is restricted by fair disclosure regulation in the US; allowing dialogue among triggering concert party issues; and it is free of the divisive threat of class action litigation. In contrast, the sheer size of the US markets and the greater number of institutions mean that mobilizing shareholders to defend collective interests is more difficult.

The elements of corporate governance include the audit committee external auditor, internal audit, and the Board of Directors. In addition, other parties can be included, such as shareholders and professional organizations and other stakeholders (Staciokas & Rupsys, 2005).

2.2.3 Corporate Governance in Tanzania

According to Mkono, (2005); the Compan Act (CA) and the Public Corporations Act 1992 provide the regulatory framework for corporate governance in corporations, both private and public, and public companies. Tanzanian companies tend to have a unitary board structure comprising of a balance of executive and non-executive directors, with a minimum of two directors.

Directors are appointed by shareholders at the annual general meeting and must upon appointment, sign and deliver for registration at the Companies Registry consent in writing to act as directors. Subject to the CA and limitations by shareholders' resolutions, the articles of the company specify the scope of the directors' powers and duties, which involve managing the company's affairs. The directors' duties are laid down in the company's articles and their appointment letters.

However their statutory duties include a duty to disclose any remuneration they receive and to disclose any interests they might have in contracts entered into by the company. Although a director's liability depends on the company's memorandum, the CA restricts any clauses that exempt any director from any liability that, by virtue of any rule of law, would attach to them in respect of any negligence, default, breach of duty or breach of trust.

As for the shareholding structure of the company, the CA provides that a private company must have a minimum of two members to be able to carry on its business. The general powers of shareholders are stipulated in the company's articles. These include voting powers at any general meeting, and power to approve decisions made at director level.

Minority shareholders are protected under the CA. They are entitled to apply for court intervention if they believe that they are oppressed or the company is being mismanaged. Corporate governance principles in relation to internal control of business risks are also provided under the CA, which stipulates that every company keeps proper accounts for all sums of money received and expended, its sales and purchases, and its assets and liabilities.

Furthermore all companies must appoint auditors at the annual general meeting, who will incur civil liability for professional negligence if the audited accounts are inaccurate, and will be criminally liable if they intentionally circulate false accounts Mkono & Co. (2005).

2.2.4 The Board

The board of directors is also referred as board of governors, board of managers, board of trustees, and board of visitors. Board of directors is a body of elected or appointed members who jointly oversee the activities of a company or organization.

A board's activities are determined by the powers, duties, and responsibilities delegated to it or conferred on it by an authority outside itself. These matters are typically detailed in the organizations by laws. The bylaws commonly also specify the number of members of the board, how they are to be chosen, and when they are to meet.

The number of Board members in some of the Public Authorities and other Bodies is determined by the establishment Acts of the particular authority. Directors exercise control and management over the organization, but organizations are (in theory) run for the benefit of the shareholders, the law imposes strict duties on directors in relation to the exercise of their duties. The duties imposed on directors are fiduciary duties, similar to those that the law imposes on those in similar positions of trust: agents and trustees.

The duties apply to each director separately, while the powers apply to the board jointly. Also, the duties are owed to the company itself, and not to any other entity. This does not mean that directors can never stand in a fiduciary relationship to the individual shareholders; they may well have such a duty in certain circumstances

The role of the Non-Executive Director (NED)

Non-executive director (NED) plays essential role in successful corporate governance implementation. Its main purpose is to provide a creative contribution to the board by providing objective criticism. They also expected to focus on board matters and not being drifted into day to day activities, thus providing an independent view of the company.

Non-executive directors are appointed to bring to the board independence, impartiality, wide experience, special knowledge, and personal qualities. Since NED is not involved in the daily operations of the company and equally should not be expected to be directly held accountable for poor company performance because this is the function of executive directors.

2.2.5 Audit Committee

Audit committees are vital to investors and internal auditors. For the investor, they have to provide confidence in corporate governance. For the internal auditor, they have to assure his independence. Recent developments have given audit committees more authority on the one hand and more responsibility on the other. Just as for the Board of Directors, the key success factors of the audit committee will be dependent on the skills and attributes of its members. Even more emphasis is placed on aspects such as ‘time commitment, financial literacy, and, above all, independence’. The independence of the audit committee is largely determined by the number of ‘outside’ members.

Audit committee looks at the aspects of financial reporting, and on the entity's processes to manage business and financial risk, and for compliance with significant applicable legal, ethical, and regulatory requirements.

An audit committee is an operating committee of the Board of Directors charged with oversight of financial reporting and disclosure.

- i. The Audit Committee typically assists the Board with the oversight of
- ii. The integrity of the entity's financial statements,
- iii. The entity's compliance with legal and regulatory requirements,
- iv. The independent auditors' qualifications and independence,
- v. The performance of the entity's internal audit function and that of the independent auditors and Compensation of company executives (in absence of a remuneration committee).

An effective relationship between the audit committee and the internal auditors is fundamental to the success of the internal audit function. It has become increasingly important for audit committees to assess whether the internal auditors are monitoring critical controls and identifying and addressing emerging risks.

The specific expectations for internal audit functions vary by organization, but should include the following elements:

Objectively monitor and report on the health of financial, operational, and compliance controls.

- i. Provide insight into the effectiveness of risk management.
- ii. Offer guidance regarding effective governance.
- iii. Become a catalyst for positive change in processes and controls.
- iv. Deliver value to the audit committee, executives, and management in the areas of controls, risk management, and governance to assist in the audit committee's assessment of the efficacy of programs and procedures.
- v. Coordinate activities and share perspectives with the independent auditor.
- vi. Good governance requires that audit committees should meet at least quarterly in order to be able to discuss and deliberate on various control issues of the Public Authorities and Other Bodies. Short of fulfilling the above practice may imply that the committee is not performing its responsibility.

Audit committee should be independent of each other. There shouldn't be a jointly committee such as committee of planning, finance and audit committee. The common approach which is under best practice is to form independent audit committees and other committees of the board such as Planning and Finance and Recruitment, Appointment and Staff Welfare Committees just to mention a few

2.2.6 Internal Audit

Institute of Standards for the Professional Practice (2001) defines Internal Auditing as independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. Sawyer's (1996) defines Internal Audit as a systematic appraisal by Internal Auditor of the diverse operations and controls within the organization to determine whether; Financial and operating information are accurate and reliable

Risks to the enterprise are identified and minimized

External regulations and acceptable internal policies and procedures are followed.

Satisfactory operating criteria are followed

The organizations objectives are efficiently achieved i.e. The Internal Audit department should have the Program to show the route whereby the Internal Auditor intend to take the internal audit perform field work ,which is mainly concerned with gathering and evaluate data under which the variation and investigation should be done.

Although the scope of internal audit will vary from business to business as it will be decided by the directors of each company, the key role of internal audit is to assist the board and/or its audit committee in discharging its governance responsibilities by delivering:

- An objective evaluation of the existing risk and internal control framework.
- Systematic analysis of business processes and associated controls.
- Reviews of the existence and value of assets.
- A source of information on major frauds and irregularities.
- Ad hoc reviews of other areas of concern, including unacceptable levels of risk.
- Reviews of the compliance framework and specific compliance issues.
- Reviews of operational and financial performance.
- Recommendations for more effective and efficient use of resources.
- Assessments of the accomplishment of corporate goals and objectives.
- Feedback on adherence to the organization's values and code of conducts.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization 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". (IIA, 2001).

Internal audit function is one of the pillars of corporate governance which is supposed to be instituted by all Public Authorities and Other Bodies. To efficiently and effectively discharge its functions, the unit should have its own audit charter, audit program me covering a number of activities and strategic annual plan. The strategic annual audit plan should be based on risk assessment on the operations of the authority.

Other important features which shall be possessed by the internal audit units include: approved internal audit manual, proper ways of documentation and filing of working papers and having adequate and well Internal auditors are not responsible for the execution of company activities; they advise management and (or similar oversight body) regarding how to better execute their (IIA, 2012).

As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds trained staffs. The very first step in the process of the establishment of an IA function is the approval of IA charter. The major intention of the IA charter is to plausibly document the audit endorsement together with the powers it grants to carry out IA activities on behalf of the top management and the audit committee.

