

**ASSESSMENT OF THE EFFECTIVENESS OF THE OF INTERNAL
AUDIT UNIT IN THE LOCAL GOVERNMENT AUTHORITIES:
THE CASE STUDY OF RUANGWA DISTRICT COUNCIL**

**By
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**A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of
Degree of Master of Science in Accounting and Finance (MSc-A&F) of Mzumbe
University.**

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled “Assessment of the Effectiveness of the of Internal Audit Unit in the Local Government Authorities: The Case Study of Ruangwa District Council, in partial fulfillment of the requirements for award of the degree of Master of Science in Accounting and Finance (MSc-A & F) of Mzumbe University.

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I, **Kalalula, Jumanne M**, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

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May God continue blessing them on their day to day activities.

DEDICATION

This research is dedicated to my entire family, my children, sons, Muyonga, Benjamin and Eliah and my daughter Nyamizi. I thank God for what I went through for all two years of my studies, their efforts and encouragement is highly appreciated with all my love. Without forgetting my young brother Christopher Kaggusi, he was the one who has encouraged me not to retreat nor surrender in any circumstance.

LIST OF ABBREVIATIONS AND ACRONYMS

AC	-	Audit Committee
ACFE	-	Association of Certified Fraud Examiners
BoT	-	Bank of Tanzania
CAG	-	Controller and Auditor General
CIA	-	Certified Internal Auditor
DDC	-	District Development Council
DDD	-	District Development Director
DED	-	District Executive Director
DIA	-	District Internal Auditor
DT	-	District Treasurer
HoD	-	Head of Departments
IAF	-	Internal Audit Function
IAGD	-	Internal Audit Generals' Division
IAU	-	Internal Audit Unit
IFRS	-	International Financial Reporting Standards
IIA	-	Institute of Internal Auditors
INTOSAI	-	International Organization of Supreme Audit Institutions
IPPF	-	International Professional Practices Framework
IPSAS	-	International Public Sector Accounting Standards
ISA	-	International Standards on Auditing
LAAC	-	Local Authority Accounting Committee
LAAM	-	Local Authority Accounting Manual
LAFM	-	Local Authority Financial Memorandum
LGAs	-	Local Government Authorities
LGDG	-	Local Government Development Grant
LGCDG	-	Local Government Capital Development Grant
LGFA	-	Local Government Finances Act
LGRP	-	Local Government Reform Programme
NAO	-	National Audit Office
NBAA	-	National Board of Accountants and Auditors

PFA	-	Public Finance Act
RDC	-	Ruangwa District Council
RDD	-	Regional Development Director
SAS	-	Statement on Auditing Standards
URT	-	United Republic of Tanzania
VFM	-	Value for Money
WSDP	-	Water Sector Development Program

ABSTRACT

The role of public sector internal auditors include providing assurance and consulting services that specific legislation, standards, procedures and regulations are being adhered by the public organization (s) and to evaluate the financial statements to determine whether they fairly present the financial position of the unit being audited. Providing assurance is the core contribution of the internal audit activity to risk management. The internal auditor typically provides assurance on:

Risk management processes, including their design and how well they are working,
Management of key risks, including the effectiveness of the controls and other activities and reliable and appropriate assessment of risks and reporting of risk and control status

The internal audit may also provide consulting services that improve organizational risk management and control processes.

The main objective of the study was to assess the effectiveness of the availability of internal audit unit in the local government authorities in financial management system of the LGAs, find and whether the internal audit has fulfilled the purpose for its establishment and to establish strength, weaknesses, opportunities and threats if any. Having evaluated the above situation, the study came up with viable recommendations for improving the auditing system.

The statistical summary of responses result indicates that, by making use of detail questionnaire and interviews, there are no sufficient and highly skilled staffs, 80 percent, no effort is made to integrate and coordinate audit evolution activities, 80 percent and to develop and implement appropriate framework to measure internal audit performance, 90 percent.

The study further showed that Ruangwa District council has audit committee; respondents still don't believe that the audit committee has the right possession of knowledge, experience and representation of major stakeholders. Technology as a tool for auditing is almost not used, 98 percent, budget for IAU (own source) is also not allocated, 80 percent and it is not common to out-source or co-source for audit services, 100 percent when staff lacks knowledge in the audit area. On the basis of these findings

the researcher made the following recommendations to internal audit unit and management, to Management; various training to internal auditors as per requirements, Implementations of various recommendation found in audit reports and Sufficient funding to IAU.

On the other hand to Internal Auditors; managing the internal audit activity, unrestricted access, stakeholders support to IAU and availability of an audit manual to the whole organization.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND INFORMATION

1.1 Introduction

1.1.1 Historical Background

Local Government Authorities are the local government established in accordance with the local Government (District Authorities) Act no 7 1982 and the Local Government (Urban Authorities) Act no 7 of 1982. Hence, these were the results of various transformations and restructuring of local government system since the United Republic of Tanzania's independence in 1961. Post independence local government had gone through various reforms. The first phase was decentralization under decentralization of government administration (Interim Provisions) Act of 1972 under which the registration replaced popularly elected local authorities with appointed committees composed dominantly of government functionaries. Secondly, local governments authorized were abolished, District Development Councils (DDCs), Regional and district development Committees were established and the President was empowered to appoint Regional development directors (RDDs) for the regions and District Development Directors (DDD) for districts. The act empowered the district councils to establish development and planning committees and any other committees deemed necessary for the time. The main functions of the council and their respective committees were to establish and discuss policies. Lastly, as a result of second phase conflict of interests between RDDs and local authorities, Shirima et al (1990) says that the government entered into Local Government Reform Programme (LGRP) which started early in 1999.

1.1.2 Main Objectives of the Reformed Local Government Authority

The Government of Tanzania, recognizing the importance of local governments and the nation's cherished goal of giving power to the people to bring about their development is well stipulated in the constitution of United Republic of Tanzania (1977) chapter eight sections 145-146.

Section 145(1) states that “There shall be established local government authorities in each region, district urban area and village....” This is showing how the local authority establishment was based on.

Also section 146 (1) states that ‘the purpose of having local government authorities is to transfer the authority to the people.’ Local government shall have the right and power to participate, and involve people, in the planning and implementing of development programmes within their respective areas and generally throughout the country.

On the other hand sub article 2 states that ‘without prejudice to the generality (1) of this article, a local government authority in conformity with the provisions of law establishing it, shall have the following functions:

- a) To perform the functions of the local government within its areas;
- b) To ensure the enforcement of law and public safety of the people; and
- c) To consolidate democracy within its area and to apply it to accelerate the development of the people (URT Constitution 1972 Chapter eight).

On the other hand LGAs have the responsibility of raising revenues from their own sources; passing various by laws to enforce the execution of their decisions regarding development; and engage staff required to carry out the technical development functions (Local Government Laws Act No 7 and 8 of 1982).

1.2 The Study

The subject of this research was the assessment of the effectiveness of the availability of internal audit unit in the local government authorities in financial management. From this subject a number of areas were covered in detail, which included the theory behind audits and other control bodies which promotes public sector accountability through good corporate governance, effective risk management and transparency in government operations in fulfilling the pre-set objectives.

The basis of this research was on the premise that internal auditors have an important role to play in today’s complex world and the consequent increasing need for accountability demanded of governments and Local Government Authorities. These

demands are forcing public sector auditors to continuously adapt to new situations for their survival and prosperity.

The focus of this study was at Ruangwa District Council with a specific population, district treasurer, accounts staff, executive directors, heads of departments and internal auditors, due to resources available in terms of time, financial and human.

This is the subject area, which is open for other researchers to go further on researching.

1.2.1 The Organization

Ruangwa District Council is among six councils of Lindi Region, others are Lindi Municipal, Kilwa, Liwale, Nachingwea and Lindi District Councils. It is located at 9⁰5'-10⁰ 3'S and 38⁰5'- 39⁰5' E, about 148 km from Lindi Municipal Council, which is the city centre of the region and a total surface area of 2560 km² (District Profile).

The climate of Ruangwa urban is more or less the same as that of the whole district. The temperature ranges from 24^oc to 34^oc during hot season with an average of 26^oc per annum.

Ruangwa urban is hilly with generally flat land towards the west to Liugulu and Lipande area. The altitude is between 250-420m above sea level and the altitude for the whole district is 313m -549 with an Average of 450m above sea level.

1.3 Background to the Study

1.3.1 Introduction

Effective Internal Audit is essential to achieving sound financial control of polices, programmes and projects and so delivering decisions on time and within the approved budget (Budget of 2010/2011) without it, it is hard to see how any department could, with confidence, make the pragmatic decisions that are needed to deliver services to the standard that the public expects.

An effective internal auditing in government and its agencies is of vital importance as it gives assurance that public resources are properly managed. Public funds are intended to

bring developments as they are taxpayer's money. Financial management is a broad term which refers to how public authorities and agencies plan, implement and control financial resources.

Local Governments have to show the public that resources, financial or otherwise collected from the public or central government are utilized in accordance with the rules, regulation, laws and guidelines and only for purposes for which they were voted for and that they have achieved maximum possible benefits.

Local Government Authorities (LGAs) In Tanzania exist for the purposes of consolidating and giving more power to the people to completely participate in the planning and implementation of the development programmes within their respective areas and generally throughout the country. All LGAs are mandated to play two main functions of administration: law and order; and economic and development planning in their respective areas of jurisdiction.

Local Government Authorities (LGAs) have a wide range of responsibilities for the provision of essential services and good government for the citizens of their localities.

In order to carry out these responsibilities, they have to collect funds from the public through taxes, licenses, fees, charges etc. They mobilize various sources of revenue from their own resources. They also get government grants or subventions to run various services delegated to them by the central government. These funds should not only be used properly but they must also be accounted for.

In accordance with Section 45 (1) of the Local Government Finances Act No 9 of 1982, the council shall employ its own internal auditor who shall work closely with the treasurer, but shall report directly to the director although currently, Ministry of Finance tends to conduct employment for both Accountants and Internal auditors.

The Internal Auditor, under the control and direction of the director, shall be responsible for carrying out a review of financial records and the council to ensure that the interest of the council are protected. Review precludes the auditor from being involved in any line management function such as checking of payment vouchers prior to payment.

Officers engaged in internal audit should prepare and submit dated reports direct to the director for action and onward transmission to finance committee.

The internal auditors should keep a register of all relevant work, showing dates of fieldwork, the date of final report, date and nature of the responses received and an indication of proposed follow-up activity. Such registers shall be made available to the controller and Auditor General upon request.

The government sees that there are major problems in management of funds in the council especially on efficiency, economy, effectiveness and accountability in the management of government funds in the councils.

1.3.2 Measures on Ineffectiveness of Internal Auditing in LGAs

Due to several reasons applicable to each individual council audited, External Auditors tends to be unable to obtain full access and/or information and explanations which he considered necessary in forming an opinion. More specifically, the following situations arise as measure of ineffectiveness Control of the Internal Auditors;

- i) Un availability of the payment vouchers
- ii) Un availability of delivery notes on goods/services procured
- iii) Absence of proper supporting documents on various payments made
- iv) Un availability of revenue books (Hw₅) for audit verification
- v) Un availability of asset register
- vi) Lack of proper supporting documents on various payments initiated.
- vii) In completion of development projects.

Due to disagreements in best practice on records keeping and non compliance with public finance Act and other regulations, among the reasons that compelled the external Auditors to be in disagreement with the internal control as the basic of the basis of the records keeping during the finance year of 2009/2010, 2010/2011 and 2011/2012 includes;

- i) Unrecorded assets in registers.
- ii) Stores not taken on ledger charge.
- iii) Undisclosed bank balance in the books of accounts.

- iv) Improperly vouched transactions.
- v) Unvouched expenditures.
- vi) Omissions, inaccuracy and incompleteness of accountancy record.
- vii) Incomplete bank reconciliations.
- viii) Development projects not completed.

The situation is still alarming according to the Controller and Auditor General's report of year 2005/2006 publicized in April, 2007, which shows serious problems in managing funds, the situation is even worse in district councils. Due to this situation, the honorable president Jakaya Mrisho Kikwete warned the councils, that if revealed to misuse Government funds will be abolished, during a one day meeting held at Blue Pearl hotel, Ubungo Plaza (Nipashe news paper).

This research paper will concentrated/focused on the internal audit as well as financial management of RDC.

The Local Government Reform Programmed (LGRP) was formulated and implemented by the government in order to address the problems which constrained the performance of local government authorities as mentioned above. Through the programme, the government intends strengthen local authorities and transform them to be effective instruments of social and economic development at local level. This has been addressed by the government in "A Local Government Reform Policy paper" of 1998.

1.4 Statement of the Research Problem

Regulation 33 of the Public Finance Regulation defines internal audit as "an independent appraisal activity establish within a Ministry, department or Agency or any other reporting unit which operates as a service to the head of the unity involved, of which it controls activity functions by examining and evaluating the adequacy of effectiveness of internal controls in the unit reviewed and for conducting operational/ value for money audits throughout the unit in order to ensure that proper system and internal control and accounting systems exist through the unit"

The public expects financial discipline of the local authorities through auditing so as to evaluate the efficient, effective and economic use of public funds. This can be evidenced in the BOT saga (Nipashe of 30th april, 2007, Nipashe Dar-es salaam),

Where the public expected auditors could perform their duties diligently so as to reveal the funds which were squandered through External Public Account (EPA). Failure of that brought in the expectation gap between auditors and various stakeholders. The existence on internal auditors was expected to strengthen the financial controls of the LGAs hence ending up with minimum or no financial management problems. But the situation is quite different. The aim of this study was to evaluate the effectiveness of the existence of internal audit in the LGAs in improving the performance of the financial management system.

1.5 Significance of the Study

In general, public sector auditing is a profession, and benefits from the service of this profession are through providing assurance of financial controls to the local Government Authorities. The research intended to serve various parties interested on the same (Effectiveness of the availability of the Internal audit unit in the Local Government Authorities (LGAs) in Financial Management), and other related fields in business studies. Hence, Parties including the council itself, students, the University (Mzumbe), the government and other interested parties benefited from it.

1.5.1 The Council (RDC)

Ruangwa District Council benefited on this study by further improving auditing techniques, which supplement the current situation of auditing, thus minimizing the gap currently existing between what stakeholders expect from the auditors and what auditors is actually offering.

1.5.2 Central Government

The Central Government also will benefit on this study by the way of high level dynamism of the contemporary environment, the rapid changing of technology(especially information technology), the high level awareness of people etc, people are now demanding for more accountability and openness/transparency from

government at all levels. From these forces, it is obvious that even the public sector auditors are also being affected, hence there is need for research in order to come up with an audit framework that complement the existing ones if it is to remain relevant and effective in discharging its duties.

1.5.3 The University (Mzumbe)

The university benefited on this study by appreciation for the competence of the student as the sample of the quality training of the professions offered by the University.

1.5.4 The Student

The student benefited on this study in several manner, these are as follows:

- i) The student understood the working ethics and code of conduct to the public servants.
- ii) Helped the student to gain the general knowledge of the LGAs at large.
- iii) Enables the researcher to link the gap between the theory and the practical.
- iv) Further, although there had been a lot of research on auditing, but little if not at all has been done in the area or impact of internal auditing on LGAs financial management with the aim of promoting the national welfare. The research intended to provide a framework that can be applied by the public sector auditors to serve their clients better and the society as a whole.
- v) In addition, this study assisted in improving the effectiveness of local authorities by describing good practice used in the government and by identifying common opportunity of the improvement. Hence this assisted regulators to set up guidelines that are more effective, in ensuring that local authorities are properly operating in efficiency and effective manner.
- vi) The study is a partial fulfillment for the award of a Master of Science degree in Accounting and Finance of Mzumbe University.

1.6 Objective of the Study

1.6.1 General Objective

The main objective of the study was to assess the effectiveness of the internal auditing in improving the financial management system of the LGAs, find out whether the audits has attained the purpose for its establishment and to establish constraints (if any). Having evaluated the above situation, the study came up with viable recommendations for improving the audit system (Techniques, Approach and Methodology)

1.6.2 Specific Objectives

The study attained the following specific objectives:-

- i) To establish the importance of internal audit and its contribution in improving financial management of the LGAs.
- ii) To establish a framework for carrying out internal audit in the LGAs, that allowed continuous improvement of the financial management.
- iii) To establish a framework for carrying out both internal and External audits in public sector, and gather data from research on ways of improving quality of public sector audit which ultimately narrow/eliminate the audit expectation gap.

1.7 Research Questions

Bearing the objectives of this research in mind, the literature search and empirical research, therefore, this study is aiming at providing answers to the following questions:

- i) Has the internal audit unit achieved the reason for which it was established?
- ii) Does the internal Audit unit have full independence in performing its day to day duties?
- iii) Does the LGAs management use accurate, reliable, timely and useful internal audit information properly for decision making?
- iv) Do the internal auditors have the required competence in performing their audit assignment?

1.8 Scope of the Study

The scope of this research was broad and attempts to assess the effectiveness of the IAU in improving the performance of the LGAs financial management systems. For this, the research was limited to one district of Lindi region, therefore the research concentrated only at Ruangwa District Council and internal audit was considered as a study unit. As a result, it is not easy to conclude that the findings of this research can be equally applicable to the private sector.

In connection to this limitation, it is possible to carry out further research how the issues look like in the private sector. So that, comprehensive conclusion can be drawn about the role of the profession it can play in any form of organization across different organizational ownership types.

1.9 Limitations and Delimitations of the Study

Regarding to the subject in question the research conducted at Ruangwa District Council, the researcher faced some limitations and further on other side Delimitate those factors so as to come up with evidences and clear seen. Therefore the following are limiting and delimiting factors when the research was conducted.

1.9.1 Limitations of the Study

1.9.1.1 Time Resources

The period allocated on data collection was not enough to rotate in all section within the finance department and perform accordingly; as a result conclusion was arrived at by relying on limited data obtained from the organization.

1.9.1.2 Financial Resources

Funds that was provided to conduct the research was not adequately enough to cover all costs associated with the study and enabling the researcher to acquire all the relevant information.

A financial Resources constraint is likely to limit the researcher to find or exhaust all relevant information.

1.9.1.3 Non Availability of Data

Some respondents were reluctant on providing some data which were required by the researcher. Sometimes the responses to questionnaires were negative and some data were accessed by authorized person only.

1.9.2 Delimitations of the Problem

1.9.2.1 Time Problem

Due to time limit, most of the respondents were not easy to meet the required dead line of submitting information; hence some respondents were being interviewed.

1.9.2.2 Availability of Data Problem

However, other interviewees who seemed reluctant to respond to the questionnaires were also interviewed.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Whatever we want to perform, be it in form of project implementation, production of goods and services will need resources of either material or human nature. In whatever form it might be, one cannot avoid a need of financial resource. Finance can be said to be the “hub” or “blood” of any business organization, government institution, Public or private business (ACCA 2003). It is perceived in this research that the finance (blood) needs to be processed through the effective financial management system (the hearts) to enable the LGAs (the body) to function properly in holistic (the region/nation).

This Chapter is among the critical of this research. It reviews facts about the subject matter on the contribution of internal auditor to effectiveness use of economic resources. Furthermore, it enables the readers and researcher on the understanding of the information and existing knowledge on the problem.

The study used various literature works to get different ideas of the problem in hand. Sometimes study consulted books; journals/periodicals, newspaper and to found out how or what others tried to depict the problem in hand.

The review of professional auditing literature included a wide range of articles pertaining to auditing ethics and governance. The profession could benefit from further sharing of audit approaches, methodologies, and experiences to assist practitioners in complying with Standards.

2.2 Financial Management

Financial management merely means managing the finance of an organization. An organization normally has financial resources in form of investments and as for local authorities; these would include provision of quality services to the public and long term investment or projects. These activities require facilities for running them, for example premises and other equipment. Also organization should answer the question of financing aspect of its activities. It arise the issue of operational financial aspect of the activities. In this aspect, an organization needs to meet its day to day financial

obligations as well as managing the incoming resources. This kind of financial management is referred to as working capital management: it involves managing short term financial obligations (Mayne, 2002).

It was recognized many years ago that whenever a fiduciary relationship with financial implications existed there were a need for an outsider with sufficient independence and objectivity to review the accounts of stewardship and to express an opinion as to their honesty or otherwise. A fiduciary relationship is a relationship of 'good faith' such as that between directors and share holders (ACCA 2003).

Modern auditing has developed since the concept of a company as separate legal entity came into existence in the later nineteenth century. This led to separation of ownership from management and consequent need to safeguard the interest of the owners, who in all but the smallest of the businesses (where shareholders and directors were one and the same) were not involved in the day decisions made by the management. (Mill champ 2002).

According to Chambers (1981) the developing scope of internal audit has led to number of problems, many of which have been completely resolved. Internal auditor should be proved independent and continuing appraising of an organization's internal control system and take action to provide accountable polices which will continue assuring that the organization internal control system to safeguard economic resources are adequate and effective. It is the responsibility of the management to make sure that internal control system in their own area exists for proper use of economic resources.

Internal auditor reviews the reliability and integrity of information, compliance with polices and regulations, the safeguarding of assets, the economical and efficient use of resources and established operational goals and objectives.

Internal audits encompass financial activities and operations including systems, production, engineering, marketing and human resources. Internal auditor plays a crucial role in internal control assessment of economic resources in an organization.

2.2.1 Effective Financial Management Control System

Any control system intends to ensure that the intended objectives or targets of an activity are fulfilled. This implies that financial management control system should target to achieve the financial goals of an organization.

The tools for financial management control include planning and budgeting, proper record keeping, good information system, quality staff, as well as reporting and accountability mechanism.

2.3 Financial Operations in Tanzania Local Authorities

It is clear that any local Government activities have financial implications. They involve activities like budgeting and planning, auditing and internal controls, accounting and bookkeeping etc.

The objective of local government in performing their functions is to give effect to the meaningful decentralization; to promote participatory and democratic decision making ; and to provide local government services in an efficient cost-effective manner (Local government Act).

Local Government revenue sources are specified in the Act. According to the Act Local Government essential depends on four sources for financial resources: own revenues, shared revenues, inter governmental grants from the central government, and donor funds. Moreover, the local Government Act 1982 specifically authorizes local government to receive gifts, including resources donated by donor agencies and non-government organization.

2.3.1 Attributes of Highly Effective Internal Auditors.

As the evolution of the internal audit function accelerates, the portfolio of skills and attributes that determine professional success transform.

Technical skills remain absolutely necessary, but they are no longer sufficient on their own. The most effective internal auditor of the future possesses a broad range of non-technical attributes in addition to deep technical expertise. Thus, at the end of the day,

we are not paid by the audit report or by the audit finding. We are paid by how we can make the organization better.

Seven Secrets of success:

- i) Integrity
- ii) Relationship – Building
- iii) Partnering
- iv) Communications
- v) Team work
- vi) Diversity
- vii) Continuous Learning.

Auditors were being able to deliver quality services where the following hold true:

- i) The objectives are clear.
- ii) What is expected of them is made clear.
- iii) The standards of performance are made clear.
- iv) They have the ability to perform to requisite standards.
- v) They are motivated to do so.
- vi) Management removes any barriers to performance.
- vii) Required resources are made available.

There is an unstated assumption that auditor has the right attributes to perform to the requisite standards. This can only arise where audit management has defined those attributes so that recruitment and development program's can be directed towards them. If this definition has not been carried out then, it becomes guesswork. At worst, auditors may guess wrongly and behave in an inappropriate way because this is what they assume is required.

2.3.2 The Scope of Internal Auditing

Internal audit is an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economic and effective use of resources.

The scope of internal auditing within an organisation is broad and may involve topics such as

- i) The efficiency of operations,
- ii) The reliability of financial reporting
- iii) Deterring and investigating fraud,
- iv) Safeguarding assets, and
- v) Compliance with laws and regulations

Internal auditing frequently involves measuring compliance with the entity's policies and procedures. However, internal auditors are not responsible for the execution of organization activities; they advise management and the Board of Directors (or similar oversight body) regarding how to better execute their responsibilities. As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds.

To achieve full effectiveness the scope of the internal audit function should provide an unrestricted range of coverage of the organization's operations, and the internal auditor should have sufficient authority to allow him / her access to such records, assets and personnel as are necessary for proper fulfillment of his responsibilities.

It is a management responsibility to determine the extent control in the organization's systems which should not depend on internal audit as a substitute for effective controls. Internal audit, as a service to the organization, contributes to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness. Internal audit activity may lead to the strengthening of internal control as a result of management response.

One of the objectives of internal auditing is to assist management in the pursuit of value for money. This is achieved through economic, efficient and effective use of resources.

It is a management responsibility to maintain the internal control system and to ensure that the organization's resources are properly applied in the manner and on the activities intended. This includes responsibility for the prevention and detection of fraud and other illegal acts.

The internal auditor should have regard to the possibility of such malpractice and should seek to identify serious defects in internal control which might permit the occurrence of such an event.

The essentials for effective internal auditing are:

i) Independence

The internal auditor should have the independence in terms of organizational status and personal objectivity which permits the proper performance of his duties.

ii) Staffing and training

The internal audit unit should be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives. The internal auditor should be properly trained to fulfill all his responsibilities.

iii) Relationships

The internal auditor should seek to foster constructive working relationship and mutual understanding with management, with external auditors, with any other review agencies and, where one exist, the audit committee.

iv) Due care

The internal auditor should exercise due care in fulfilling his responsibilities

v) Planning, controlling and recording

The internal auditor should adequately plan, control and record his work

vi) Evaluation of the internal control system

The internal auditor should identify and evaluate the organization's internal control system as a basis for reporting upon its adequacy and effectiveness.

vii) Evidence

The internal auditor should obtain sufficient, relevant and reliable evidence on which to base reasonable conclusions and recommendations.

viii) Reporting and follow-up

The internal auditor should ensure that findings, conclusions and recommendations arising from each internal audit assignment are communicated promptly to the appropriate level of management and her / he should actively seek a response. He / she should ensure that arrangements are made to follow up audit recommendations to monitor what action has been taken on them.

An internal auditor who discovers evidence of, or suspects malpractice should report firm evidence, or reasonable suspicious to the appropriate level of management. It is a management responsibility to determine what further action to take.

2.3.3 Internal Audit Independence and Objectivity

The institute of internal auditors have addresses this in attribute standard 1100, "Internal audit activity must be independent, and internal auditors must be objective in performing their work" to allow professional judgments and recommendations to be effective and impartial.

2.3.3.1 Organization Status

The internal audit service should have a sufficiently high status to enable it to function effectively. The support of management is essential. The internal audit department should determine its own priorities in consultation with the management of the entity and with the audit committee. Accordingly, the head of internal audit should have direct access to, and freedom to report, at all levels of the organization including the board of directors of the entity under audit. In a broader context, the internal audit should have the right of access to all records, assets, personnel and premises together with the authority to obtain such information and explanation, as it considers necessary, to fulfill all its responsibilities.

2.3.3.2 Objectivity

An internal auditor should have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgment, express opinion and present recommendations with impartiality. Objectivity must be maintained in fact and appearance. This will be supported by the following factors:

- i) Internal auditor, although they may be employed as salaried staff, should be free from any conflict of interest arising from either professional or personal which is subject to audit. At the time of appointment any area of actual or potential conflict which arises subsequently should also be declared.
- ii) Internal auditor should be free from undue influences which either restrict or modify the scope or conduct of their work or overrule or significantly affect judgment as to the content of the internal audit report.
- iii) Internal auditor should not allow their objectivity to be impaired when auditing an activity for which they have had authority or responsibility.
- iv) Internal auditors should be consulted about significant proposed changes in the internal control system and implementation of new systems and make recommendation on the standards of control to be applied. This need not prejudice audit objectivity in reviewing those system subsequently.
- v) Internal auditors should not have operational responsibilities outside audit. Increasingly, however, professional firms undertake additional services e.g. consultancy assignment. This additional interest should be marginal and not in any way interfere with the objectivity or the financial returns arising from the internal audit contract. Internal auditor should always be clear when they are operating as auditors, or different capacity, and act accordingly. They must ensure that the internal audit process and judgments are not influenced by considerations other than internal audit. All internal audit providers must maintain clear procedures to ensure that this is achieved.

2.3.4 Key Elements of Internal Audit

The internal audit service should be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives. The internal auditors should be properly trained to fulfill all their responsibilities.

2.3.4.1 The Structure of the IAF

The structure of the IAF varies widely in practice. For example, some IAFs have a chief audit executive (CAE) who is a member of senior management and who participates at the highest level of the parent organization, while other IAFs are managed as part of the organization's accounting or finance function. In some cases, the IAF is outsourced; co sourced, or combined with other assurance functions (e.g. security, quality, compliance; see Roth, 2000). Combining the IAF with other functions may facilitate the standards directive to "share information and coordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts".

Once the IAF determines whether to outsource and the extent to which it will partner with other assurance functions within the organization, it must assign responsibility to individuals and groups. As mentioned, some organizations appoint CAE to coordinate the work of the IAF and then report to a member of senior management, but this is not always the case.