IIA provides professional practice advisories for best practices in line with the IIA standards. The charter is supposed to define the framework within which IA can operate independently. The charter should also ensure that IA's responsibilities do not limit its objectivity. In addition, the charter should set up the functional and administrative reporting lines of IA. The charter should also specify that IA has a direct access to the audit committee. Sarbanes-Oxley compliance suggest due skill and care. The researcher summarizes the functions of Internal Audit as follows;

Table 2.1 Functions of internal audit

Information technology	This involves testing controls within the computer system of the business. Area which might be the subject include System development process Asset management Data base management system E-bussnes Networks Access controls
Financial internal audit	It is considerer traditional role It involves gathering evidence (mainly within the company's records to substantiate the information in the management accounts and financial statement.
Operational internal audit	These are audits of operation ensure process of the organization Ensure policies are adequate. Ensure policies work effectively
Value for money audit	Economy-buying the resources needed at the cheapest cost(best value) Efficiency-using the resources purchased as wisely as possible Effectiveness-doing the right things and meeting the organizations objectives.

Source: Synthesis of the literature.

2.2.7 Internal Audit Function in the Organization Structure.

Different organizations have different internal auditing needs depending on the nature, size, and complexity of the entity. Thus, the particular status of the entity will govern the organizational structure of the internal auditing department.

In attempting to adequately discharge their responsibilities, internal auditors often find themselves in an anomalous position. They report to senior management within

the organization, yet are expected to objectively review management's conduct and effectiveness.

According to Jepsen, (1979), there is a common organizational structure of the IA department to report directly to the corporation's senior financial officer on a daily basis. In addition to this, the department has a dotted-line relationship with the chairman or president.

The IIA recommends that internal audit to report primarily and directly to the board and its audit committee rather than to senior management in order to protect the independency and objectivity of the internal auditor work.

Benefits of internal audit reporting to board audit committee includes among others; Ability to transcend all departments without fear of limitation of scope by being tied to, for example, the finance department.

The board and audit committee know that the information they are receiving on the internal controls and risk management systems reflects a true description and has not been "watered-down" or filtered by management beforehand.

The independence of the internal audit function is absolute.

The funding of the internal audit function is outside the normal process of budgeting thereby allowing resources to be allocated by the assurance needs of the organization as assessed by the board/audit committee.

Enables the board/audit committee to directly and critically analyze and evaluate the internal audit function in its contribution to the fulfillment of the board's responsibility for internal controls.

Reinforces the board/audit committee's knowledge of the business and its risk profile when dealing with management and stakeholders.

2.2.8 Challenges of internal audit reporting to board's audit committee

Internal audit may not be privy to all sources of information throughout the company if seen as “outside” the management structure.

The chairman of the audit committee may not have allocated sufficient time, or have adequate resources/capacity to deal with the oversight of the internal audit function.

It would be necessary to set up a specific agreement outlining the roles and responsibilities of the board in relation to internal audit, as separate from management. For example, who would look after the HR administration, including evaluations, compensation and career planning for the head of internal audit?

The audit committee would be assuming more responsibility and therefore, perhaps, more liability in relation to the adequacy of the internal control and risk systems of the organization.

Potentially restricts the ability of the CEO to use internal audit as a tool to reinforce control principles, or in special projects IOR

2.2.9 Determinants of Internal Audit Function

The qualifications of IA staff, status within the corporation, reporting lines, and relationship with the audit committee of the board of directors must be sufficient for assurance of the effectiveness and objectivity of IA function.

While internal auditors are not independent of the companies that employ them, independence and objectivity is a cornerstone of the IIA professional standards; and are discussed at length in the standards and the supporting practice guides and practice advisories. Professional internal auditors are mandated by the IIA standards to be independent of the business activities they audit. This independence and objectivity are achieved through the organizational placement and reporting lines of the internal audit department. Given this, it is not surprising that management acceptance of, and support for, the internal audit function has long been seen as critical to the success of that function (Sawyer, 1973)

2.2.10 The internal audit charter

Each organization should have an internal audit charter that articulates the purpose, standing and authority of the internal audit function within the organization in a manner that promotes an effective internal audit function.

The charter should be drawn up and reviewed periodically by the head of internal audit and approved by the board of directors. It should be available to all internal stakeholders of the organization and, in certain circumstances, such as listed entities, to external stakeholders.

At a minimum, an internal audit charter should establish:

The internal audit function's standing within the organization, its authority, its responsibilities and its relations with other control functions in a manner that promotes the effectiveness.

- i. The purpose and scope of the internal audit function;
- ii. The key features of the internal audit function;
- iii. The obligation of the internal auditors to communicate the results of their engagements and a description of how and to whom this should be done (reporting line);
- iv. The criteria for when and how the internal audit function may outsource some of its engagements to external experts;
- v. The terms and conditions according to which the internal audit function can be called upon to provide consulting or advisory services or to carry out other special tasks;

The responsibility and accountability of the head of internal audit;

A requirement to comply with sound internal auditing standards;

Procedures for the coordination of the internal audit function with the statutory or external auditor.

The charter should empower the internal audit function, whenever relevant to the performance of its assignments, to initiate direct communication with any member of staff, to examine any activity or entity of the organization, and to have full and unconditional access to any records, files, data and physical properties of the organization. This includes access to management information systems and records and the minutes of all consultative and decision-making bodies.

2.2.11 Internal Audit and Corporate Governance

The contribution of internal auditing to corporate governance is portrayed via demarcating the relationship between internal audit and key practices of corporate governance. Internal auditing is an integral part of the corporate governance mosaic in both the public and the private sectors (Cohen *et. al.*, 2002). It is now generally accepted that the correlation between internal auditing and corporate governance affects all kinds of economic activity and that the perceived Implications and consequences of this interaction have changed considerably in the recent years.

Because of the fact that the Board of Directors is ultimately responsible for the entity's accomplishment of its objectives, the internal auditor's contribution is to providing information to that group (Colbert, 2002).

Based on the Audit Committee, on the one hand internal auditing contributes to corporate governance by:

Bringing best practice ideas about internal controls and risk management processes to the audit committee,

Providing information about any fraudulent activities or irregularities (Rezaee and Lander, 1993)

Conducting annual audits and reporting the results to the audit Committee and encouraging audit committee to conduct periodic reviews of its activities and

practices compared with current best practices to ensure that its activities are constituent with leading practices (Karagiorgos *et al.*, 2010)

The elements of corporate governance include the audit committee, external auditor, internal audit, and the Board of Directors. In addition, other parties can be included, such as shareholders and professional organizations and other stakeholders (Staciokas & Rupsys, 2005).

To secure the operations of governance of a strong company, there must be cooperation between the various components of the system of governance, internal auditors, executive management, financial management, board of directors, shareholders and external auditors (ECIIA, 2005). Several studies indicated that the role of internal audit in governance must take precedence over other internal audit activities. According to Okafor & Ibadin (2009) that the internal audit exercise a critical role in improving corporate governance in organizations. To achieve the quality of governance, the company must focus on all cornerstones of corporate governance and in particular the internal audit function.

It assesses the commitment to the ethics of the organization and its goals, programs and activities. It is also an important source to other cornerstones such as the external audit, the Audit Committee, Board of Directors and senior management. The internal audit function is to control and maintain the quality of corporate governance.

2.2.12 Effectiveness of Internal Audit

Even if the internal audit function is an integral part of the control framework of an organization, it is obviously that this function also must have its own control, to track whether its performance is consistent with its role and objectives. (Christina, 2009).

The greater the professional qualifications of the internal auditors in a given department, defined by the length of their professional training and educational level, the greater the effectiveness of this department (Albrecht *et al.* 1988; Ratliff 1996).

Nanni (1984) found that auditor experience had a positive effect on evaluations of internal accounting control.

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajry, Brierley and Gwillian 2003).

Organizations with internal audit activities are better able to identify business risks and system inadequacy, take suitable corrective action, and eventually support continuous improvement. However, to maintain and improve internal audit's credibility, its effectiveness and efficiency must be observed. International Standards for the Professional Practice of Internal Audit 417 demands that the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity" (1300-Quality Assurance and Improvement Program).