However, the standards do require "the chief audit executive (to) report to a level within the organization that allows the internal activity to fulfill its responsibilities" (Attribute standard 1110).

The organizational level to which the CAE reports may be an indication of whose interests the CAE will ultimately serve.

In addition to determining which internal audit personnel lead the IAF and interacting with external decision-making parties, the IAF must also decide how it will assign responsibility within the function. This includes determining the appropriate span of control and the level of centralization in the IAF.

In the recent past, some IAFs experienced a period of restructuring by reducing management positions and flattening the organizational structure. These changes and other like it are designed to increase productivity, but they may cause concerns about opportunities for promotion within the IAF (though this concern may be mitigated if IAF is used as a management training ground). Further, decentralizing decision-making within the organization may increase role ambiguity because employees can become confused about their responsibilities in new roles and relationships (Gray and Gray, 1996). The size of the internal audit department heavily influences the structure of the IAF. Large IAFs are more likely to have a hierarchical management structure, with managers exercising control over specified internal auditors and audit teams. Auditors in larger organizations may have less autonomy, while auditors in smaller IAFs will likely complete a wider variety of tasks and participate in several types of engagements.

2.3.4.2 Staffing

Before hiring or beginning any type of internal audit staffing, the organization must determine its human capital strategy. Creating and defining this strategy guides the IAF in all of the staffing decisions it subsequently makes. PricewaterhouseCoopers, LLP has delineated four basic internal audit human capital models which are not necessarily mutually exclusive and which can be combined in a number of ways to create a human capital strategy.

The first human capital model is the experienced hire career model. An IAF that utilizes this model focuses on hiring or “importing” experienced personnel from within or outside the organization. These functions want to ensure that they have auditors with specialized business knowledge and skills. Internal auditing is seen as a permanent career destination.

The migration model also focuses on ensuring that the IAF is staffed with individuals who possess skills that are proven to make the IAF a successful part of the organization. While this model is not designed to automatically move personnel from the IAF to management positions, the movement of successful internal auditors into other areas of

the organization is seen as a positive sign of the IAF's ability to add value to the organization.

On the other hand, the strategy implicit in the consulting model's strategy is to recruit auditors into the IAF only to later move these individuals into other organizational functions. Under this model, the IAF consists of group of consultant auditors and another group of core auditors. Consultants are internal auditors who expect to move to other areas of the organization upon gaining valuable experience within the IAF. Core auditors remain with the IAF for an indefinite period of time. This model employs the IAF as a management training ground.

Finally, IAFs that employ the change agent model view the IAF as an integral part of the organization's human resource strategy. "Companies using this model selectively deploy talent through internal audit to create a pipeline of corporate change agents who flow continuously into business units. Here, the migration of talent to line business occurs as part of a formal corporate strategy to achieve this objective and is a primary performance metric for internal audit".

The IAF's choice of human capital strategy, consisting at least partially of a combination of the above components models, will drive the staffing decisions it makes. For instance, an IAF that utilizes the consulting model will likely attract individuals with different characteristics than will an IAF that employs the migration model.

2.3.4.3 Hiring

Hiring qualified personnel is an essential part of effectively managing an IAF. Because of the wide variety of alternative human capital strategies, industry differences, and varying knowledge and experience requirements, internal audit practitioners take different approaches in hiring to meet organizational needs. As mentioned above, some IAFs hire recent college graduates, while others take a different approach by hiring experienced business personnel. This latter approach is based on the assumption that in order to add value to the organization and to ensure that client needs are met, auditors with business experience should be brought in as a new hires. These experienced

business personnel may not have formal auditing, accounting, or financial skills, but the IAFs value the knowledge and expertise these employees bring with them. Other IAFs seek more experienced business people because of the candidates' ability to cope and deal with change. These new hires are believed to increase the level of sophistication within the IAF and set an example for the staff members who have difficulties making changes (Gray and Gray, 1996). Experienced business people can come from within or without the organization.

The institutional knowledge insiders bring may give them an advantage over outsiders; however, outsiders may bring innovative ideas from other organizations (Gray and Gray, 1996).

2.3.4.4 Training

After the IAF hires appropriate personnel, these personnel must be adequately trained to perform the work. The standards require auditors to “enhance their knowledge, skills, and other competencies through continuing professional development” (Attribute Standard 1230). Training is especially important as organizations implement new programs that are subsequently audited by the IAF.

In order to prepare auditors to add value in auditing the organization's various operating functions, auditors received in depth training in process mapping, quality management tools, business process reengineering, and just-in-time manufacturing principles (Stoner and Werner, 1995). The company adjusted training programs based on organizational changes and needs.

In many large organizations, auditors participate in formal in-house training programs. These include classroom-based training, distance learning through the internet and video conferencing, mentoring, on-the-job training, etc. in addition to these programs, some organizations cross-train auditors on the job so that they can become familiar with the entire organization. The advantages and disadvantages of such an approach have not been rigorously documented or examined.

Other companies take a more hands-off approach to training and allow employees to develop their own training programs and to seek training outside the organization. This

is especially true in smaller IAFs. In addition to using outsourced training programs, IAFs sometimes encourage auditors to seek training from professional organizations like the IIA. If auditors seek outside training, they are typically encouraged to ensure that the training meets organizational objectives and personal goals. Research can explore the alignment between organizational goals and training programs, and the various ways in which training programs are selected in various functions.

Mentoring is another tool that IAFs often use to develop and train employees. Mentoring will often take place on an informal basis as junior auditors seek advice from experienced personnel. The internal audit function may consider setting up a formal mentoring program that pairs a junior and senior auditor together. The senior auditor can guide the junior in internal auditing work as well as show her “the ropes” of the organizations (Ramamoorti et al, 1999).

Preparing employees to pass professional certification examinations is another form of training. This can be done by the IAF itself, or, as mentioned above, auditors can go outside the organization to receive this training. Many IAFs encourage employees to obtain these certifications and reimburse employees for training and test expenditures (Campbell, 2001).

In addition to training programs that are designed to provide internal auditors with the technical skills necessary to successfully perform their duties, many functions also provide their auditors with training aimed at developing management and consulting skills. This is due in part to the fact that many internal audit clients are demanding more value-added services from the IAF.

Because of the diverse background and experiences of many new hires, the IAF may find it difficult to develop a single training program that meets the needs of all of its employees.

For example, a recent college graduate with an accounting degree will have different training needs than an experienced business person. Understanding how various IAFs deal with these different needs, and evaluating the effectiveness of these different

approaches, is important for practitioners, and represent an important area to which researchers might contribute.

2.3.4.5 Leading

The success of the IAF may depend to a great extent on the leadership abilities of internal audit executives and managers. Due to the unique position of the IAF within the organization some leadership traits are likely more important than others. The IAF is a support function that exists to create real value for the parent organization. IAF leaders must have a vision of the status they want the IAF to achieve within the organization. They must then communicate this vision to internal auditors, management, and line employees (Griffen, 2002).

Other important characteristics IAF leaders must possess are integrity and ethical behavior. Without integrity, AIF leaders cannot expect their auditors to provide the organization with objective, independent assurance and consulting services. This quality lends credibility to internal auditors' work and creates a favorable "tone at the top" for the IAF. The internal auditing environment offers a variety of promising opportunities for ethics-related research.

Finally, internal audit leaders must be able to create an organizational culture within the IAF that motivates employees to create real value for the organization. In some departments, managers allow or even require subordinates to evaluate manager performance. These managers claim that upward reviews allow them to receive useful feedback and communicate their commitment to employees (Gray and Gray, 1996). Additionally, some IA managers involve staff in all meaningful decisions, allow staff to interact with company executives, encourage open communication and creativity, promote core values and ethics, and give recognition and praise for performance (Roth, 2000).

2.3.4.6 Communication

While important in any organizational context, communication is particularly important to an IAF for three reasons. First, open and detailed communication between the IAF

and the board contributes to effective organizational governance. The internal audit standards state:

“the chief audit executive should report periodically to the board and senior management on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan” (Performance Standard 2060)

Second, effective communication is essential for developing “client” relationships. Whether the IAF is serving the board, management, or some other party, it must clearly define and communicate its activities to these parties. For example, in a survey conducted by PricewaterhouseCoopers, 68 percent of the respondent said that internal auditors’ value adding activities were not communicated clearly (PricewaterhouseCoopers, 2002). Internal auditors can improve communication with their clients by providing timely feedback, holding pre-and post-engagement meetings to discuss client needs, involving business unit staff to complete various aspects of the engagement, and proactively communicating about problems that arise during the audit (Gray and Gray, 1996).

Finally, internal auditors continuously interact with each other in teams and other settings. Effective communication is needed to coordinate audit work and achieve objectives. Effective communication is particularly important as audit managers give feedback to and receive input from subordinates (Griffen, 2002).

2.3.4.7 Controlling

“Control is the regulation of organizational activities so that some targeted element of performance remains within acceptable limits” (Griffen, 2002). Although the IAF is part of the organizations control framework, it must also have its own control framework in place to monitor its compliance with its role and with other important goals and objectives. The standards indicate that, “the CAE should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness”. (Attribute Standard 1300). The Standards go on to say that the quality assurance program must monitor the IAF in two primary ways. First, the program should help the IAF add value and improve the organization’s

operations. Second, the quality program should act to help the IAF comply with the standards.

2.3.5 Consideration of the Work of Internal Auditors or Coordination

Many of the audit procedures performed by internal auditors are similar in nature to those employed by independent auditor. This raises the question of how the works of internal auditors affect the independent auditors' work. The IPPF has addressed this issue in performance standard 2050: Coordination "The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts."

The internal audit function is an important aspect of the client's control environment. Therefore, the independent auditors consider the existence and quality of an internal audit function in their assessment of the client's internal control structure. Through its contribution to internal control, the work of the internal auditors may reduce the amount of audit testing performed by the independent auditors.

Sawyer writes, "Neither form of auditing can replace the other". Without compromising either group's independence or objectivity, coordination and cooperation between internal and external auditors is prudent because of the potential to increase the economy, efficiency, and effectiveness of the total audit for the organization.

In evaluating the competence of the internal auditors, the independent auditors consider the following:

- i) Education level
- ii) Professional experience
- iii) Professional certifications of the internal audit staff.

They also investigate the internal auditors

- i) Policies and procedures
- ii) Programs

- iii) Working papers
- iv) Reports
- v) Acts and regulations
- vi) Standards and guidelines
- vii) Risk management
- viii) Control frameworks
- ix) Performance information's
- x) Industry best practices.
- xi) Guidance provided by recognized bodies of experts.

After evaluating the competence and objectivity of the internal auditors, the independent auditors evaluate and test their work. This evaluation includes a review of the internal auditor's work, and quality of their programs and reports. This investigation and evaluation provides the independent auditors with a sound basis for determining the extent to which the work of the internal auditors allows them to limit their audit procedures.

2.3.6 Internal Auditor's Role in Detection of Fraud

2.3.6.1 Special Considerations for Detecting and Investigating Fraud

Fraud is an area where the services of outside experts are often retained. Implementation standard 1210.A2 (Assurance engagements), "Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organizations, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud".

Consideration must be given during the planning phase to the potential for fraud in the proposed area of inquiry. While internal auditors are not expected to be experts in fraud, they are expected to understand enough about internal controls to identify opportunities for fraud. They should also understand fraud schemes and scenarios as well as be aware of the signs that point to fraud and how to prevent them.

Internal auditors may gain this knowledge through training, certification programs, experiences, and self-study.

Being internal auditor's works as a tool for management, again when it comes to the scope and objective of internal auditing it has been found that "the objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities, by furnishing them with analysis, appraising, recommendations and pertinent comments concerning activities reviewed.

2.3.6.2 Fraud Risk

All organizations are exposed to a degree of fraud risk in any process where human inputs are required. The degree to which an organization is exposed relates to the frauds risks inherent in the business, the extent to which effective internal controls are present either to prevent or detect fraud, and the honesty and integrity of those involved in the process.

Fraud risk is the probability that fraud will occur and the potential severity or consequences to the organization when it occurs. The probability of a fraudulent activity is based, typically, on how easy it is to commit fraud, the motivation factors leading to fraud, and the company's fraud history.

2.3.6.3 Fraud Triangle

Understanding why people commit fraud is important in preventing it. The fraud triangle is a widely-used convention to explain why people commit fraud. The basic elements are:

- i) Motive – the reason why an individual acts or reacts.
- ii) Opportunity – the favorable circumstances that allows the individuals to commit fraud.
- iii) Rationalization – how the individual justifies the fraudulent actions.

2.3.6.4 Fraud Red Flags

An internal auditor also needs to understand fraud indicators – signs that indicate both the inadequacy of controls in place to deter fraud and the possibility that some perpetrator has already overcome these weak or absent controls to commit fraud. Such indicators are referred to as “red flags”. Fraud red flags may surface at any stage of the internal audit. Red flags are only warning signs; they are not proof that fraud has been committed. However, they serve an important function during planning to direct the internal auditor’s attention to questionable areas and / or activities. Identification of red flags directs the scope of current and subsequent audit steps until sufficient evidence is gathered to form an objective conclusion regarding the existence of fraud. The occurrence of red flags combined with other corroborating audit evidence provides an effective detection technique.

There are several general tenets that apply in fraud detection. Consider these examples

- i) A good system of internal controls is likely to expose irregularities perpetrated by a single individual without the aid of others.
- ii) A group has better chance of perpetrating fraud than does a single individual
- iii) Management can often override controls, singularly or in groups.

2.3.7 Fraud Investigations

The IIA define Fraud as, “Any illegal act characterized by deceit, concealment or violation of trust. These acts are not dependent upon the application of threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage” (IPPF standard glossary)

While the ACFE define occupational fraud as: The use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.

Fraud can develop where an innocent error has gone undetected so that the ability to breach a system's security becomes evident. Once a staff member spots a system weakness, it can be used to perpetrate fraud. This weakness may consist of unclear procedure covering access privileges to a computerized system where there is little distinction between authorized and unauthorized work. Some argue that this equation is important.

2.4 Essential Features of Public Sector

Before researching on audit in public sector, it is essential to start by briefly analyzing some essential features of public sector, which include corporate governance, risk management, accountability and transparency.

Commonwealth of Australia (2000) points out that sound corporate governance framework in public sector assist among other things, to achieve corporate objectives, identify and manage risk, promote high ethical standards, ensure roles and accountabilities are clear to provide relevant and timely information to appropriate people and meet emerging benchmarks for internal control. The essential features of public sector in more details are as here below:

2.4.1 Public Sector-Corporate Governance

There are various definitions of governance in the business world. Internal auditors are fortunate in that they can go by the book, the Red book, when defining governance and their role in highly sensitive area.

The IIA's International Professional Practices Framework (IPPF) defines governance as "the combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives.

The IPPF spells out internal audit's role in standard 2110: Governance. Basically, internal auditors are responsible for assessing whether governance structures and processes are designed and operating effectively. Additionally, internal audit adds value by providing advice on potentially improvements to these structures and processes.

Corporate governance in public sector is sometimes referred to, as ‘good Government governance (Kinemo, 2003). Corporate governance is strongly linked to all other features in public sector administration, which are risk management, accountability, transparency etc. corporate governance in public sector refers to the process by which organizations are directed, controlled, controlled and held to account. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in the organization.

The concept of governance is well grounded in the standards but has evolved from previous versions where governance was related to the primary objectives of internal control. Stakeholder expectations related to the roles of Internal Audit in assessing and making recommendations on governance have increased and various organizations are at different points in governance maturity as they have different auditing practices and needs.

Governance, risk management and internal control are interrelated; effective organizational governance involves a partnership between the governing body, executive management, internal auditing and external auditing. When these partnerships are working well together, internal controls are strong which also translates to a climate of ethical behavior and oversight, mitigation of risks, safeguarding of assets, and accurate reporting.

A periodic evaluation of and organization’s governance practices is good business.

Additional work in the governance area may be necessary to fully comply with the Standard and to meet the needs of the organization. According to IPPF the standards, “the Internal Auditor must evaluate the design, implementation and effectiveness of the organization’s ethics related objectives programs and activities and must also assess whether the information technology governance of the organization supports the organization’s strategies and objectives”

The fundamental principle are openness, integrity and accountability, related to corporate governance, is the public governance in which all parties have a responsibility to operate within the law and manage public resources with prudence, probity, and with

due regard to economy, efficiency and effectiveness. They must also account for the way resources have been used.

2.4.2 Enterprise Risk

Enterprise risk management is a structured and coordinated entity wide governance approach to identify, quantify, respond to, and monitor the consequences of potential events. Implemented by management, ERM is evaluated by the internal auditors for effectiveness and efficiency.

The practice of managing risk, which is a key element of governance, traditionally has been within individual business units and or/ parts of business units; and to a lesser extent across the organization. Enterprise risk management (ERM) takes a broader portfolio approach and deals with risks and opportunities affecting the creation or preservation of organizational value.

Enterprise risk management is defined as a process, effected by an entity board of directors, management, and other personnel applied in a strategy setting and across the enterprise; designed to identify potential events that may affect the entity; and manage risk to be within its risk appetite to provide reasonable assurance regarding the achievement of entity objectives.

Everyone in the organization plays a role in ensuring successful enterprise- wide risk management but management bears the primary responsibility for identifying and managing risk and for implementing ERM in a structured, consistent, and coordinated approach. The board, or its equivalent, has an overall responsibility for monitoring the risk and for gaining assurance that they are managed at an acceptable level. Internal auditors, in both their assurance and consulting roles, contribute to the management of risk in a variety of ways. They play a key role in evaluating the effectiveness of and recommending improvements to ERM. IIA Standards specify that the scope of internal auditing should encompass risk management and control systems.

The internal auditors varied roles in and emphasis on ERM are dependent on the maturity of the ERM process in the organization. The safeguard that should be put in

place before the internal auditors carry out their ERM-related role is to ensure that the entire organization fully understands management's responsibility for risk management.

The internal auditors' core ERM role is to provide objective assurance to the board and senior management on the effectiveness of the ERM activities in helping ensure key business risks are managed appropriately and system of internal control is operating effectively.

Internal auditing's key ERM-related roles and assurance activities include:

- i) Providing assurance on the design and effectiveness of risk management processes.
- ii) Providing assurance that risks are correctly evaluated.
- iii) Evaluating risk management processes.
- iv) Evaluating the reporting on the status of key risks and controls.
- v) Reviewing the management of key risks, including the effectiveness of the controls and other responses to them.

Additional legitimate internal audit roles and consulting activities may help to protect the internal auditors' independence and objectivity when accompanied by adequate safeguards. They include:

- i) Championing the establishment of ERM within the organization
- ii) Developing risk management strategy for board approval.
- iii) Facilitating the identification and evaluation of risks.
- iv) Coaching management on responding to risks.
- v) Coordinating ERM activities
- vi) Consolidating the reporting on risks
- vii) Maintaining and developing the ERM framework

The roles the internal auditors should NOT undertake are

- i) Setting the risk appetite
- ii) Imposing risk management processes

- iii) Providing assurance to the board and management
- iv) Making decisions on risk responses. This is management's responsibility.
- v) Implementing risk responses on management's behalf.
- vi) Accountability for risk management.

The aim of public sector is to serve the public, in this case corporate governance and risk management play important role in ensuring that this aim is effectively and efficiently delivered also effective corporate governance requires that risk management be integral to policy, planning and operational management (Syed, A. (2003).

2.4.3 Public Sector Accountability

Public sector accountability is an important component for the functioning of the democratic political system. Public sector accountability means that those who are charged with drafting and/or carrying out policy should be obliged to give an explanation of their action to their electorate. Mayne (2002), Pointed out that accountability for the public sector is incentive in getting government right: in creating management culture that is fact-based, results-oriented and transparent; and more broadly, in strengthening the relationship between government and citizens.

INTOSAI (1992), defines public accountability as the obligations of entities, including public enterprise and corporation, entrusted with public resources to be answerable for the fiscal, managerial and program responsibilities that have been conferred on them and to report to those that have been conferred on them.

The concept of accountability is an element of good governance. Kinemo (2003) in his paper about good governance for District Commissioners in Tanzania, defined accountability, that means to account or give explanation for actions. Accountability demands to account or give explanation for actions. Accountability demands that government and public organs or public servants be committed to the needs and rights of the citizens.

2.4.4 Transparency in Public Sector

Transparency in public sector is one of the elements of good corporate governance. For audit point of view, transparency includes various factors, the important one is fiscal transparency, Kinemo (2003), define transparency as a system whereby people or clients can see through the system which influences their lives. It is openness towards the public at large about government structure and functions, fiscal policy intention, public sector accounts and projections.

The professional guidance of the Institute Internal Auditors (IIA), states that an effective public sector audit activity strengthens governance by materially increasing citizens' ability to hold their government accountable. Auditors perform an especially important function in those aspects of governance that are crucial in the public sector for promoting credibility, equity, and appropriate behavior or government officials, while reducing the risk of public corruption.

Therefore, it is crucial that government audit activities are configured appropriately and have broad mandate to achieve these objectives. The audit activity must be empowered to act with integrity and produce reliable services, although the specific means by which auditors achieve these goals vary.

At a minimum, government audit activities need (IIAs, 2006) organizational independence, audit charter, unrestricted access to any forms of audit evidences, sufficient funding, competent leadership and staff, existence of audit committee, stakeholder's support, audit standards and unlimited scope.

2.5 Public Sector Audit and Other Controls in Tanzania

When referring to public sector in Tanzania, it implies central government, local government authorities' government agencies and parastatal organizations. For the purpose of this research the public sector audit being referred is the local government authorities, in which the external audit functions are being carried out by the national Audit office, headed by the Controller and Auditor General. Also there are councils internal Auditors and Local Government Internal Auditor to the regional Secretariat. All together, they can be named as public sector auditors (Kivugo, 1987).

In Tanzania prior to passing of the Public Finance Act 2001, the main legislation concerned with external audit was the exchequer and audit ordinance of 1961. Before 2001, the office responsible for external audit of central government was called exchequer and audit department. However, in 2001 the name changed to National Audit office (NAO). The Controller and Auditor General (CAG) is the head of the office, and appointed by the president in accordance with article 143 of the constitution of United Republic of Tanzania.

Apart from other types of audits carried out by the Controller and Auditor General, the public finance act of 2001 section 33 mandates the CAG to carry out value for money audits (Glynn, J. (1985) apart from auditing central government, agencies and public organizations, the controller and auditor General is also responsible for auditing Local Government authorities.

2.5.1 Financial Administration

While these are requirements for all LGAs Tanzania, individual LGAs are responsible, for proper financial management of their funds. There are two types of controls internal as well as external controls. Thus different organs and individuals in the local authorities are vested with powers to control council funds. These are the council and its finance committee and other committees, and the director and his/ her subordinates.

2.5.1.1 The full Council

The council is responsible for all decisions of the authority as per LAFM (2009) order no 5. According to Act no. 7 of 1982 one of the functions of the council is to establish and maintain a reliable sources of revenue and others in order to enable LGAs perform their functions effectively and to enhance financial accountability (Local Government Act No.7 and Act No.8 of 1982).

The council is also required to formulate, coordinate and supervise the implementation of all plans for the economic, commercial, industrial and social development of its areas of jurisdiction. The council is responsible for making standing orders and financial regulations that guide the administration of its finances.

It is worth to not that each council is required to have detailed financial regulations. However, the existence of comprehensive detailed financial orders or regulations in itself is not enough to ensure sound financial management. The regulations must be adhered to and enforced by the council audits chief executive.

2.5.1.2 The Finance Committee

The process of a committee meeting can seem rather perfunctory. In all councils, there is a procedure whereby statutory meeting is preceded by a call- over, which allows councilors to ask officers detailed questions about the reports (Cook 1993).

The law enquires the establishment by each council of a finance, administration and planning committee, generally known as finance committee (Wehner, J. (2002). The finance committee is entrusted with the general duty of regulating and controlling the finances of the LGA s.

Finance committee shall be responsible for the following duties; (LAFM, 2009) order no 6;

- i) To control and supervise the finances of the council within the procedures prescribed by the Minister and any other procedures prescribed and adopted by the Council,
- ii) To review all changes proposed to financial procedures, including the periodic revision of the financial values under which different rules concerning the procurement of goods and services would apply.
- iii) To consider and recommend changes to the rates of all taxes, fees and charges made by the council.
- iv) To consider the recurrent and development estimates of all committees and present them to the Council for approval.
- v) To consider variances of income and expenditure from their budgets total and to recommend suitable action for eliminating deficits and appropriating surpluses' of income over expenditure.
- vi) To consider all proposals involving capital expenditure prior to submission for Council's approval.

- vii) To receive the annual final accounts of the Council, and to ensure that they are timely submitted to the Controller and Auditor General; and
- viii) Review and approval of the Annual Procurement Plan based on a council plan and budget;
- ix) Review of the quarterly procurement report submitted by the Accounting Officer;
- x) Overseeing contract implementation through inspection of projects work and goods received;
- xi) Instructing the accounting officer to carry out procurement or value for money audits where not satisfied with explanations received; and
- xii) Approve names of the members of the board.

Looking at the powers vested the Council finance committee; the expectation is to have proper and effective financial controls over the council finances. Studies conducted in various councils indicate that, these council organs cannot exercise the duties as required due to different interpretations by the councilors. In the cited studies, the conclusion is that poor financial management is partly due to low financial management skills within councilors to discuss and understand monthly financial reports.

2.5.1.3 The Director

The director is the Accounting Officer of the Council. According to section 33 (4) of the Local government finances act no.9 of1982 and Local Authority Financial Memorandum (2009) order 7, the directors are responsible for:

- i) Ensuring the existence of a formal and satisfactory system of financial administration.
- ii) The overall management of all council's expenditures, revenues, and all its assets and liabilities.
- iii) Securing compliance by operating departments with the prescribed finance procedures.
- iv) Directing the work of internal audit section, receiving their reports and after

Consultations with relevant heads of departments ensuring appropriate recommendations are acted upon.

- v) Ensuring that all statutory guidelines for the financial management of the Council's affairs are complied with.
- vi) Making certain that the Councilors are kept regularly informed of the financial affairs of the Council.
- vii) Being secretary to finance committee
- viii) Making sure that computerized system operates
- ix) Keeping under good custody all assets and property of the council; and
- x) Adhering to procurement functions stipulated in public procurement Act and its related regulations and other written laws.

Thus the director is responsible for accounting for any service in respect of which monies have been appropriated by the authority and for issues made to the authority from the exchequer account.

2.5.1.4 The Treasurer and Heads of Departments

In the local authorities, under Local Authority Financial Memorandum (2009) order 8, the treasurer is the principal advisor to the council on all financial matters. He is also responsible for the preparation of the annual estimates, maintaining sound accounting system and safekeeping of all supporting documents.

On the other hand, heads of departments under Local Authority Financial Memorandum (2009) order 9, are sub-accounting officers of the council and they are responsible to the Director, for the management of all financial matters delegated to them under their departments. They are required to maintain accurate records of actual payments, committed expenditures, cash and sundry debtors, income through the vote books (Cook P. (1993).

2.5.1.5 Control through the Budget

Local authorities are by law required to prepare annual budgets and supplementary budgets and these must either have the consent of the Minister or approved by the Council. LGAs have two types of budgets, one which developed and approved by the

authority concerned and two that which comes from Central Government in form of grants. The first budget is passed by the Council as per Act No. 9 section 43 (1).

The council is required to pass a detailed budget of the estimates of the amount respectively.

- i) Expected to be received, and
- ii) Expected to be disbursed by the authority during the financial year.

The authority is there required to confine the disbursement with the items and amounts contained in the applicable estimates approved. As a tool of financial control, the budget is expected to fulfill the rule of rendering accountability to the legislature and also serve as a tool of management within the LGAs.

2.5.1.6 Internal checks and Balances

The Director and Treasurer of local authority are required by financial regulations (The Public finance regulations of 2001) to apply a system of checks and balances for internal control.

The system includes:

- i) Rotating duties whenever possible and necessary
- ii) Assigning responsibilities and making sure that no overlapping of responsibilities exists among accounting staff.
- iii) Deliberate segregation of duties by having related operations divided among several officers such as an officer responsible for writing purchase orders of goods and services is not allowed to verify receipts of goods or services. The verifying task should be done by an independent department or an individual responsible officer.
- iv) Limitation of executive or spending department powers, duties and responsibilities in financial matters.
- v) Procedure for preparation and submission of estimates and supplementary estimates.
- vi) Ordering of goods, payment and checking of accounts stores.
- vii) Pre and post Internal audit

- viii) Periodic reports from the Director on the review of repayments against estimates, financing of capital, schemes and investment balances.

2.5.1.7 The Internal Audit

The LGFA Act No.9 of 1982, Section 45(1) stipulates that each local authority is required to employ its own internal Auditor. The auditor shall work closely with the treasurer but reports directly to the Director.