According to the interpretation offered by the new version of internal audit standards issued by The Institute of Internal Auditors in 2008 and applicable with 2009 this program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The oxford English dictionary defines effectiveness as the achievement of intended goals. Blackburn, (2009), suggest that the effectiveness of the internal audit function can be measured by looking at the completion of the annual audit plan and handful of other, lesser goals such as responsiveness to management request for advice or assistance. The author further illustrate as shown in the table below:

Table 2.2 Effectiveness of Internal audit (Synthesis of the literature)

Potential	Performance
Purpose (e.g. audit charter, internal audit work plans tied to risk register).	Assurance on risk management
Commitment e.g. Reporting lines, standard audit methods of working etc.	Improvement in risk management
Capability e.g. sufficient skilled and experienced staff, access to chairman of the board, chairman of audit committee, all personnel and information required by audit work, adequate IT equipment, travel budget sufficient to reach all planned audits.	Improvement in internal control environment.
Learning (post and review process, training and development planning etc).	Management experience of internal audit.

Source: Blachburn, 2009

Table 2.3 Effectiveness of internal audit (Synthesis of research)

	Input indicators	Process indicators	Output indicators
Structural	<ul style="list-style-type: none"> -Existence of direct reporting line to audit committee -Charter specifying right of access to chairman of the board -Chairman of the audit committee all personnel and information required by audit work 	<ul style="list-style-type: none"> -Frequency of meeting with audit committee without management present. -frequency of meeting with the chairman of the audit committee 	
Quantitative	<ul style="list-style-type: none"> Cost per audit day Cost per audit report Percentage of auditors time spend on audit work versus time spend on training and development). 	<ul style="list-style-type: none"> Achievement of target dates for audit work/reports 	<ul style="list-style-type: none"> Number of reports Number of agreed action Percentage of agreed action points completed within a given time Percentage completion of annual audit plan.
Qualitative	<ul style="list-style-type: none"> Qualification and experience of staff. 	<ul style="list-style-type: none"> Appropriate audit methodology documented in staff manual, internal audit work planning Amount and types of training provided to staffs. 	<ul style="list-style-type: none"> Post audit feedback from management Requests for work by management Transfer of staff into other parts of the organization.

Source: Blachburn, 2009

2.2.13 Challenges in measuring internal audit effectiveness

Operational goals chosen may not reflect the overall purpose of internal audit such as to provide assurance to the management, audit committee and the board on the system of internal control and risk management. And also to assist management to improve its operations, risk management and internal control. As an output measure it lacks the certainty of the number of audit reports delivered compared to the number planned thus making it subjective. When using such data we need to remember that they are only evidence to assurance and not proofs.

2.2 Empirical Literature

In the annual general report of the controller and auditor general on the audit of public authorities and other bodies for the financial year 2010/2011 in Tanzania it was observed that corporate governance had some areas of weakness which needed attention.

This includes: ineffectiveness of the Boards of Directors; Appointment of Board Members with Multiple Titles/Designations in the Society and hence failure to participate effectively in board meetings; appointment of Chairperson of the Boards of Directors and Chief Executive Officers by the same appointing authority resulting into conflict of interest; delays in appointing new Board of Directors after lapse of tenure of the boards; lack of accountability on the part of the Board of Directors; unregulated remunerations of the Board of Directors between PA&OBs; weaknesses noted in functioning of Boards of Directors; members of Parliament serving as Directors in various Boards of Directors of Public Authorities hence bringing conflict of interest; weakness on the composition of audit committees and issues of composition and performance of internal audit units in public authorities.

In the study/ survey of the role of internal audit in promoting good corporate governance in SACCOS done by university of Nairobi at business school recognized that the importance of corporate in ensuring sound financial reporting and deterring fraud has received growing recognition in the recent past. Internal auditing has

become one of the means of enhancing corporate governance in organizations. This is especially true if an organization adequately structures and provides resources to the internal audit function.

The study sought to establish the role of internal audit in promoting good corporate governance in SACCOs. The study used exploratory research and primary data was collected using a questionnaire.

The population comprised of all the 4,200 SACCOs registered in Kenya with a sample of 20 employees based SACCOs based in Nairobi being used. Twelve responses were received representing sixty percent of the sample size. The study among others found that most large SACCOs have set up internal audit functions and established audit committees. The study found also that to promote the independence of the internal audit functions it should report to the board audit committee and that the head of internal audit is dismissed after the approval of the audit committee.

In addition the study found out that the main activity of internal audit is evaluating the adequacy of internal controls, providing assurance about the achievement of the organization's objectives with regard to reliability of financial reporting and compliance to applicable laws and regulations. However, limited resources and inadequate structures impact negatively on internal audit's role towards promoting good corporate governance. The study concluded that internal audit function plays a role in promoting good corporate (University of Nairobi, Business School.

2.3 Conceptual Frame Work

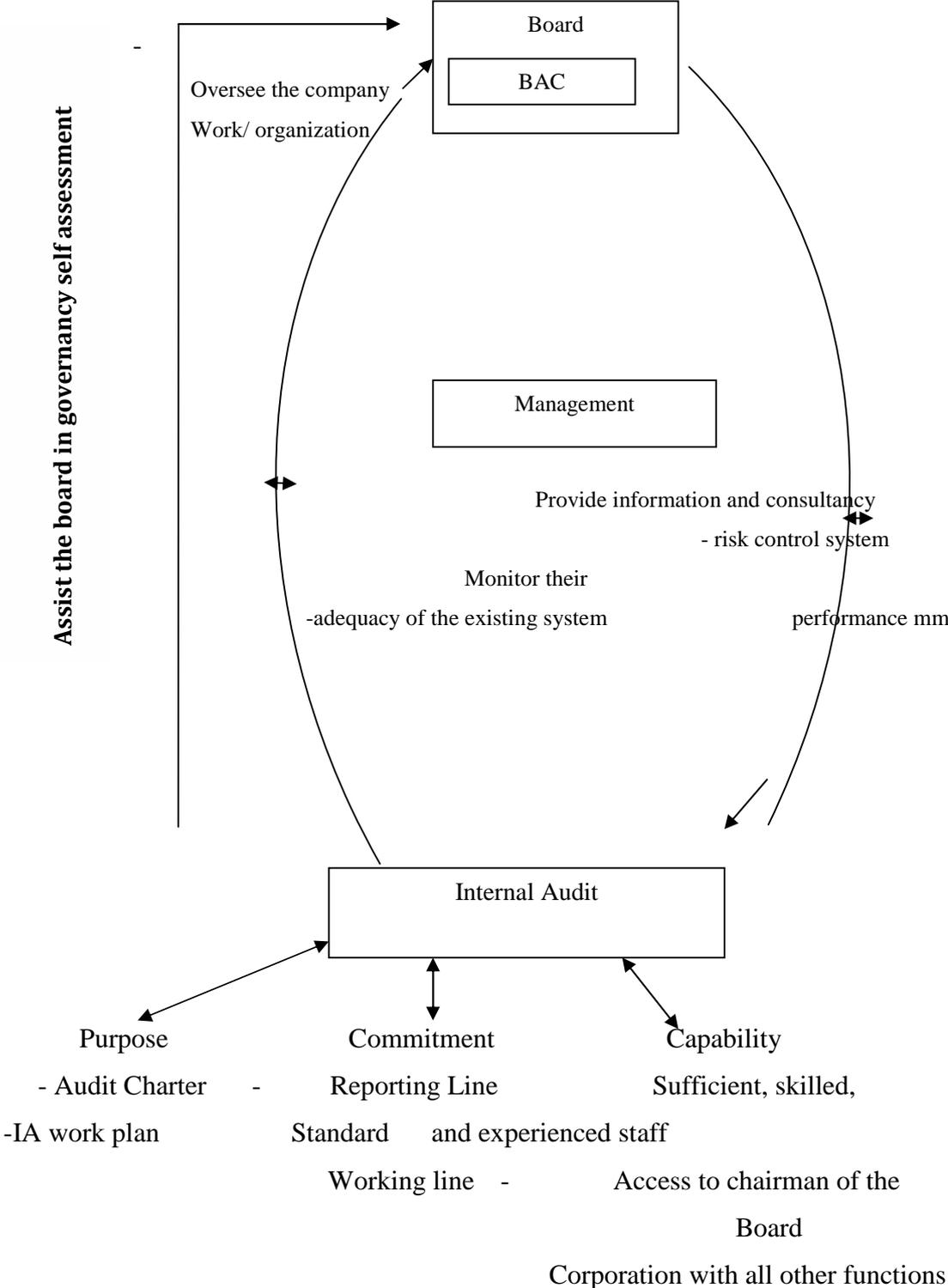
Board is a body of elected or appointed members who jointly oversee the activities of a company or organization. Their duty includes setting policies and procedure for use in the operational activities. Thus it generally performs the role of creating mechanisms by which stake holders of corporation exercise control over corporate insiders and management of such that their interest are protected.

The boards are not involved in daily operation thus needs tools in which it will exercise its power and therefore perform their duties. Management is given authority to manage daily activities but for the stake holder's interest to be attained the board uses board committee to have a closer eye to different areas of the organization. The board audit committee is one of the important tools that the board uses to oversee financial reporting and disclosure.

BAC need reliable source of information on which it can trust, thus use that information in its strategic decision making. BAC use IA as a tool for information and consultancy on the policies and procedures in use are effective and changes should be done for betterment of the organization.

For BAC to rely on the internal auditor's information the internal audit must be effective in its dealings. Effective means the internal audit must have a purpose, commitment and capability to fulfill their responsibility as shown here under diagrammatically.

Figure 2.1 Internal Auditors role in corporate governance



Source: Compiled by researcher

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology used during the study. It spells out the framework within which the research was undertaken. Therefore, the research approach and design, population, sample and sampling methods, data collection strategy and data analysis are issues which have been discussed (Aaker *et al.*,2002)

3.1.2 Study Area

Shank (2006) claims that the key to identifying a good research target area depends on whether or not a given setting or situation can tell a researcher anything new about his or her larger area of interest. The study was conducted at VETA head office, located at Chang'ombe, in Dar es Salaam city Tanzania. It is a public organization with authority to oversee the vocational education in Tanzania. It has more than 26 training centers located all over the regions of Tanzania. VETA depends on the tax payers funds thus requires accountability to create trust from the taxpayers. The researcher has chosen this area for a study due to the reason that VETA has an Audit function at the head office responsible to audit all the centers and also they have audit committee which together makes the key component of my study. In addition VETA is a working place of the researcher thus increases the accessibility of data.

3.2.1 Research Design

Research design is a detailed plan of work to be done to achieve the research objectives. According to Kothari (2005) a research design as a conceptual structure within which research is conducted, it constitutes the blueprint for the collections, measurement and analysis of the data. In this study, a case study research design was employed whereby there were no generalization but provided depth analysis.

Shaughness *et al.* (2000), described case study as an intensive description and analysis of a single situation which will make use of qualitative and quantitative data collection. For example in this study, role of internal audit function in corporate

governance was extensively studied. The strength of case study design was as follows:

- i. It will be fairly exhaustive method which enables the researcher to study deeply and thoroughly different aspects of the phenomenon.
- ii. It is flexible in respect to data collection methods as it allows qualitative and quantitative data to be used.
- iii. It saves both time and costs.

Despite the advantages of the design outlined above the case study design is sometimes highly criticized on the grounds that it does not meet basic requirements for scientific inquiry. In scientific methods, the findings must be generalized. But over-reliance on a single unit of data collection limits generalization.

Lack of generalisability is considered to be a major weakness of the case study design (looking at the world from quantitative point of view) Kothari, 1990. the study was based on independent and dependent variables within the study. The term independent is quite clear and self explanatory in that independent variables do not depend on other variables

Despite the criticism the researcher has chosen the case study design because The purpose of the researcher was to gain a practical understanding of the concept and how it works particularly to VETA.

There was no need of Generalization as that wouldn't give a fair generalization

3.2.2 Research Variables

A research variable is defined as a factor or characteristics of interest that a researcher would like to handle, observe, and investigate or manipulate in the research process so as to establish relationships between variables. A variable can be age, sex, business performance, political situation, interest rate or even culture. It is therefore a component of research problem (Kamuzora, 2008).

In this study the research independent variables were corporate governance system, expectation of the corporate governance to internal audit and effectiveness of the audit function and also the dependent variable was the role of internal audit.

3.2.3 Research Approach

Qualitative approach was used during the study Denzin and Lincoln (1994) defined qualitative research approach as a multi-method in focus involving an interpretive and naturalistic approach to its subject matter. Qualitative approach implies an emphasis on the qualities of entities, processes, meaning that it cannot be experimentally examined or measured in terms of amount, quantity or frequency.

Qualitative research approach was used in this study due to the following number of reasons; in this approach, the data gathering instrument is through discussions with people in their areas. Kamuzora, (2008), Writes about the real benefits of interview as a qualitative approach as follows: first, it is flexible, whereby one is in face-to-face with interviewee so one can clear up any misunderstandings immediately. Second, qualitative offers approach high response rate because the interviewer and interviewee have direct contact.

Third, wide coverage where data can be collected from both literate and illiterate people. Fourth, the design enables the researcher to use some strategies to gather data which includes taking notes, either as a participant- observer or a non- participant observer; obtaining relevant documents or audio visual images, conducting unstructured or semi structured interviews and transcribing them. Fifth, there is control of the interview situation where by you can be able to control the environment by considering the level of satisfaction from the responses given.

3.2.4 Population

Population is the complete set of cases or group members (Sounders, 2007). Kamuzora, (2008), defined population as the universal set and a sample as a subset.

In this study, the population encompasses all public organization in Tanzania while sample is VETA.

3.2.5 Sample and Sampling Techniques

A sample is a group of respondents drawn from a population in which the researcher is interested in collecting information and drawing conclusion. Kothari (2003), has defined sampling as the selection of some parts of an aggregate or totality on the basis of which a judgment or inference about the aggregate or totality is made.

According to Cohen and Manion, (2000), sample is a small group of respondents drawn from the population in such a way that it represents all key features of the population. Therefore, it is essential to obtain an appropriate sample size that will generate sufficient data (Auerbach & Silverstein, 2003). In this study the sample size was equal to the population due to the fact that the populations that were used included in this study included eight (8) senior officer, four (4) internal auditors and eight (8) workers.

Sampling technique refers to a procedure the researcher would adopt in selecting the elements or items for the sample (Cohen & Manion, 2000). Therefore, the purposive sampling technique was employed in this study to select the senior staff.

3.3 Sources of Data

Information is categorized into primary material and secondary material (White, 2002). Other scholars mention tertiary sources as an important source of secondary data. In conducting this research, both primary and secondary material was used. This means both theoretical and empirical literature and tertiary sources were considered.

3.3.1 Data Collection Methods and Tools

Observation, documentary analysis, interview and focus group discussion methods were employed in data collection. Tools or instruments used were interview questions, questionnaires, observation schedule, documentary review and focus group discussion.

3.3.2 Observation

This is the method used to collect primary data. In order for the observation to take place the observer must be present when the event happens. Data is obtained by seeing, hearing, touching and smelling.

To make observation successful, one has to adhere to some conditions. White (2002) outlines some of the important conditions to be observed for the success of Observations as; accurate reporting and description of topic under investigation Free access to all aspects of the investigation plenty of time for the observations to take place.

In this research the researcher used this tool in the process to find out how the corporate governance system operates this was so because the researcher is part of the organization thus could easily find out some facts by simply observing.

3.3.3 Interview

In personal interviews, there is a face- to- face contact between interviewer and interviewee. This can take place at home (door to door interviewing), office (executive interviewing) or even at shopping centres (mall intercept surveys) Kamuzora, (2008). In this study, the researcher conducted interviews with the audit staff and senior staff. Auerbach and Silverstein, (2003) maintain that case study design accompanied by interviews help a researcher to get information from insiders' views.

3.3.4 Documentary Analysis

These are recorded materials which can be used to collect data. Documents can be virtually anything written or printed materials such as letters, newspaper articles, policy documents, diaries and books According to Miles and Huberman (1996) the documentary review is a process of reading various extracts found in offices containing issues related to what the researcher is investigating. In this study, the documentary analysis was used to acquire secondary data by distilling information.

3.3.5 Focus Group discussion (FGD)

The focus group discussion is a targeted group planned to ask some of the potential questions which sometimes or for some reasons other staffs members cannot answer. In this study, the special questions were designed for director and internal audit staff.

3.4 Validity and Reliability of the Research Instruments

3.4.1 Validity of instrument

Auerbach and Silverstein (2003) contended that validity as used in qualitative research means absence of subjectivity. In this study, validity was maintained through the following:-

Triangulation

According to Leedy and Ormrod (2001), triangulation implies the use of multiple methods for data collection. The use of multiple methods for data collection is vital because it justifies the usefulness of the study through increased validity and reliability of the information from respondents (Cresswell, 2003). This study employed interviews, FGDs; which were supplemented with documentary review.