The Internal auditor (IIAs,2002) is responsible for carrying out a review of financial and related systems of the council to ensure that the interests of the council are protected hence he /she is part of the internal control of the Council.

2.5.1.8 The Audit committee

As per LAFM (2009) order no 12, “An audit committee shall be composed of not more than five and not less than three members. Of whom at least two members shall be nominated from amongst the Heads of Departments of the Council and two from Institutions outside the Council. The audit committee chairman shall be nominated from amongst Head of departments with lesser procurement functions; and the audit committee secretary shall be appointed by the accounting officer from heads of department or principal officers who shall not vote”.

The audit committee shall perform the following responsibilities:

- i) Meet at least once quarterly
- ii) Be responsible for approval of internal audit annual programme and strategic audit plans of the council;
- iii) Review all internal and external audit reports involving matters of concern to management of the council including the identification and dissemination of good practices;
- iv) Provide advice to the accounting officer on action to be taken on matters of concern raised in a report of the controller and Auditor General concerning the council.

- v) As far as practicable coordinate audit work plans prepared by internal auditors and submit the same to the council and copy to the controller and Auditor General, Regional Commissioner and Minister responsible for Local Government.

2.5.2 Internal audit functions in Local Authorities

Effective internal audit function plays a key role in assisting the management in discharging its responsibilities in terms of good governance and risk management Syed, A. (2003) while there has been an increasing recognition of important role played by the internal audit function in risk management, governance and internal control, little attention has been given to the role internal audit function in terms of empowering it and enabling it effectively perform its role.

There is a need therefore, for strategically positioning the internal audit to the organization structure in order to enable effectively contributes to the organization's performance.

While the internal audit function should focus on satisfying the management that it is adding value to the organization, it is important to continuously build its capacity so as to enable it effectively performs its roles.

Glynn (1985) points out that the duties performed by internal auditor should be seen to be complementary to the work performed by external auditor; however the standards of internal audit in public sector are not generally very good.

2.6 The IIAs' code of Ethics

The purpose of the Institutes code of ethics is to promote an ethical culture in the profession of internal auditing.

A code of ethics is necessary and appropriate for the profession of internal auditing founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The code of Ethics provides guidance to internal auditors (institute members) serving others and those who provide internal auditing services within the Definition of Internal

Auditing. The standards Glossary defines the IIA's code of ethics as "principles relevant to the profession and practice of internal auditing and Rules of conduct that describe behavior expected of internal auditors. The code of ethics applies to both parties and entities that provide internal audit services". The IIA has made a significant contribution to ethics and governance awareness via journal articles, books, research reports, and professional seminars.

Ethics audits and corporate governance are two important future focus areas for audit Practitioners over the next five years. Such was the conclusion of the IIA's Global *Internal Audit Survey* that was explained in the *Characteristics of an Internal Audit Activity*. The report concluded that internal audit practice would differ significantly from today with less emphasis on operational and compliance audits, internal control evaluations, and fraud investigations.

A second report from the *Global Audit Survey* pertained to *Core Competencies for Today's Internal Auditor*. The survey results confirmed the continuing importance of knowledge of auditing, internal auditing standards, ethics, and fraud awareness. The report also illustrated that "governance and ethics sensitivity because more important as internal auditors progress through the professional ranks.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The section covers various methods available when collecting and analyzing data further, the method (s) to be selected and employed on the data collection for the research have been discussed. This section also covers the various techniques that were employed in collecting data for the aim of meeting the objectives of the research.

After the researcher developed the research problem, then the next step was designing the research methodology. Then, the selected research methods will become a framework that planned the actions for the research undertaken. Research methods were grouped into two models:

- i) Qualitative and
- ii) Quantitative. But also apart from those two, another method is the combination of the two methods i.e. qualitative and quantitative.

The primary data included in this study is collected through a research conducted using detail questionnaire. The research was conducted with the goal of “Assessing the effectiveness of the availability of Internal Audit unit in the local Government Authorities in Financial Management”.

3.2 Area of Study

The population for this research was the Council’s employees including DIA, DED, DT, HoDs and Accounts staff. The sample selected was the officers in the LGAs; the aim was to obtain an empirical data on the current internal audit practice in the public sector audit in LGAs on improving management of finances.

3.3 Units of Enquiry

For the purpose of this study, following were chosen to form the units of enquiry:

- i) District Executive Director
- ii) District Treasurer
- iii) District Internal Auditor
- iv) Heads of departments
- v) Finance department

3.4 Sampling Techniques and Sample Size

The sample was selected on the basis of their knowledge, experience and interest in Local government issues specifically financial management

3.5 Data Collection Methods

The researcher collected data by using both direct and indirect methods; these are primary and secondary data as:

3.5.1 Primary Data

3.5.1.1 Questionnaires

This method was used to collect data from staff in the Internal Audit Unit and Finance Department due to the fact that these two departments are highly involved in financial affairs of the council and thus in the researcher's perception they were considered the best respondents for research questionnaires. The questionnaires comprised of both closed and open-ended questions were in the form of multiple choices where the respondents were required to put a tick against in the blank spaces by giving their opinions. Questionnaires were in English as well as Kiswahili version.

3.5.1.2 Interviews

The interview technique was used for obtaining information directly from various employees of the District Council. The technique will be more resourceful because it provided for opportunity to ask, follow up questions where the first responses seemed insufficient. Also, it provided the respondent a chance to ask questions as well as

making the communication process between the researcher and the respondent more meaningful.

In this study interview was used as a means for obtaining additional data beyond that which was expected to be collected through questionnaires. This method created a dialogue between interviewee and interviewer. It leads to smooth flow of data from the respondents to the interviewer.

3.5.1.3 Observation

This method was employed to obtain primary data for the study. The researcher was sometimes involved in the processing of office documents and or requested them for observation. Thus he observed all applicable documents that generalize the finance system management of RDC.

3.5.2 Secondary Data

Secondary data were included in the research by referring most recent information and report, from Government report and other Authorities.

3.5.2.1 Review of Documents

This was another method used to obtain Secondary data for the study. The documents from RDC were accessed, those produced internally and other instructive documents and manual received from different authorities. The documents consulted from RDC was; the Annual final financial statements, CAG reports on audited financial statements for financial years 2009/2010, 2010/2011, 2011/2012, quires raised by internal/external auditors with their respective management responses.

3.6 Data Analysis and Presentation

Data was collected and processed and analyzed descriptively using simple comparison approaches such as percentages. The data was summarized and presented, some in narrative form and others in tabula from. Most of the finding was analyzed by using **SPSS** for descriptive statistics because that is the most appropriate approach for analyzing the types of responses obtained in this study.

3.6.1 Combination of Qualitative and Quantitative Method

Apart from the fact that social science research favors qualitative method but quantitative method cannot be left out.

Saunders et al (2003) points out that sometimes one approach may not provide a sufficient convincing answer to the research questions and objectives. Therefore, a combination of both methods can generate a more convincing answer to the research questions and objectives.

3.7 Expected Results

The Expected outcomes of this study was recommendations to the management on the strategic positioning of the internal Audit to contribute towards improving the financial management system of the Local Government Authorities

CHAPTER FOUR

PRESENTATION OF THE RESEARCH FINDINGS, DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter attempts to make analysis and discussion of the key findings and make a systematic and comprehensive overview of the performance of the internal audit activity in RDC.

The chapter is explained in four areas which are the existence of the internal audit unit in RDC or historical background of it, the extent by which the internal audit perform its activities, problems or obstacles, encountered and achievements and improvements made or attained by the internal audit unit.

4.1.1 Overview

An internal audit is the process of reviewing the effectiveness and efficiency of operations, compliance with laws, regulations, policies and procedures; achievement of operational / organizational objectives; reliability of information; and safeguard of assets. Individuals employed in as internal audit are typically employees of an organization. However there are alternative arrangements to staff on internal audit through outsourcing arrangements.

4.1.2 Distinctions between Internal Audit and Other Review Functions

4.1.2.1 Compliance

Compliance reviews are conducted to strictly test adherence to laws, regulations, standards, and policies and procedures. These reviews typically serve to determine whether or not an organization is adhering to a specified regulation, etc, and the results are reported as such.

Compliance audits do not consider the effectiveness and efficiency of business processes. Typically, specialized individuals, some with legal backgrounds, conduct these reviews.

4.1.2.2 External Auditors / Financial Auditors

These auditors provide an attestation safety on the financial reports and statements generated by an organization, while these auditors focus on the accuracy of reported information; they also review the related controls over the financial information.

4.1.2.3 Regulators

These auditors work for regulating bodies e.g. Financial Industry Regulatory Authority (FINRA), U.S. Securities and Exchange Commission [SEC], Options Clearing Corporation [OCC] and review compliance with specific regulations. They perform compliance reviews of corporations or agencies that are regulated by the specified regulating body.

4.1.2.4 Government Audit

Government auditors typically work for the departments, ministries, or agencies of a government and focus on compliance with program requirements, performance audits, budget reviews and management audits.

4.1.2.5 Main Duties of an Internal Auditor

The internal auditor shall:

- i) Execute a wide range of audits and reviews in a diverse and highly computerized organization
- ii) Provide an independent, objective assurance and consulting service to management, with the principal aims of evaluating and improving the effectiveness of risk management, control and governance;
- iii) Make recommendations on increasing operational efficiency, having regard to value for money auditing
- iv) Agree the annual audit plan with the chairman prior to approval by the Audit Committee;
- v) Report quarterly and as requested to the Audit committee and to the Chairman or any person with equal position;
- vi) On a day to day functional basis, the Internal Auditor reports to the chairman or any person with equal position

- vii) Any other appropriate duties as may be defined from time to time by the chairman.

4.1.2.6 General Responsibilities of an internal Auditor:

The internal auditor is generally responsible for:

- i) Managing the internal audit function
- ii) Developing and maintaining a charter for the internal Audit function which reflects the office's responsibilities, authority, and reporting relationships.
- iii) Developing and obtaining proper approval for goals, Audit work schedules, staffing plans, and financial budgets for the Department.
- iv) Perform individual audits according to the standards for the professional practice of internal auditing issued by the institute of internal Auditor (IIA) and other local professional accounting bodies like NBAA
- v) Maintain personal proficiency and that of staff auditors by obtaining an adequate amount of continuing education.
- vi) Supervise staff auditors by assigning them to jobs which match abilities reviewing their work, and appraising their performance
- vii) Participate in or conduct evaluation and cost studies as directed by the appropriate officer(s) of the organization.
- viii) Conduct scheduled and special audits and make recommendations for improvement
- ix) Continue to assess professional development and take advantage of opportunities to improve skills
- x) Keep current on trends in accounting and auditing

4.1.2.7 Types of Internal Audit Assignments

A number of different types of audit assignments make up the full range of internal audits. Audit assignments can be classified as either assurance or consulting engagements. They can also be classified according to the scope of work carried out and /or activities performed by the auditor.

The following types of audits are described as follows:

- i) Compliance audit
- ii) Internal financial audit
- iii) Operational audit
- iv) Comprehensive audit
- v) IT and integrated audit
- vi) Fraud audit
- vii) Environmental audit

These types of audits would usually be assurance engagements; however, if they were carried out at the request of the responsible manager for the purposes of improving performance without providing a formal assessment or evaluation, they would be consulting engagements.

4.1.3 Recent Performance Award in Financial Management

During its performance for a period of three years consecutively, the RDC had been awarded the following certificate by the controller and Auditor General (CAG) as indicated in Table 4.1 below also see appendix ii.

Table 4.1: Performance Award in Financial Management

No	Year	Certificate/opinion	Remarks
1	2011/2012	Unqualified	Improved
2	2010/2011	Unqualified	Improved
3	2009/2010	Qualified	Improvement required

Source: Analyzed data, 2013

This becomes significantly for the assessment of the performance of internal audit role in RDC and recommendations for improvement were found in the last part of this chapter.

The researcher scrutinizes all the findings and analysis from research, considering qualitative and quantitative data that was collected by the researcher that aimed to assess the effectiveness of the internal Audit in improving financial management of the local Government Authorities. In this chapter the research questions was presented in order to come up with precise information reflecting the proposed study and to arrive at reliable conclusion and recommendations. The researcher, who is currently an employee of RDC

and Head of internal Audit Unit, participated in various auditing exercises in both Assurance and Consulting services, hence observed the existing situation.

4.1.4 The Internal Audit Unit- Existence

The IAU, was established in the year 2000, with a view of adding value to the organization. Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement and/ or reducing risk exposure through both assurance and consulting services. The unit started with one staff, the late Vintan Kunambi.

4.2 The Performance of the Internal Audit Unit.

The internal audit unit used to have three staff, currently the number has remained the same. The unit has its annual audit plan of which the audit activities are extracted.

Basing on the interview, the annual audit plan has never been accomplished. Reasons for not accomplishing the work plan, includes insufficient budget and in adequate number of internal audit staff.

As per internal audit definition overtime, June 1999 to date, “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.

The definition above has significant features or six significant elements:

- i) An objective activity
- ii) Assurance and consulting
- iii) Adding value and improving
- iv) Considering the whole organization.
- v) Broadened horizon.
- vi) A unique franchise.

a) Objective Activity

The definition describes IA, as an “activity “rather than a function”.

This allows IA services to be provided by the organization i.e. outsourcing has become a variable alternative. Objective defines the characteristics of IA profession

b) Assurance and consulting

Assurance – means to provide independent assessment, while Consulting- means advisory / client services related activities. Words “assurance and consulting” conveys positive customer- driven approach. The recognition of “consulting role” means acknowledging the full range of services provided by majority of internal auditors.

c) Adding Value and improving

Adding value is not an option in most organizations. Management demands (and expects) all functions to create visible value. By stating that internal audit is “designed to add value and improve”, the definition underscores the profession commitment to serving the needs of the organization.

d) Whole Organization

The definition focuses IA on the whole organization. IA is to help the “organization” to accomplish its overall “objectives”

Such Mandate Requires Auditors:

- i) To understand the goods and processes of the organization.
- ii) To view problems and their solutions from a broad perspective.

e) Broadened Horizon

To evaluate and improve the effectiveness of:

- i) Risk management
- ii) Control and
- iii) Governance processes.

f) Unique Franchise

Bringing a systematic discipline approach, this recognizes IA's legacy of delivering services with a tried and true systematic, disciplined approach as a:

- i) This results from being a standard based profession.
- ii) The documented and rigorous methodology that makes IA enduring and unique.

As per the definition of IA its it and findings it has been revealed that the existing of IAU in the RDC has not performed as required/expected in the involvement to "Assessment of the effectiveness of the availability of internal audit unit in the local government authorities in financial management system due to lack of resources, awareness by the head of department towards wards the IAU , absence of appropriate frame work to measure the quality and performance of the IAU and lack of multidiscipline staff within the IAU staff to perform , different audit activities or tasks.

Performing internal audit function is one of the strongest means to monitor and promote good financial management system in an organization. Basing on this, LGA's has received an increasing attention as an important component of government financial management and as a tool for improving the performance of the council.

With a view to this, research conducted at RDC on assessing and determines what current practices and desired practices of internal audit functions are and to identify the gaps related to monitoring and promoting of good financial management system.

Therefore an appropriate solution to inefficiency in RDC by promoting accountability and greater transparency about internal audit programs and services it is mandatory to have IAU with various skills and competencies as part of modern management control system that in turn requires the IAU itself to have appropriate governance structures, mobilizing sufficient and appropriate resources and competent personnel.

4.2.1 Based on the Questionnaires

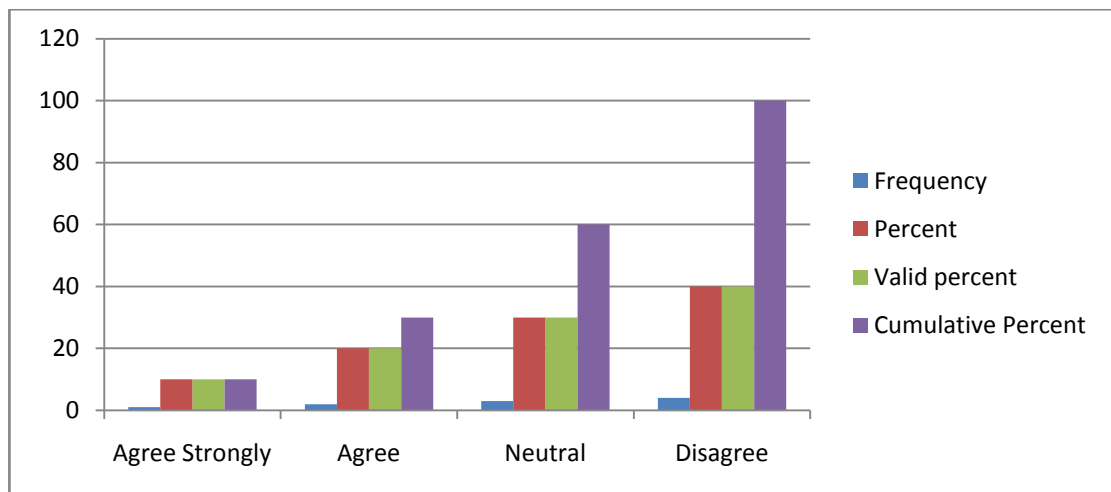
Has the internal audit unit achieved the reason for which it was established?

Table 4.2: Respondents Statistics

	Frequency	Percent	Valid Percent	Cumulative Percent
Agree strongly	1	10	10	10
Agree	2	20	20	30
Neutral	3	30	30	60
Disagree	4	40	40	100
Total	10	100	100	

Source: Analyzed data, 2013

Figure 4.1: Respondents Statistics



Source: Analyzed data, 2013

Table 4.2 and Figure 4.1 above as per the response result, it is noted that the IAU performed in all aspects is not based on annual plan, 50 percent, defining the scope objective and scope of engagement, 45 percent is not well performed, planning and audit process remains to be compliance oriented than adapting modern approaches basing on risk identification, 70 percent.

IAU plays vital role advising management regarding on how to reduce costs and improve efficiency and effectiveness, 60 percent. However, IAU has fewer roles to advice management regarding;

- i) Assessing existence of good governance structure
- ii) Enhancing accountability and ethical practices
- iii) Effective risk assessment and management
- iv) Designing and implementing internal control system
- v) IT/IS development, acquisition and operation
- vi) Project management and evaluation

The above scenarios clearly indicates that, the activities of IAF in each of the study units are more of traditional nature that emphasize on financial, compliance and regularity, rather than addressing broader management governance, risk and control issues.

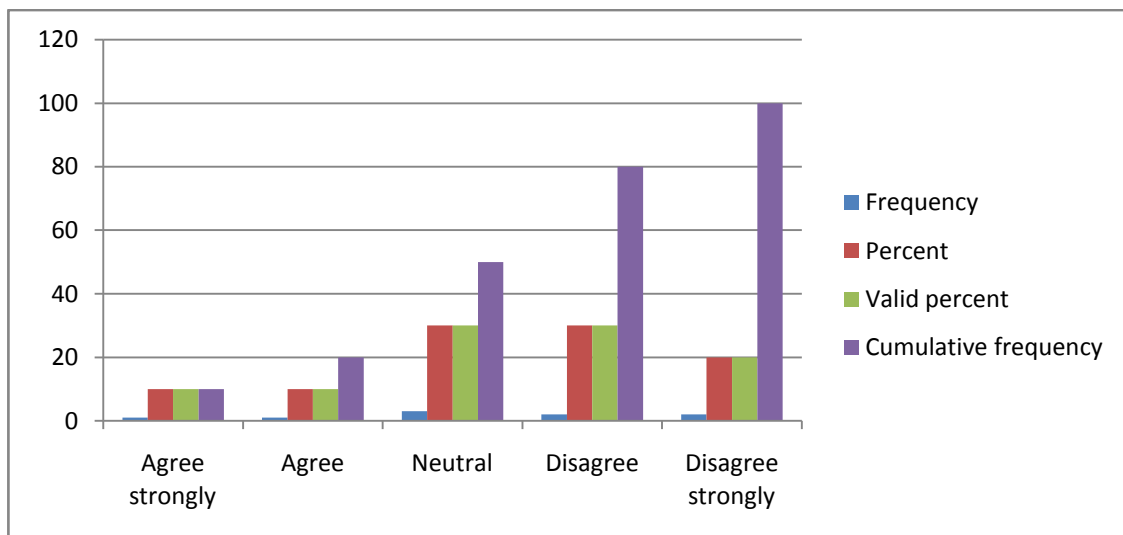
4.2.2 Does the internal Audit unit have full independence in performing its day to day duties?

Table 4.3: Respondents Statistics

	Frequency	Percent	Valid Percent	Cumulative Percent
Agree Strongly	1	10	10	10
Agree	1	10	10	20
Neutral	3	30	30	50
Disagree	3	30	30	80
Disagree Strongly	2	20	20	100
Total	10	100	100	

Source: Analyzed data, 2013

Figure 4.2: Respondents Statistics



Source: Analyzed data, 2013

Table 4.3 together with Figure 4.2 stipulates the analysis from the basic statistics of the response, it was revealed that the IAU is unstrategically positioned, 70 percent to contribute to organizational strategy and the current structure, staffing, with insufficient resources, seems soundless to promote objectivity.

In addition to above, respondents strongly feel that the current organization structure doesn't allow them to report fully, 100 percent objectively.

According to the institute of Internal Auditors (IIA), the internal audit activity must be independent and internal auditors must be objective in performing their work.

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual- reporting relationship. Threats to independence must be managed at the individual auditor, engagement functional and organizational levels. Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quantity compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement functional and organizational levels.

Some auditors pointed out that, currently, there is no law that protects internal auditors from job eviction arising from his/her internal audit engagement results. In this case, internal auditors remain to be controlled with dexterity by management

As per the institute of internal auditors (IIAs) internal auditing is defined as “an independent objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.

As per the above definitions, internal audit function could be viewed as a “third line of defense” against inadequate organizational governance and risk management and control.

With appropriate support from the audit committee, the internal audit staff is in the best position to gather intelligence on inappropriate accounting practices, inadequate internal controls, and ineffective corporate governance.

Not only that, but with a structure like this in place (The three lines of Defense model) the audit committee or other governing body can be confident that its getting impartial information about the organization most significant risks and it knows whether management is responding to them appropriately.

However, as per the respondent, believe that the effectiveness of the internal audit function at RDC is moderate, to contribute towards the government effort in the process of improving the performance of the financial management system.

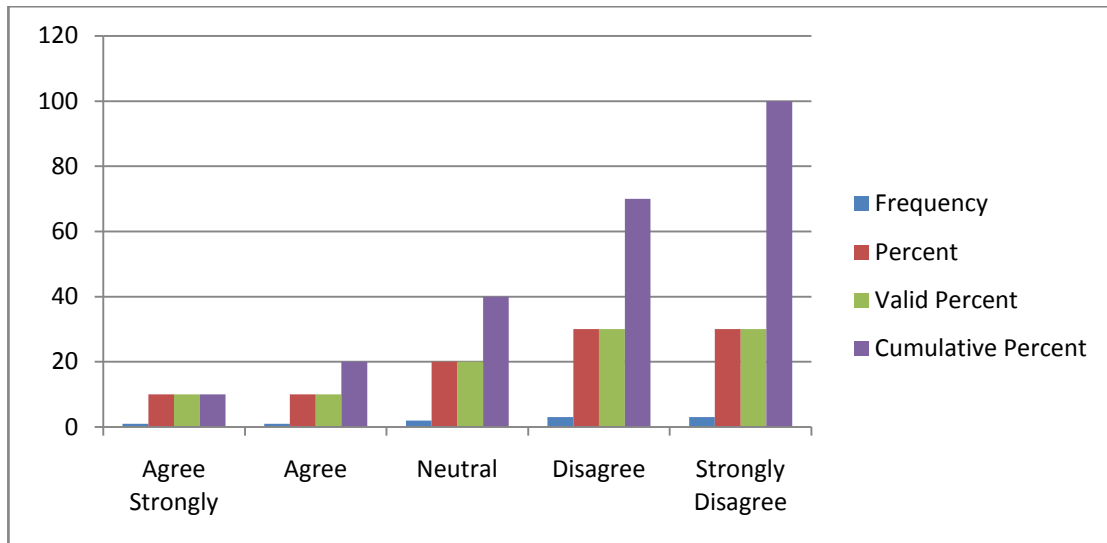
4.2.3 Does the LGAs management use accurate, reliable, timely and useful internal audit information properly for decision making?

Table 4.4: Respondents Statistics

	Frequency	Percent	Valid percent	Cumulative percent
Agree Strongly	1	10	10	10
Agree	1	10	10	20
Neutral	2	20	20	40
Disagree	3	30	30	70
Disagree strongly	3	30	30	100
Total	10	100	100	

Source: Analyzed data, 2013

Figure 4.3: Respondents Statistics



Source: Analyzed data, 2013

How appropriate does the LGAs use accurate, reliable, timely and useful audit information for decision making

Table 4.4 and Figure 4.3 Depicts; respondents don't believe that corrective action is taken based on audit findings raised by the IAU, 70 percent. Some respondents added that auditing is done and the findings are reported just for the purpose of formality.

Management find difficulties in implementing recommendations, even though the Government insists and suggests management to take prompt and responsive action on all findings and recommendations made by IAU. This implies that either the internal audit units function to advice the management is not perceived positively by the management or the function itself is not done appropriately.

The performance is supposed to be effective for the unit to achieve its targets and advice the management accordingly.

Management may lead to fund mismanaging, resulting to failing ensure goods things happen, thus the councils objectives not met.

Currently councils within the Tanzania Mainland are being assessed from various performance measures in order to access Local Government Development Grant (LGDG) heretofore Local government Capital Development Grant (LGCDG). One of the performance measures is “Acting upon the audit queries raised by internal auditor and External auditor as well.

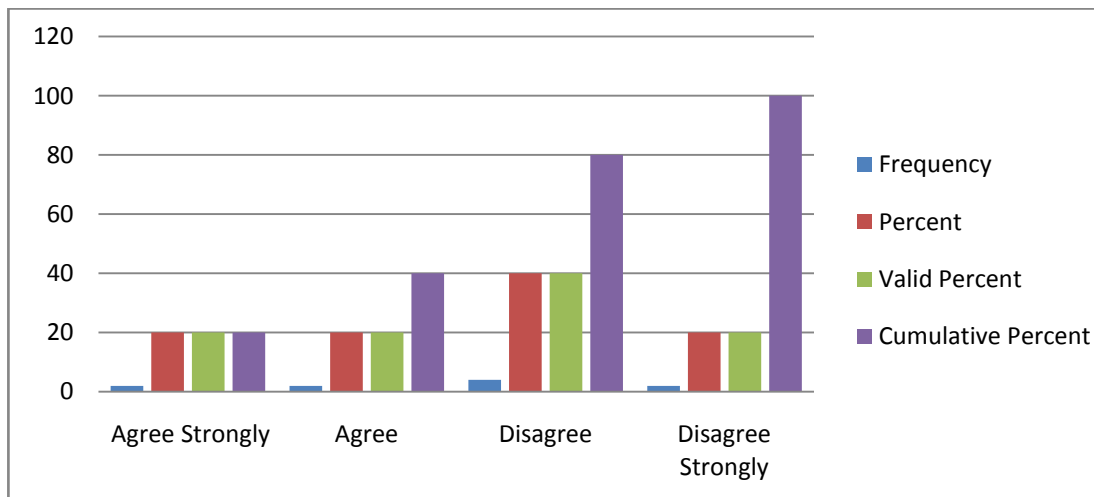
4.2.4 Do the internal auditors have the required competence in performing their audit assignments?

Table 4.5: The Internal Auditors have the required competence in performing their audit assignment.

	Frequency	Percent	Valid percent	Cumulative percent
Agree strongly	2	20	20	20
Agree	2	20	20	40
Disagree	4	40	40	80
Disagree strongly	2	20	20	100
Total	10	100	100	

Source: Analyzed data, 2013

Figure 4.4: Respondents Statistics



Source: Analyzed data, 2013.

Table 4.5 and Figure 4.4 above depicts the analysis of responses gathered which implies that in RDC with three internal auditors, possessing first degree or equivalent in accountancy and auditing.

The respondents suggested that, the council has to consider a budget for continuing educating the internal auditors as per the requirement of IIA’s attribute Standard 1200. Standard provides that “Engagement must be performed with proficiency and due professional care. “Proficiency” means that, internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

Competence of an auditor, determines the quality of the audit work performed in an organization. Competence is measured in terms of academic levels, experience, skills and efforts of staffs for continuing professional development.

4.3 Difficulties Encountered by the RDC Internal Audit Unit.

4.3.1 In Sufficient Audit Staff

Table 4.6: Inadequate Staff Participating in Audit Assignment (Interview guide)

Audit assignment	Manpower required	Manpower assigned	Remarks
Audit Engagements for the financial year	4	2	The Government don’t review establishment of Audit cadre

Source: Analyzed data, 2013

According to Table 4.6 above in RDC there is a problem in human resource management to recruit new staff as responses indicated in Table 4.6.