Rich Data and Thick Report

Collecting rich data enhances validity of the qualitative research (Patton, 1990). Purposive sampling in semi-structured interviews and stratified sampling in FGDs generated rich data that were supplemented with documentary review. Quotations from respondents in interviews and FGDs were carefully described and documented.

Back Translation

Since most of the target population is Swahili speakers, the interview guides which are normally prepared in English were translated into Kiswahili (which is the Tanzanian Lingua Franca) for easy understanding and communication with the informants. The Kiswahili version turned back into English at the report writing stage.

Neutrality

Neutrality refers to the degree to which the findings are a function solely of the informants/respondents and conditions of the research and not of other biases, motivation and perspectives (De Vos, 1998). Objectivity is the criterion of neutrality that is achieved through rigorous methodology by which validity and reliability are established. The neutrality of data rather than the neutrality of the researcher is emphasized in qualitative research (De Vos, 1998). This was achieved through the use of the emit perspectives respect o the insiders' views) as well as bracketing (reflecting on one's own biases, assumptions, perceptions) for the purpose of restricting their infusion into the study findings.

3.4.2 Reliability

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3.5 Data Analysis Procedure

Data analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data groups (Kothari 2004). Qualitative data refers to all non-numeric data that have not been quantified and can be a product of all research strategies (Saunders, Lewis and Thornhill, (2007).

In this study data are collected, and analyzed via sample descriptive statistics. Analysis began with individual respondents and then answers from different respondents are grouped and presented based on research objectives and research questions.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF THE FINDINGS

4.1 Introduction

In this chapter, the researcher attempted to make an analysis to the role of internal audit in corporate governance taking VETA as the case study. Data presentation is organized deductively into themes based on the study, to find out how does the corporate governance operate, to find out the expectations of corporate governance to the internal audit function, and find out the effectiveness of the internal audit function and find out the challenges of internal audit in corporate governance.

This chapter also presented, discussed and analyzed the information collected from Vocational education and training authority Tanzania. The analysis was directed at answering the main research question with the attempt to answer three specific questions as presented in this study. These research questions were put to substantiate the objectives of the study.

The main research objective was to study the role of internal audit function in corporate governance, and to fulfill this research objective, four specific objectives addressed were:

- To find out how does the corporate governance operate
- To find out the expectations of corporate governance to the internal audit function
- To find out the effectiveness of the internal audit function
- To assess the challenges of internal audit in corporate governance.

To study the role of internal audit function in corporate governance and to fulfill this research objective, four specific questions addressed were:

How does the corporate governance system operate?

What are the expectations of corporate governance to the internal audit function?

Is the internal audit function effective?

What are the challenges of internal audit in corporate governance?

4.2 VETA Operation System

In order to understand the VETA operation system, the researcher used documentary analysis to extract this secondary data. The researcher findings revealed that VETA as an authority does its operation through VET board which is the one responsible for its operations. The VET board has 11 members including the chairman and other members who are appointed as per sec 5(i) of the act. The board is responsible for the performance of the functions and management of the affairs of the Authority as per the Act 4(i). The boards with the corporate responsibility are required by the Act sec 2(b) to perform many duties one being to set the policies and procedures for the use of the vocational education and training fund. This includes;

Approval of allocation criteria and budget norms for RVTSC and other training providers.

- i. To approve the plans and the annual budget of the Authority.
- ii. To establish a personal policy and administration of the authority
- iii. The board may establish Regional Vocational Education and Training Boards. These are there to help the board perform their duty at regional level.
- iv. The board has a duty to ensure proper books of accounts of payment made into and out of the VET Fund.

VET Board is supported in its activities by the Board Audit Committee (BAC) among other committee. BAC meets four times a year (quarterly), in additional special BAC meeting can be called any time the need arise. The VETA internal audit is composed of 4 staff, where one is the Chief internal audit and three other auditors. Their responsible of auditing the VETA head quarter, the zonal offices, and all 26 centers which are located in all the regions of united republic of Tanzania.

From the interview done through use of interview guide to the 5(five) of the 9 targeted populations, the researcher established the expected role of BAC which includes mainly:

Oversight of financial reporting and accounting

Compliance of the organization to the legal and regulatory requirement.

Disclosure of the financial statements,

Put an eye on the performance of the internal audit function

4.3 The BAC operation with internal audit

In this sub theme the researcher sought to find out the nature of relationship that exists between board audit committee and internal audit. The data were collected through FGD with the chief internal audit and all internal audit staff (3 members). Internal audit function declared that by seventy five percent (75%) they have a good relationship with the BAC which helps them communicate the audit report independently. The respondent commented that the internal audit and BAC have good relationship that allows internal audit reporting be successful by over seventy percent (70%). The researcher also revealed that the internal audit function is supported by BAC through the following ways as mentioned by the chief internal auditor;

To ensure the function has the necessary resources and access to information and is equipped to perform in accordance with appropriate professional standards for internal auditors; and

To review and monitor management's responsiveness to internal auditor's findings and recommendations.

While time taken to write and agree audit reports often represents less than 20% of total time spent on an audit, the audit report is often the sole means by which management and stake holders judge the quality of audit work. It is therefore important to take sufficient time in writing reports and consider the audience who

will be reading the report. Because of the fact that the Board of Directors is ultimately responsible for the entity's accomplishment of its objectives, the internal auditor's contribution is to providing information to that group (Colbert, 2002). Knowing this fact BAC on behalf of VET board has provided a report template to internal auditors to ensure that they have a room to provide all the necessary information that will accurately reflect the audit work they perform. The template is shown in the appendix 3.

VIA is composed of 4 staff, where one is the Chief internal audit and three other auditors. They are responsible of auditing the VETA head quarter, the zonal offices, and all 26 centers which are located in all the regions of united republic of Tanzania. Having examined the activities of internal audit at the Authority the researcher established the following list of activities that are performed by the internal audit at the organization as follows:

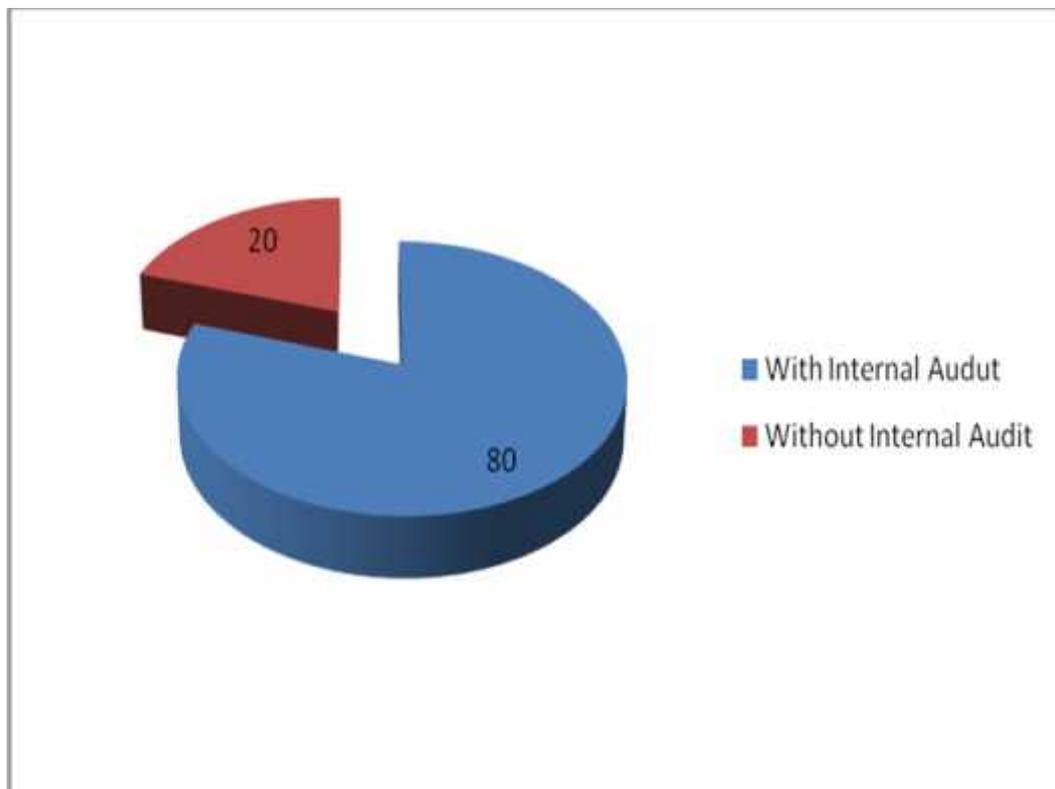
- i. To prepare annual audit plan.
- ii. Review strategic organization plan.
- iii. Prepare organization risk register.
- iv. Conduct internal audit at the head office, zonal and the centers.
- v. Consultation to audit committee and management.
- vi. Report to audit committee on the progress of the audit plan in each quarter.
- vii. Conduct investigation
- viii. Evaluate performance of various unit in organization
- ix. Periodic checks (surprise and planned one)
- x. Further the researcher examined to know the activities that directly relate with enhancement of corporate governance, the following were the mentioned activities by the respondent by 100%.
- xi. Review organization strategic plan
- xii. Prepare organization risk register
- xiii. Conduct internal auditors to centers
- xiv. Consultation to Board audit committee and the management