Lack of sufficient staff, 50 percent, non- existence of appropriately qualified staff, 25 percent, inadequacy of various skills (mult-disciplined) and experienced staff, 50 percent, inflexible staffing strategy, 60 percent, reluctance to work in remote areas, 20 percent are the major problems identified to be significant barrier towards the effort of strengthening the IAU in RDC.

The non- existence of certified internal auditors and staffs who are pursuing their studies towards certification are noted in all study units. Compared to the required number of staff it is hard to say that it is satisfactory.

4.3.2 Low Working Morale to Staff:

Respondents, 75 percent do believe that, the existing salary scale is not adequate so as to attract new talent, retain the most talented, skilled and experienced staffs and difficult to motivate performance. The IAU's budget is supposed to have two major important components i.e. government grant and own source. Currently the IAU depends solely on government grant only.

One respondent explained that, as auditors get experienced and approach or reach to senior level they usually transfer to another.

Basing on the later argument which provides reasonable grounds, the IAU remains the least preferred area to work by talented, skilled and senior individuals despite the demanding nature of the work for such type of audit staff.

4.3.3 Lack of Expertise

Table 4.7: Internal Auditors Education Profile

	Number of internal auditor	Degree/Advanced Diploma	CIA holders (certified internal Auditors)
Required	4	4	4
Actual	3	3	-
Deficit	1	1	4

Source: Analyzed data, 2013

As per Table 4.7 above respondents expressed dissatisfaction about skills, Qualification, manpower, number of internal auditors employed with regard to responsibilities and the position of affairs that make possible to uphold integrity, objectivity and professional proficiency.

Internal audit in RDC lack various audit skills for example in audits for construction projects. In the practice of modern internal auditing, Sawyer, states that one reason for staff meeting is to explain "routine administrative matters, to teach new techniques, and even to let off steam". For example; staff members should be able to raise questions about ineffective procedures, promotions, salaries or other problems. Auditors should be

multidiscipline, or must possess the knowledge, skills and other competencies needed to perform their individual responsibilities.

The internal audit activity collectively must possess or obtain the knowledge, skills, and other competences needed to perform its responsibilities.

As a result the IAU of RDC fails to report properly. The institute of internal auditors (IIA) requires that internal auditors should be certified, i.e. to possess “CIA” (Certified internal Auditor), so that they should be accepted as qualified globally.

Respondents further noted forward for consideration that the LGAs should take into account to budget reasonably for continuing education for internal auditors and be able to attend workshops, short courses on how to audit various matters based on risks, technical audit, environmental audit and many others, depending on the respective audit universe.

4.3.4 Deficiency of Facilities

Table 4.8: RDCs Internal Audit Facilities

Facilities	Required	Available	Shortage	Condition/Explanation
Motor vehicles	1	1	-	New
Motor cycle	2	-	2	none
Fax machine	1	-	1	None
Photocopies	1	-	1	none
Desk tops	1	1	-	New
Lap tops	3	-	3	none
Tables	3	2	1	One new, One used
Shelves	2	-	2	None
Cup board	1	-	1	None
Notice board	1	-	1	None
Tea set	1	-	1	None

Source: Analyzed data, 2013.

Table 4.8 summarizes the analysis, availability and condition of IAU facilities.

It is observed that the unit lacks various working tools, outside (field) the office as well as within the office. Audit assignment is done within the office and away from the office (remote areas), whereby readily availability transportation is required because of convenience as indicated in Table 4.8 above.

With the car around, it happened that the budget for the internal audit is a major constraint. Fuel is not adequate to run the vehicle for the quarter, semi-annual and for the whole year. Because of the budget, minor and major services become difficult to be done. Motor cycle from other department can be available, but again fuel results into difficult to get deficit. Following the above incidences, ultimately the IAU, could not be able to accomplish the annual audit plan, and in that case, the unit itself becomes unsuccessful in an undertaking to meet its objectives and targets, hence affects the whole organization (RDC) to remain oblivious. The internal audit activity's role in governance, risks and control is not achieved.

Lack of enough funds budgeted for the internal Audit has been the major constraint in ineffective performance of the unit. Despite the fact that the unit is there to help the management and audit committee, yet auditing function is not taken into account as a core function of the RDC.

The IAU sometimes depend on fund assistance from other departments, which is quite contrary to the attribute standard concerning "Independence and objectivity", which provides that, the internal audit activity must be independent, and internal auditors must be objective in performing their work.

These sources altogether point out the fact of less satisfactory development towards improving financial management by means of internal audit of RDC.

As a Researcher and a head of the internal audit unit in LGAS, for more than 14 years, I do believe that a justification to this significant problem is due to low management control system that keeps going overtime in the local authorities. The empirical data discussed above supports this argument.

4.4 Improvement Obtained in IAU at RDC in General

4.4.1 Compliance with Applicable Reporting Frame Work (IPSAS)

The submitted financial statements of RDC complies with part iv section 40 (2) of the local Government Finances Act No.9 of 1982 (revised 2000) and in accordance with the provisions of order no. 53 of the local Authority Financial memorandum (LAFM) of 1997 as applicable reporting framework for local Government Authorities.

In whatever way the financial reporting framework i.e. Local Authority Accounting manual (LAAM) are outdated and thus are not in supportive to the adopted IPSAS accrual basis of accounting.

4.4.2 Number of Staffs

Table 4.9: Staffs in the Internal Audit Unit

Year	Required No. of staff	Existed No. of staff	New	Transfer	Total	Shorts falls
2012/2013	4	2	1	-	3	1
2011/2012	4	3	-	1	2	2
2010/2011	4	3	-	1	2	2
2009/2010	4	2	1	-	3	1
2008/2009	4	2	1	1	2	2

Source: Analyzed data, 2013.

Table 4.9 indicates that the number of internal audit staff increased in the financial year 2009/2010 and the year 2012/2013 while in the year 2010/2011 one staff was transferred to Kinondoni Municipal council. As stipulated in the Table 4.9 above, the aggregate number of staff has never exceeded three, as a result it does not fulfill the actual required number of establishment needed, as well as matching with rapid expanding of Internal Audit Unit in the council as per establishment.

In other words, less staff is required to manage other council tasks and the year engagement plan. This indicates by suggestion than explicit reference that the problem is not yet solved, though some problems can be rectified with time.

4.4.3 Short Course Training

Currently, the Internal Auditor General Division (IAGD) is encouraging staff to sit for CIA exams which is compulsory for auditors, and has paid for the examination fees and examination review materials for one employee.

Moreover IAU staffs do attend seminars and workshop now and then concerning discussion or training about various audits related topics under consideration.

Furthermore, effective management and leadership have been trained to internal Auditors, just an overview to know the basic concepts like, meaning of management,

difference between leaders and managers, leadership, leadership perspectives, leaders traits, skills and behavior, leaders power and influence, transformation and transactional leadership, emotional intelligence and style of leadership.

Ethics training is often required as a process of communicating the organizations values and expectations of ethical conduct to understand the organizations requirements and internal Audits involvement, respondents were asked whatever training is required, and so, whether internal Audit participates in providing such training.

4.4.4 Working Tools

Through the internal Auditor General's Division the internal audit units in all LGAs have been provided with various tools to facilitate audit function, currently, RDC has the following;

- i) Internal Audit Handbook-Audit process guide for internal Auditors– February, 2012
- ii) Internal Audit Handbook-AID- February, 2012
- iii) Charter for internal Audit services in the public sectors-December, 2012
- iv) Quality Assurance and improvement Program (QAIP)-December, 2012.
- v) Operational plan (2012/13- 2016/17)–July, 2012
- vi) Code of Ethics for Audit services in the Public sectors-July, 2012.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The structure of the IAU is found to be moderately satisfactory. Statistical summary of the response result and the researcher himself indicates that there are no sufficient and highly skilled (professional) staffs, 80 percent, no effort is made by the management to integrate and coordinate audit evolution activities 80 percent and to develop and implement appropriate framework to measure internal audit performance 90 percent. Internal auditors should assess the organization's performance measurement system and whether the central corporate objectives are being achieved. The basic considerations in assessing performance are:

- i) Identifying related standards for performance
- ii) Comparing the performance to the identified standards.
- iii) Evaluating performance gaps (deviations or variances from the standard).

On the other hand, RDC has audit committee; respondents don't believe that the committee has the right composition in terms of independence, purpose, process, professionalism, knowledge, experience and representation of major stakeholders.

The board/ audit committee can look to internal auditing as a valuable resource to help them carry out their oversight responsibilities. The head of internal audit function, general auditor, chief internal auditor, chief audit executive or inspector general might be called on to assist the audit committee with its oversight activities.

Modern auditing demands the use of appropriate technology and auditing the technology itself as part of the audit universe, developing staff's skills through several cost effective like training and the like.

Appropriate technology or technology based audit techniques- is any automated audit tool such as generalized audit software, test data generations, computerized audit programmes, specialized audit utilities and computer- assisted audit techniques

(CAATs). However, in RDC under this study has been noted technology- based audit techniques is not used 98 percent, the budget for IAU (own sources) is not allocated 80 percent and also it is not common to use outside service provides for an internal audit activity (co-sourcing or out- sourcing, 100 percent), when the internal audit function cannot efficiently and effectively fulfill to perform all or part of the engagement.

Taking into consideration a set of circumstance found in IAU at RDC, the role of internal auditing is very important as provided by International Professional Practices Framework (IPPF), that it is designed to add value and improve an organization's operations.

It helps an organization accomplish its objectives by bringing a systematic, discipline approach to evaluate and improve the effectiveness of risk management, control and governance processes. 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.

Internal audit serves as the organization's third line of defense, reviewing controls and risk management procedures, identifying problems, and keeping the board and senior management in formed, what distinguishes internal audit from other two lines of defense is its high level of independence and objectivity which is enabled by the chief audit executives reporting line to the board or other governing body.

Due to its distinct responsibilities and uniquely independent positioning, internal audit is able to provide reliable assurance on the effectiveness of the organizations overall governance risk management and internal control processes.

5.2 Summary of the Research Findings

Internal auditing as a profession has undergone significant changes both in roles and approach. Due to increase in demand need for good governance, risk management and effective controls on both private and public sectors have always turned their attention to the internal audit function.

The audit function at this particular point in time has shown that, is the only function that is placed at a good position to be able to provide assurance services and at the same time act as internal consultants in extending good practice within the organization.

However, in the actual fact, internal auditors in RDC are providing about half of this level of service, mainly due to lack of the knowledge of the changed internal audit roles, limited skills on the contemporary practice of internal auditing, and lack of overall management support. In the real practice, strengthening the internal audit function should be the second important component while the first is for senior management to establish relevant controls, towards local government reforms in improving value for money on LGA'S service delivery.

To this end , it is thought or supposed that no matter how tight the controls are, if there is no proper assurance on how the effectiveness of such controls all the efforts towards tightening the controls will be depraved (go to drain). Internal auditing in LGA'S, by definition is an appropriate function to offer such assurance and consulting services, on the contrary this is subject to the internal audit capacity, skills and professional conduct of audit activities.

5.3 Conclusion

Internal audit unit being an organ (a department or organization that performs a specified function) that is in place to provide assurance and advisory services to management, so as to ensure that the six significant elements are met in the council, which are;

- i) An objective activity
- ii) Assurance and consulting
- iii) Adding value and improving
- iv) Considering the whole organizations.
- v) Broadened horizon
- vi) A unique franchise

The unit has been so useful in helping the management acting upon the audit queries raised by the CAG'S office, and the unit has increased number of auditing staff who at the same time have increased the work force in the unit.

Without being affected by the success in its performance, the internal Audit unit performed below the required standard, 50 percent, as a result failed to achieve and accomplish its targeted shown in its random work plan. Various reasons resulted in this failure as explained in chapter four, these are; lack of incentives, lack of working facilities, insufficient budget, unsatisfactory workers remuneration, insufficient number of staff in the unit and lack of some skills in different audit engagement and lack of conducive working environment.

The above reasons, explains as to why the unit cannot perform effectively and efficiently as required by the internal audit profession due to the fact that, their independence or objectivity may easily be impaired, as explained by standard number 1130 of the IPPF, auditors are expected to take longer time than expected to accomplish their assigned task, some of the audit assignments in the annual work plan are not performed completely as pointed out above, as a result, the audit may find or may lead to the abuse of internal audit profession and the definition of internal auditing as well. Communications for reporting must be accurate, objective, clear, concise, constructive, complete and timely, if this is not done as per standard 2420 of the IPPF then the management of RDC is at risk.

5.4 Recommendations

In the view of the above, we propose that for the Ruangwa District council internal auditors, there is an urgent need for improving and increase professional roles, purpose authorities, responsibilities and approaches in evaluating risk management, control and governance processes in LGA environments. This may include auditor-auditee relationship, communication skills management and leadership overview.

Internal audit covers much wider scope to include the audit of operations, VFM and virtually everything that takes place in the LGAs. Furthermore, the contemporary best practice is that which views internal auditors as value adding professionals that work in partnership together with all important stakeholders towards the improvement of operations and assuring the achievement of objectives.

The researcher recommends to RDC internal auditors to improve the following in order to have better performance for the IAU:

i) **Managing the Internal Audit Activity**

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization. The internal activity is effectively managed when the results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter; the internal audit activity conforms with the Definition of internal Auditing and the standards; and the individuals who are part of the internal audit acuity demonstrate conformance with the Code of Ethics and the Standards.

The chief audit executive is responsible for developing a risk- based plan. The chief audit executive takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

The chief audit executive must communicate the internal audit activity's plans resource requirements, including significant interim changes, to senior management and the board for review and approval .The chief audit executive must also communicate the impact of resource limitations. He must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. Furthermore, he should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has responsibility for maintaining an effective internal audit activity.

- ii) Internal Audit staff should be given various training to help them comply with current Audit standards in force, rapid change in Audit universe and various emerging auditable attributes. (Standards 1230, provides for continuing professional development).
- iii) For the internal Audit Unit to be more effective (adding value), at RDC, the management should implement various recommendations found in the internal Audit report.
- iv) An internal auditing activity will be of value only if clients view the engagement positively and are open to accepting results. An organization's audit committee, chief executive officer (CEO), and senior-level management team need to establish a "tone at the top" that supports the credibility of the internal audit function. Without this critical top-down support, the internal audit activity becomes vulnerable to client biases, defensiveness, and other human shortcomings.