Evaluate performance of various units

As stated by Colbert (2002) that the board of directors is ultimately responsible for the entity's accomplishment of its objectives, the internal auditor's contribution is to providing information to that group. The researcher observed that Internal Audit helps the board to understand their position and also help the board to determine the direction of their future.

To support this theme the researcher was also interested to know as to what extent the BAC rely on the information from VIA? Focus Group Discussion were done with three (3) management team members who are also BAC members and the researcher found out that 2 out of 3 members (67%) of the respondent responded that the information provided by VIA make 80% of the information used by BAC in its decision making.

Fig. 4.1: Reliance of the Board to VIA (In percentage)



Compiled by researcher, (2013)

20% of the respondents reported that board does not rely on the information from VIA while 80% responded that the board rely on the information from VIA for its strategic decision making of the organization. This imply that without internal audit the corporate governance operations is not smooth, while larger percentage responded that the smooth operation is highly supported if there is internal audit functioning.

4.4 Effectiveness of the internal audit function

As displayed in the researcher objectives; the researcher found out that it was important to study the effectiveness of IA function because this would provide better understanding of the role of IA function to the CG. The researcher found out that there is a need to first understand the expected role and their ability to reach the expectation in the researcher's view this can be measured through assessment of how effective the IA function is to their responsibilities.

As Blackburn suggest some of the factors to consider effectiveness of the IA can be measured by looking at the following factors that the researcher also used them.

4.4.1 Purpose of an audit

For internal audit to perform their duties they must have a purpose which is clearly stated. VIA purpose can be obtained in the audit charter and audit plan.

Audit Charter

The researcher decided to use FGD to the IA staff on answering this question in order to get deep understanding the reason for this tool is that this need audit expertise in answering it. The VIA responded that they don't have Audit charter as yet.

The researcher wanted to know as to why they don't have such an important document in their field. This made the researcher to find out more and the researcher found out that, IA function have already taken initiatives of adducing the management to take action for this document to be existing but they face challenge on the completion of ensuring this document exist because of budgetary controls.

The management has not yet understood the importance and the need of it that is why they don't give it a priority.

The internal audit charter provides a formal, written internal audit charter is critical in managing the internal audit activity. It provides a recognized statement for review and acceptance by management and for approval as documented in the minutes, by the Board.

It also facilitates a periodic assessment of the adequacy of the internal audit activity's purpose, authority and responsibility, which establishes the role of the internal audit activity. If a question should arise it provides a formal, written agreement with management and board about the organization's internal audit activity. IPPF 2013

Absence of the audit charter imply that the organization does not have a contract with the auditors that give the VIA duties to do, their power and limitation there off. It also imply that the VIA ability to implement the plan becomes small as their power is not well understood to everyone thus lacking enough support during audit work. To the auditors themselves this imply that the organization can't recognize the auditors work in that magnitude that their perform.

Audit plan

Standards for best practice 2010 on planning, says the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with organization goals. The 90% of the respondent agreed that the VIA has an internal audit plan. The researcher wanted also to know the ability to accomplish the plan for VIA. In this aspect the internal audit annual report of VIA showed the following results:

Table 4.1: Completion of audit plan

Year	Percentage of completion in percentage (%)
2009	40
2010	42
2011	50
2012	59

VETA Report, 2013

The researcher wanted to know the reason for VIA failure in accomplishing their plan and the results were as follows:

Insufficient number of personnel

VIA has a challenge of having only three auditors who performs audit works in all the 26 cost centers located throughout the country. As a result they fail to reach all the centers in each quarter and end up to reach them once or not at all to some of them in a year. This means the BAC report from VIA will be missing enough information and the information is not very current.

Reluctance of the management to authorize the internal audit activities

Since VIA reports administratively to the CEO this gives the CEO a room to authorize or not authorize their periodical fund requests. This delays them or sometimes makes them not to attend their audit work as planned.

Involvement of the VIA members in operational activities.

Members of VIA are also involved in operational activities such as exhibitions and administrative trips which has negative impact in their works as they consume valuable time which would otherwise be useful in audit works. In additional this has a negative implication in the independency of the audit work as one cannot audit her/his own work.

Lack of reliable means of transport.

The VIA has only one car for its activities this leads to improper use of their time as they cannot stand with their plan

4.4.2 Commitment of internal audit

The VIA needs to have full commitment, that with which they can freely and independently perform their duties. This can be looked in the aspect of the organization structure and the standard working line.

The organization structure

The VIA administratively reports to the Director General, and operationally they report to the board through BAC. Bou-Raad,(2000) argued that the strength of an IA department must be assessed with respect to the level of independence it enjoys from management and from operating responsibilities.

This stands to be a challenge as it gives room for the top management to misuse the authority that is granted to them for their own interest. Example the director General can delay or disapprove the funds that the internal audit team requires for their work if in any case he finds that he has interest on the area that the internal audit team wants to audit. For best audit practice the organization structure should be that which helps the internal audit do their work independently.

The chief internal Auditor reports to VETA director general administratively but he can also meet any time with chairman of BAC if he finds that the reaction of the management to any issue that he finds sensitive is not appropriate. There are cases when the CIA finds that the Chairman of the BAC is not satisfactory then he is allowed to bypass all and face the chairman of the board to address the issue for better actions.

This is designed to ensure that the organization structure does not affect the IA function negatively. Although this is the best practice but the CIA is constrained in

practice as there is still a room for DG to intimidate CIA existence through BAC members. DG has influence to BAC members as he is the one who proposes the names of the committee member.

4.4.3 Capability of the VIA

The aspect of capability includes experience of the staff, sufficient number of the staff, and the skills they possess.

Experience of the staff

It was also important to study the work experience of staff at VETA audit function in order to relate with their ability to accomplish and understand their role. The researcher established that out of 4 respondents 1(25%) of the respondent has over 20yrs experience in the field, 2(50%) have more than 10yrs but less than 20yrs experience and 1(25%) have experience of less than 10yrs.

The situation above shows that, all of respondents had a good work experience which means that their ability to perform audit responsibilities is good or reasonable good.

The skills of audit staff

This study intended to establish the level of education of the respondents and their ability to perform their audit function in a best way to accomplish organization goal or enhance corporate governance. The greater the professional qualifications of the internal auditors in a given department, defined by the length of their professional training and educational level, the greater the effectiveness of this department (Albrecht et al. 1988; Ratliff, 1996)

Having examined the level of education of practitioners in IA Function at VETA, the researcher established that 50% of the IA staff had master degree and two 50% had bachelor degree.

With these findings the researcher established that with high level of education of practitioners, IA is performed in a more professional way. In the role of best practice,

the IA function need to have been equipped with multidisciplinary professionals such as legal knowledge, procurement skills and etc.

An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajry, Brierley and Gwillian, 2003)

Multidisciplinary skills would make them handle the audit in a more diligent way. The researcher found out that VETA has well educated internal auditors but with single profession, thus this indicate that their ability to audit is not as good as expected in the different field like procurement, engineering activities and training matters.

Sufficient number of staff

VIA is composed of 4 staff, where one is the Chief internal audit and three other auditors. They are responsible of auditing the VETA head quarter, the zonal offices, and all 26 centers which are located in all the regions of united republic of Tanzania.

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. Best practice 2030-on resource management state that the chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the plan.

4.5 Challenges facing VIA in its practice

The VIA like any other audit function is experiencing challenges which affects its performance. The challenges are as follows

4.5.1 The geographical location of centers.

The centers to be audited are located in all the regions of the country which are geographically hard to be reached. This consumes a lot of time thus making it hard to

reach every centre on time. As a result the internal auditor is forced not to audit some of the areas in time which leads to delay of correct and accurate information thus causing the internal audit to lack very recent information for every centre that would have to be reported quarterly to the BAC.

4.5.2 Lack of corporation with the audited centers

The audit work can be easy only if the staff from department levels cooperate. The researcher noticed that there is lack of Good Corporation through documentary analysis as one can be asked for clarification on a particular issue and decides to keep quiet for so long or sometimes do not answer at all.

This have an impact to the audit report which will not provide a clear picture of what is on the ground for better decisions of the management and the BAC If the head of department, centre managers, responsible director and finally management respond on time on all the raised issues. This would make the audit team reach more centers and thus provide the necessary information to BAC for better decisions of the BOARD on its strategic issues.

4.5.3 Time limit

The researcher found out that internal audit is constrained with time limit due to many reasons some of them being the administrative activities that they have to participate. For example, during SABASABA Trade fair ,nane nane exhibition, opening of new centers and others, the internal audit staff also participate this consumes their time which would otherwise be used in other internal audit activities.

4.5.4 Budgetary controls

Internal audit is faced with budgetary constrains as they have to plan their activities depending on the available fund and not on the best practice. This is a challenge because it may cause the internal audit to fail to reach other Ares.

4.5.5 Inadequate tools

VETA is faced by the challenge of inadequate tools to meet the modern pace of technology. Not all centers use computerized system of managing data thus making it hard for internal auditors' to get information, and to get all the required data for better audit.

an audit department does not have some of the critical tools required to perform comprehensive, state-of-the-art audits. New software tools that enable data mining and other computer-assisted audit capabilities may not be available in an underfunded audit department. An understaffed department without the technology to compensate for the lack of personnel is not unusual, but often delivers incomplete or ineffective audits

4.5.6 Understaffing

The researcher foud out that the A second challenge faced by internal audit departments is simply the size of the staff. Audit departments are historically understaffed, and the problem has become increasingly worse in today's economic environment. Staffs are being downsized and forced to operate at bare-bones levels.

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajry, Brierley and Gwillian 2003)

They must then make choices about what functions to audit and how comprehensive the audits can be. A lean audit staff cannot always accomplish everything that they had planned to accomplish in a given year.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Study

This study assessed the role of internal audit function in corporate governance with the objectives of finding out how does the corporate governance operate, to find out the expectations of corporate governance to the internal audit function, the effectiveness of the internal audit department and the assessment of the challenges of internal audit in corporate governance.

The study employed the case study design due to its sensitivity for the purpose of obtaining in-depth and detailed information, accompanied by qualitative research approach while using quantitative aspects for matters that need more attention for better extraction of data. Using purposive sampling, a total of 20 respondents took part in the study involving the seniors (n=8), the Internal auditors (n=4) and finance and procurement department workers (n=8).

5.2 Summary of the Study Findings

The main findings of the study indicated that;-

Internal audit is a vital catalyst machine for the corporate governance operation to be successful.

The corporate governance relies on the internal audit information to make their strategic decisions.

- i. The internal audit function lack support that can ensure that audit function is done effective
- ii. The organization system especially the reporting line is undermining the power of the internal audit.

- iii. There is a gap between internal audit team and other functioning departments.

5.3 Conclusions

From these findings, the following conclusions can be drawn; - First, Internal auditing can play a very vital role in corporate governance of the organization. This is because while the Corporate governance over see the different aspects of the organization the internal audit is there to say if the corporate governance is heading into a correct direction and or using the best approach thus help the corporate governance make better informed decisions for the betterment of the organization.

A part from the relationship that exist between the internal audit and the Board the internal audit need to create a better understanding with other department for better and quick response during their daily work.

Second, it is important to consider transparency and accountability for smooth operation of the corporate governance in the public sector. The reporting lines for internal audit is prudent to keep the following independence guidelines in mind; the internal audit function must be independent of the activities being audited and must also be independent from every day internal process.

The internal audit department must be able to exercise its assignment on its own initiative in all department establishment and functions of the organization. Internal audit must be free to report its findings and appraisals and to disclose them internally.

The head of internal audit department should have clear authority to communicate directly and on his or her own initiatives to the board, the chairman of the board or the chairman and members of the audit committee.

5.4 Recommendations

The following are some of the recommendations drawn from this study finding:

The study recommends that, there should be effort to make all parties involved in the internal audit function understand the role of the internal audit in the betterment of the organization thus create understanding which will enhance the corporation of the internal audit and its parties.

Also having in mind the role that internal audit play in corporate governance, there should be initiative to ensure that the system does not act as a hurdle to the audit function.

The organization should have its own audit charter for internal audit functions which clearly articulate both the functional and administrative reporting lines for the function as well as its principle activities.

Internal audit departments should report as high up the organizational structure as possible, preferably to the board of directors.

Thus the reporting line should be to someone with sufficient authority to provide internal audit with sufficient support to accomplish its day to day activities.

The reporting line should facilitate open and direct communications with the board audit committee, director general, the senior executive group and line management.

The reporting line should enable adequate communication and information flows so that internal audit receives adequate and timely information concerning the activities, plans and business initiatives of the organization.

Budgetary controls and consideration imposed by the administrative reporting line should not impede internal audit in accomplishing its brief.

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APPENDECES

The researcher will be required to have sufficient fund for conducting the study.
Source of funds to finance the study will be from sponsor.

ITEM	TRANSACTION	TOTAL
Stationeries	Stationary	40,000
Secretarial services	. Typing . Photocopy . Binding	150,000.
Meal & Transport	. To the institute .To workstation . Breakfast. . Lunch.	620,000
Communication	Communication	60,000
Other related expenses		200,000
TOTAL		1,070,000

Appendix 2- Questionnaire

Dear respondents,

My name is Witness Michael Mgimba, a student of MZUMBE UNIVERSITY—Dar es salaam Business School, pursuing a Master’s of Science in Accounting and Finance). I am conducting a research on “The role of internal audit in corporate governance: Case study of VETA- Tanzania”. This research is a partial fulfillment of the requirements for the award of Masters of Science in Accounting and Finance of Mzumbe University. I therefore request your assistance by responding to the following questions. Your information is highly appreciated.

This survey intends to gather information that will provide thorough understanding of the internal audit and their role in the organization. The reliable source of data gathered will be useful in improving the effectiveness of internal audit in the organization corporate governance. Your opinions, attitudes and preference are crucial to this study, and will be kept strictly confidential.

I assure you that your response will remain confidential and for the purpose of this research only. (Please do not write your name in this sheet).

I thank you in advance for cooperation.

Questionnaires.

Introductory questionnaires

(Please circle in the appropriate answer)

What is your sex?

Male

Female

What is your age group?

Less than 30

More than 30 less than 45 years

More than 45

What is your job title? (Please mention)

.....

What is your academic qualification? (Circle the appropriate answer/answers)

Diploma

Bachelor degree/advanced diploma

Bachelor degree

Masters

Please indicate your professional qualification? (Circle the appropriate answer/answers)

CPA

ACCA

CIMA

CISA

INVESTIGATIVE QUESTIONNEIRS

How long have you been serving VETA? (Circle the appropriate answer)

0 to 3 years

4 to 10 years

Over 10 years

What is your department? (Circle the appropriate answer/answers)

Internal audit

Procurement and finance department

Other department.

What are your main activities in the organization?(Please mention)

.....
.....
.....
.....
.....
.....
.....

What are the functions of the audit department?

.....
.....
.....

How does the internal audit help the board in it corporate governance.

.....
.....
.....
.....
.....

FOR INTERNAL AUDIT STAFF ONLY

Of the mentioned activities above, which one of them relates directly with enhancement of corporate governance?

.....
.....
.....
.....
.....