The management of Ruangwa District council should put under considerations the following affairs;

- v) Sufficient funding- The internal audit unit as well as audit activities must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control of the organization under audit because the budget retards the audit activity's capacity to carry out its duties.
- vi) Unrestricted access- Audit should be conducted with complete and unrestricted access to all forms of audit evidences like personnel, physical properties and records within the council- as provided or defined by the internal Audit charter.
- vii) Stakeholders support
The legitimacy of the audit activity and its mission should be understood and supported by a broad range of elected and appointed government officials, as well as the media and involved citizens. But from the perspective of RDC, stakeholders do not support or value some internal audit activities. For

instance, some development projects like WSDP (Water Sector development Programme), Secondary Education and Epicor system, when introduced in the council internal auditors were not involved at all.

viii) **Staffing and Staff Job Descriptions**

Job description should identify requirements of exceptional performance – the knowledge and skills necessary to effectively and efficiently complete a wide range of audit assignments such as staff auditors, auditors-in-charge, audit manager, and unique audit positions.

The internal audit service should be managed by a suitably qualified and experienced individual of a caliber to reflect the responsibilities arising from the need to regularly liaise with and advise executive and non- executive directors. The head of internal audit should have a high status within the organization and be able to operate effectively at board level.

The head of internal audit should recruit, direct, control and motivate the resources available to ensure that the requirements of the agreed internal audit coverage are met in accordance with these standards.

The internal audit services employ staffs with varying types of understanding (Multi-disciplined) and level of skills, qualifications and experience in order to satisfy the requirements of each internal audit task. The full range of duties may require internal audit staff to be drawn from a variety of disciplines. Effectiveness may be improved by the use of a specialist staff, particularly in the internal audit activities of a technical nature.

ix) **Availability of an Audit Manual**

A well- documented policies and procedures are an integral part of the control environment.

A primary lesson from the financial failure and collapse of numerous organizations is that good governance, risk management, and internal controls are essential to corporate success and longevity.

Because of its unique and objective perspective, in-depth organizational knowledge, and application of sound audit and consulting principles, the internal audit function is well positioned to provide valuable support and assurance to an organization, and its oversight entities. However, these services cannot be delivered in the absence of well documented and well-communicated policies and procedures, which comprise the audit manual.

A well-developed and appropriately communicated audit manual can;

- i) Serve as a guide to those responsible for internal audit activities.
- ii) Represent a key benchmark by which internal audit can be measured.
- iii) Be a reference for undertaking an audit assignment.
- iv) Aid in making effective decisions.
- v) Assist in undertaking staff appraisals, training and development
- vi) Enhance staff morale and productivity
- vii) Assist in clarifying audit issues, audit staff job routines, and measurements

To sum up, the internal audit function could be a major asset for improving public confidence in financial reporting, if and only if the above-mentioned elements and requirements are kept at the same level.

However, the question from our council's perspective is that, does internal audit function in the public sector do satisfy these requirements and grasp this opportunity? It is high time now for the Government and various stakeholders to organize and facilitate such function in the profession.

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APPENDICES

Appendix i: Questionnaires

Dear respondent,

The questions are purely for academic purpose please fill them and handle them back to me on the 15th November, 2012. I highly value your suggestion and opinion. Here under please find the Questions.

1. Gender (Put a tick) Male () Female ()
2. Your Position / Title
3. Department, Office/section.....
4. Qualifications (Put a tick) secondary () Certificate () Diploma () Degree ()
5. For how many years, you have been working with your current employer (Please tick where appropriate)
 - i) 1-5 ()
 - ii) 6 – 10 ()
 - iii) 11-15 ()
 - iv) 16 and above ()
6. Do you have sufficient facilities/resources necessary for performing your duties?
(Please tick those which exists)
 - i) Office computers
 - ii) LGAs internal Audit Manuals, 2005
 - iii) Local Government Finances Act, 1982
 - iv) Local Authority Financial Memorandum – February,2009
 - v) Local Authority Accounting Manual, 1993
 - vi) Public Procurement Act, PPA,2004
 - vii) Local Government Regulations, 2007
 - viii) Local Government Procurement Manual for Goods works and consultancy service, 2004.
 - ix) IPSAS and ISA
7. How many times in a year are you able to attend professional training, workshops and symposiums to keep yourself update?times.

- i) There is a plan for short courses and training ()
- ii) No plans at all ()

8. Where do you address your internal audit reports? (Put a tick where appropriate)

- i) DED
- ii) Councils
- iii) CMT
- iv) Somewhere else (Please explain).....

9. Do you have audit Plans? YES () NO ()

10. What challenges do you encounter when you conduct your audit work as per your audit Plans (Please explain)

11. Do you think there are areas which are not strong and need to be addressed? (Please mention)

12. Is Management effective in addressing and or acting upon financial Management Irregularities? (Please tick)

- i) Yes ()
- ii) NO ()

13. Has the internal audit unit achieved the reason for which it was established? (Please tick where appropriate)

- i) Agree ()
- ii) Neutral ()
- iii) Disagree ()
- iv) Disagree Strongly ()

Any additional comments

.....
.....

14. Does the Internal Audit unit have full Independence in performing its day to day duties? (Tick Appropriate)

- i) Agree ()
- ii) Neutral ()
- iii) Disagree ()

iv) Disagree Strong

Any additional Comments

.....

15. Does the LGAs management use accurate, reliable, timely and useful internal audit Information properly for decision making?

- i. Agree ()
- ii. Neutral ()
- iii. Disagree ()
- iv. Disagree Strongly ()

Any additional comments

.....

.....

16. Do the Internal Auditors have the required competence in performing their audit assignments?

- i) Agree ()
- ii) Neutral ()
- iii) Disagree ()
- iv) Disagree Strongly ()

Any additional comments

.....

.....

THANK YOU FOR YOUR COOPERATION

Appendix ii: Audit Certificate

2.0: AUDIT REPORT ON THE FINANCIAL STATEMENTS

To: Hon. Issa Libaba,
Council chairperson,
Ruangwa District Council,
P.O. Box 51,
RUANGWA.

RE: REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF RUANGWA DISTRICT COUNCIL FOR THE YEAR ENDED 30TH JUNE, 2012

Introduction

I have audited the financial statements of Ruangwa District Council which comprise the statement of financial position as at 30th June, 2012, statement of financial performance, statement of change in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information attached as Annexure II to this audit report.

Management's Responsibility for the financial statements

Management of Ruangwa District Council is responsible for the preparation and fair presentation of the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

Order 11 through 14 of the Local Government Financial Memorandum (LGFM) 2009 requires the Council to establish and support a sound system of internal control within the Council. In addition, Order 31 places responsibility on the Council's management to prepare the financial statements in accordance with the laws, regulations, directives issued by the Minister responsible for Local Governments, the Local Government Financial Memorandum and the International Public Sector Accounting Standards (IPSAS).

Responsibility of the Controller and Auditor General

My responsibility as an auditor is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI) and such other procedures I considered necessary in the circumstances. These standards require that, I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making the risk assessments, I considered internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the

purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall Presentation of the financial statements.

In addition, Sect. 10 (2) of the PAA No. 11 of 2008 requires me to satisfy myself that, the accounts have been prepared in accordance with the appropriate accounting standards and that reasonable precautions have been taken to safeguard the collection of revenue, receipt, custody, disposal, issue and proper use of public property, and that the law, directions and instructions applicable thereto have been duly observed and expenditure of public monies have been properly authorized.

Further, Sect. 44(2) of the Public Procurement Act No.21 of 2004 and Reg. No. 31 of the Public Procurement (Goods, Works, Non-consultant services and Disposal of Public Assets by Tender) Regulations of 2005 require me to state in my annual audit report whether or not the auditee has complied with the provisions of the Law and its Regulations.

I believe that, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Unqualified Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Ruangwa District Council as at 30th June, 2012 and its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS) and Part IV of the Local Government Finances Act No. 9 of 1982 (revised 2000).

Emphasis of matter

Without qualifying my opinion, I draw the attention of the users of this report on the following matters:

1. Contracts not provided for audit purposes worth Shs. 21,218,000

During the year under review, the Council entered into contracts with various contractors, but contract No. RDC/056/Maji/2009-2010 for Drilling of (1) deep Borehole at Matyatya valley signed between the Council and KIMANI MINERAL LTD was not submitted for audit purposes.

2. Improperly vouched expenditure Shs.29,608,000

Payments amounting to Shs.29,608,000 were made without proper supporting documentation contrary to Order 8(c) of LGFM, 2009.

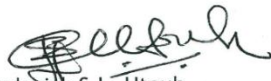
Report on Other Legal and Regulatory Requirements

Compliance with the Procurement Act of 2004

In view of my responsibility on the procurement legislation, and taking into consideration the procurement transactions and processes I have reviewed as part of this audit, I state that, except for the transaction queried below the Council's procurement has generally complied with the requirements of the Public Procurement Act No. 21 of 2004 and its underlying Regulations of 2005.

• **Procurement made without competitive quotation Shs.15,410,890**

The Council incurred expenditure amounting to Shs. 15,410,890.00 for the purchase of goods and services without inviting competitive quotations contrary to Reg. No.68 (4) of the Public Procurement Regulations of 2005 (Goods, works, non-consultant Services and disposal of public assets by tender) Regulations.



Ludovick S.L. Utouh
CONTROLLER AND AUDITOR GENERAL

The National Audit Office,
Dar es Salaam.

March, 2013.

Copy to: The Chief Secretary,
State House,
P.O. Box 9120,
DAR ES SALAAM.

Permanent Secretary,
Prime Minister's Office,
Regional Administration and Local Government,
P.O. Box 1923,
DODOMA.

Permanent Secretary and Paymaster General,
Ministry of Finance,
P.O. Box 9111,
DAR ES SALAAM.

District Executive Director,
Ruungwa District Council,
P. O. Box 51,
RUANGWA.



Appendix iii: Payment Voucher



THE UNITED REPUBLIC OF TANZANIA
PRIME MINISTER'S OFFICE
REGIONAL ADMINISTRATION AND LOCAL GOVERNMENT
Ruangwa District Council

PAYMENT VOUCHER

PV No: PV001893

Payee's Name: DED - RUANGWA
Payee's Code: DED
Address: P.O BOX 51
RUANGWA
VRN:
TIN: 102 - 131 - 541

Apply Date: 18/02/2013 Invoice No: HWR/1.1/3VOL Terms of Payment: ASAP
PO No: N/A Invoice Date: 21/11/2012 Check Status: POSTED
Payment Method: OPEN Posting Code: CREDITORS

Amount Payable: Tshs *****650,000.00

Amount Payable in Words: SIX HUNDRED FIFTY THOUSAND AND ZERO CENTS ONLY

Payment in respect of: MALIPO YANAFANYWA KWA MTAJWA HAPO JUU IKIWA NI POSHO KWA AJILI KUTEMBELEA MIRADI YA TASAF KUTOA MAELEKEZO YA MATUMIZI YA DAFTARI LA FEDHA NA KITABU CHA VIFAA KWA VITENDO. BARUA YA MAOMBI NMEAMBATANISHWA.

Source of Fund: Tanzania Social Action Fund (T)

To be Paid from Bank Account: Development Cash Account

EXAMINED AND READY FOR PAYMENT
SIGNATURE: *[Signature]*
Tshs: 650,000.00
DATE: 21/2/13

ACCOUNTING ENTRIES

ACCOUNT CODE	ACCOUNT DESCRIPTION	DEBIT	CREDIT
221005-76-3092-504A-2-X-0000-C01C05	Per Diem - Domestic	*****650,000.0	
331201-76-3092-0000-0-0-0000-000000	Sundry Creditors		*****650,000.00
Totals		*****650,000.0	*****650,000.00

PAID
CHA No. 0200284
P.V. No. 1112
Date: 21/2/13

Prepared by:
Name: JosephM
Designation: *[Signature]*
Signature: *[Signature]*
Date: 18/02/2013

Originated by:
Name: N.B. Mwakolga
Designation: Ag. HOD - AHR
Signature: *[Signature]*
Date: 21/02/2013

Approved and Authorized by:
Name: *[Signature]*
Designation: *[Signature]*
Signature: *[Signature]*
Date: 21/2/13

Printed On 2013/02/21 09:03:12AM



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THE UNITED REPUBLIC OF TANZANIA
PRIME MINISTER'S OFFICE
REGIONAL ADMINISTRATION AND LOCAL GOVERNMENT
Ruungwa District Council

PAYMENT VOUCHER

PV No: PV003013

Payee's Name: DED - RUANGWA	
Payee's Code: DED	
Address: P.O BOX 51	
RUANGWA	
VRN:	TIN: 102 - 131 - 541

Apply Date: 29/05/2013	Invoice No: HWR/M.3/45	Terms of Payment: ASAP
PO No: N/A	Invoice Date: 27/05/2013	Check Status: POSTED
	Payment Method: OPEN	Posting Code: CREDITORS

Amount Payable: Tshs *****2,255,000.00

Amount Payable in Words: TWO MILLION TWO HUNDRED FIFTY-FIVE THOUSAND AND ZERO CENTS ONLY

Payment in respect of: MALIPO YANAFANYWA IKIWA NI POSHO KWENDA ARUSHA KWENYE MKUTANO MKUU WA MWAKA WA KUJADILI UTEKELEZAJI WA PROGRAM YA MAJI NA USAFI WA MAZINGIRA, BARUA YA MWALIKO NA MAOMBI IMEAMBATANISHWA.

Source of Fund: NWSSP

To be Paid from Bank Account: Development Cash Account

EXAMINED AND PAID FOR PAYMENT
SIGNATURE: *[Signature]*
Tshs: 2,255,000
DATE: 29/05/2013

ACCOUNTING ENTRIES

ACCOUNT CODE	ACCOUNT DESCRIPTION	DEBIT	CREDIT
411017-76-3092-510B-2-N-3280-C01D05	Water Wells and Schemes	*****2,255,000.0	
331201-76-3092-0000-0-0-0000-000000	Sundry Creditors		*****2,255,000.00
Totals		*****2,255,000.0	*****2,255,000.00

PAID 2,255,000
CHQ. NO. 68/5
P.V. No. 68/5
DATE: 30/05/2013

Prepared by:
Name: MmuyaR
Designation: *[Signature]*
Signature: *[Signature]*
Date: 29/05/2013

Originated by:
Name: *[Signature]*
Designation: *[Signature]*
Signature: *[Signature]*
Date: 30/05/2013

Approved and Authorized by:
Name: *[Signature]*
Designation: *[Signature]*
Signature: *[Signature]*
Date: 30/05/2013

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