In your own opinion do you think the organization gives you enough chance to play as consultancy? (Circe the appropriate answer)

Yes

No

To what extend do you think the management positively consumes the consulting role that you play in the organization. (Circe the appropriate answer/answers)

Very good

Good

Poor

Very good

Does the organization have the audit committee? (Circe the appropriate answer)

Yes

No

Do you have a right to report direct to the audit committee? (Circe the appropriate answer)

Yes

No

If yes, how many times in a year do you have a chance to meet with audit committee in absence of management? (Circe the appropriate answer)

Once a year

Twice a year

Thrice a year

More than thrice a year.

Where do you report to? (Circe the appropriate answer)

Managing director

Audit commit

To both

In your opinion are you comfortable with the reporting line that you have? (Circe the appropriate answer)

Yes

No

If NO, what could be the best reporting line?(Please comment)

.....
.....
.....

Do you have annual audit plan. (Circe the appropriate answer)

Yes

No

If yes to what extend are you able to work as per your plan?(ability to complete you plan)

Less than 25%

More than 25% less than 50%

More than 50% less than 75%

More than 75%

What are other challenges that affects your performance.(Please mention)

.....
.....
.....
.....

INTERVIEW GUIDE

What is the organizations objective/corporate goal?

What role does the internal audit play in helping the organization to achieve its main objectives? Why?

Do you think that the audit function is delivering as expected? why?

In your opinion do you think the internal audit is given enough support? In what areas?

What are the challenges that you face while working with Internal Audit function?

Appendix 3 - BAC report format

1. Executive Summary

- Bullet point key issues contained in the body of report
- Keep to maximum of 5-6 bullets

2. IA Activity Report

2.1 Criteria for materiality

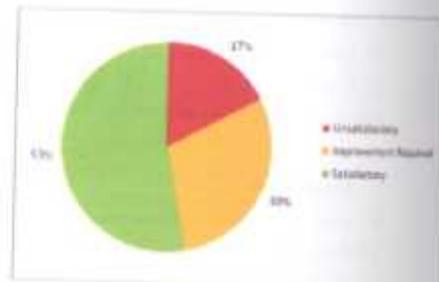
2.2 Audit Findings

Key bullets to summarise;

- Number of reports issued since last Audit Committee report - reference appendix where complete plan shown with status and, where appropriate, rating ('Audit Plan Status').
- Reference to graphic showing % of rating year to date - i.e. In April/May, this will show all reports for the year. Use colour code as shown.
- As you build up comparable data, reference to previous years and any trend in ratings (e.g. % unsatisfactory reducing, etc.)

2.3 Key Audit Reports

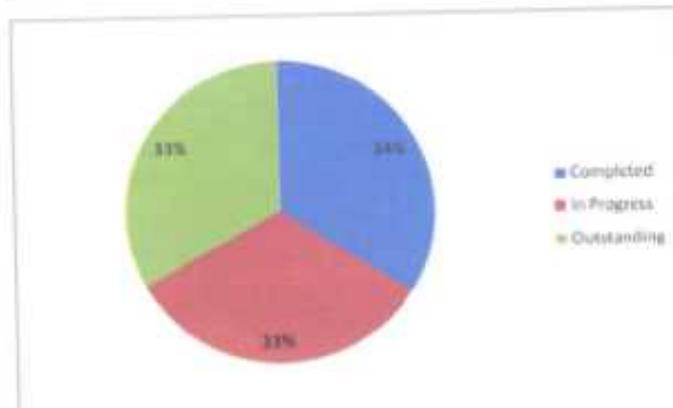
The following table summarises audit work completed, key findings and agreed management actions:



Audit/ scope	Overall rating	Key findings	Agreed actions
Zone office A	Unsatisfactory	<ul style="list-style-type: none"> • Poor adherence to company policies and procedures-insufficient stocktaking controls and significant stock variances remain unexplained. 	Full stock take scheduled in November 2010, followed by new process for counting and management checking.
Microsoft Exchange audit- IT security review	Unsatisfactory	<ul style="list-style-type: none"> • Excessive number of users with administrator access -allowing them to view and modify all company email. • Lack of updated security patches exposing servers to security risks. 	Management and third party administrator took immediate action to limit administrator access, action plans agreed for other issues for completion by December 2010.
Indirect procurement	Requires improvement		
Cash	Satisfactory		

VICTA Internal Audit Methodology Manual, 2010

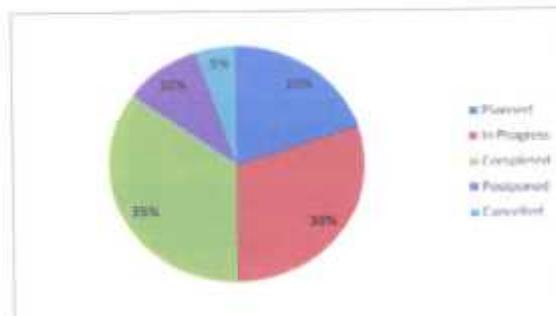
4 Follow Up Tracking



	Completed	In Progress	Outstanding
HIGH	4	0	0
MEDIUM	2	2	1
LOW	1	4	6

- Narrative description of any previously unsatisfactory reports physically followed up-overview of latest findings.
- Narrative outlining process used for follow up tracking (i.e. management self certification/ confirmation of status and/ or extent of audit verification).
- Key statistics on number of reports and corresponding actions followed up and status reported on.
- Reference to graphic summarising % actions complete, etc.
- Further analysis of actions as required re: H/M/L categories
- Note any escalation/ management explanations on issues not completed to agreed timetable.
- Comment on any significant actions cancelled.

2.5 IA Activity Report-Audit/ Progress against plan



- References tables in appendix where complete plan replicated in each report
- Where new plan presented for BAC approval, include narrative as to how plan was derived and highlight time allocated to management requests
- Narrative on status of work against plan, highlighting:
 - Any changes made since last report (and rationale for changes)
 - Any concerns in respect of timely completion of annual plan

3. IA Resources and Performance

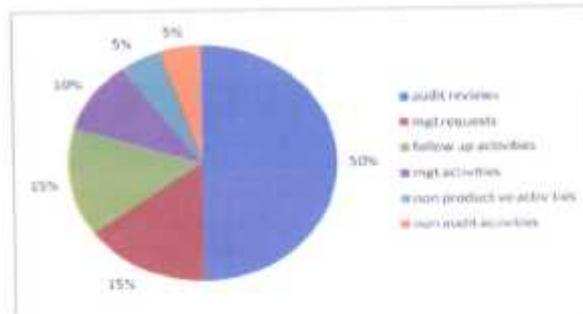
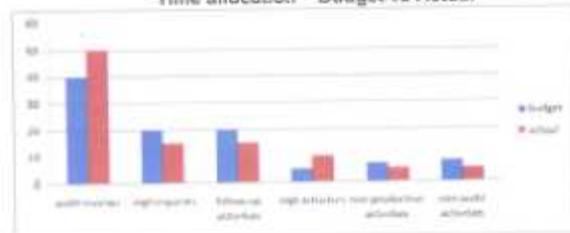
3.1 Resources / Staffing

- Bullet point narrative on key resources issues i.e. joiner and leaves, vacant positions, etc. More detail for VIA report in respect of recruitment, induction for new joiners and management of vacant positions.
- Impact of any vacancies to be clarified, particularly if likely to impact ability to complete agreed audit plan.
- Any co-sourcing arrangements/ contracts tendered and agreed noted here

3.2 IA Performance

- % audit plan complete, cross-referenced to audit plan and status summary in appendix.
- Budget and actual spend information.
- Summary results from customer feedback (scores and narrative, as available).
- End of your detailed analysis of time allocation against planned i.e include man day variations and outturn% time split (show as graphic).

Time allocation – Budget vs Actual



VETA Internal Audit Methodology Manual, 2016

3.3 Projects and other Activities

Section to update board on key projects including

- Status of VIA methodology implementation
- Other projects handled by VIA
- Include information on skills gaps and plans to develop skills for the audit team
- Note any independence conflict of interest or issues in respect to scope limitations.

4. Appendices

4.1 Audit risk assessment

Attach the audit risk assessment (only for the meeting that approves the annual audit plan)

4.2 Audit plan

Attach the annual audit plan (only for the meeting that approves the annual audit plan)

4.3 Audit plan status

Attach the annual audit plan status (for all meetings except the meeting that approves the annual audit plan)

4.4 Unsatisfactory audit reports

Attach the all unsatisfactory reports as they are.

