THE ROLE OF INTERNAL AUDIT UNIT IN SAFEGUARDING THE PUBLIC FUNDS IN LOCAL GOVERNMENT AUTHORITIES: THE CASE OF SUMBAWANGA MUNICIPAL COUNCIL

BY

ERNEST BAROMA MBASYA

Dissertation Submitted in Partial Fulfillment of the Requirements for Award on the Degree of Masters of Science in Accounting and Finance of Mzumbe University

CERTIFICATION

We, the undersigned certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled**: The role of Internal Audit Unit on Safe guarding the Public Funds on Local Government Authorities .The Case of Sumbawanga Municipal Council,** in fulfillment of the requirements for award of the of Master of Science in accounting and finance of Mzumbe University.

Signature _____

Major Supervisor `

Signature_____

Internal Examiner

Accepted for the Board

Signature_____

Dean/Director/Faculty/Directorate/ School/Board

DECLARATION

I, **ERNEST BAROMA MBASYA**, do hereby declare that this thesis 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.

Signature……

Date……

COPYRIGHT

© Ernest Mbasya, 2012

This dissertation is a copyright material protected under the Berne Convention, the copyright Act 1999 and other international and national enactments in that behalf, on intellectual property .It may not be reproduced by any means in full or in part, except for short extracts in fair dealings, for research or private study, critical scholarly review or discourse with an acknowledgement, without the written permission of Mzumbe University, on behalf of the author.

ACKNOWLEDGMENT

Firstly, I would like to thank God for the grace he has given me to accomplish this research on time. My effort to produce this paper would not succeed without the help of people who generously set aside time to assist me. I wish to express my sincere gratitude to all of them for their valuable support.

In advance, I would like to extend my heartfelt gratitude and appreciation to my supervisor Dr E. Kipesha who assisted me with all necessary guidance and advice. Despite his busy schedule, he found time to read, comment, discuss and advice me during my research proposal writing and even report writing.

I feel indebted to my family especially my lovely wife Ruth Mwakyusa and my lovely daughter Erin for their love, kindness, advice and prayers during my study, I really appreciate for everything they had done to me.

I thank Mr. Mahenge Fadhil and Sanga Abbas for sparing their precious time to critically reviewing and commenting on this research so as to make sure that the work is understandable.

Thanks also to all staffs of Sumbawanga Municipal Council, especially, Ardius Nkwimba, for his commitment, encouragement and feedback when I was developing and testing some data during the research time. Thank you so much for your commitment.

DEDICATION

I would like to dedicate this work to my lovely wife Ruth Mwakyusa and my father Mr. Baroma Mbasya for their kindness, advice, material support, prayers, caring and financial support during my study. I have nothing to pay them but I pray to God to give them more strength and wisdom in the remaining days of their lives

Above all, I would like to thank God for his guidance, protection, love, kindness and everything He has done to me, because I believe without him, I'm nothing and I could not reach where I am.

LIST OF ABBREVIATIONS

CAG	-	Controller and Auditor General
CIPFA	-	Chartered Institute of Public Finance and Accounting
IAU	-	Internal Audit Unit
IIA	-	Institute of Internal auditors
LAFM	-	Local Authority Financial Memorandum
LGA	-	Local Government Authority
LGA	-	Local Government Authority
MD	-	Municipal Director
NBAA	-	National Board of Accountants and Auditors
PETS	-	Public Expenditure Tracking System
PFA	-	Public Finance Act
PFR	-	Public Finance Regulations
PMO-RALG	-	Prime Minister's Office-Regional Administrative and Local Government Authorities
PPA	-	Public Procurement Act
RAS	-	Regional Administrative Secretary
SMC	-	Sumbawanga Municipal Council
VFM	-	Value for Money

ABSTRACT

The study aimed at looking on the role of Internal Audit Unit on Safeguarding Public Funds on Local Government Authorities ; the case of Sumbawanga Municipal Council. Safeguarding Public Funds on Local Government Authorities depends much the level of performance of the management and the IAU is supposed to check if the Management perform its duties according to the controls and guidelines, so the report of the IAU must reveal the level of performance of the management so if there is weaknesses we expect the IAU to be in the first line to reveal such weaknesses. Though there is IAU in SMC but still do not reveal the weak performance of the management of SMC.

The objectives of the study were to identify the functions of the IAU in SMC so as to check why it does not reveal the weak performance of the management which causes the misuse of the public funds. The level of competence of the internal auditors was examined to see if they are competent to perform their work. The level of independence also was examined to check if they are independent in mind and appearance. The level of objectivity was examined to see if the internal auditors are free from conflict of interest in their normal works.

Data for the study were collected by means of interviews and sample questionnaires in which a total of 90 respondents participated in the study.

Research findings indicate that IAU has not done enough to safeguard Public funds in local governments because the section instead of ensuring that public funds are properly safeguarded , it ends-up with reports which do not reveal the misuse of the public funds so that many stakeholders recently decide to rely much on external audit like the CAG's report.

Based on these findings, it shows that the IAU in Sumbawanga Municipal Council failed to reveal the misuse of the public funds so as to make sure that the government officials accountable in various ways on safeguarding the public funds.

Therefore, there is a need to check out the reporting channel of the IAU so as enable them to be more independent in their work for example the IAU have to report to the

Internal Auditor General and not Municipal Director. There is a need also to provide on-job training so as to increase the level of competence and provision of proper guidelines and other support like adequate financial ability.

TABLE OF CONTENTS

CERTIFICATION ii

DECLARATION iii

ACKNOWLEDGMENT v

DEDICATION vi

LIST OF ABBREVIATIONS vii

LIST OF TABLES xiv

LIST OF FIGURES xv

CHAPTER ONE 1

INTRODUCTION 1

1.2. Background of study 1

1.2. Statement of the problem 3

1.3 Research Objectives 5

1.3.1. General objectives 5

1.3.2. Specific objectives 5

1.4. Specific Research Questions 6

1.5. Significance of the study 6

1.6. Limitations of the study 6

1.8. Scope of the study 7

CHAPTER TWO 8

LITERATURE REVIEW 8

2.0. Introduction 8

2.1. Theoretical Literature Review 8

2.1.1. Definitions of terms 8

2.1.2 About Local Government Authority in Tanzania 12

2.1.3. Legal Basis of the Local Government Authorities 12
2.1.4 Aim of Local Government in Tanzania 12
2.1.5. Historical analysis of internal audit 13
2.1.6. Meaning of Internal Audit 13
2.1.7. Internal Control 15
2.1.8. Public Funds 18
2.1.9. Overall activities of the internal audit 19
2.1.10. The role of internal Audit Unit in Safeguarding the Public Funds 19
2.2. The Conceptual Framework of the Study 30
2.2.1. Meaning of a conceptual framework 30
2.2.12.2 Descriptions of independent variables used in the conceptual framework 31
2.3. Empirical Literature Review 34
2.3.1. Experience on Effectiveness of the internal audit in safeguarding the public funds in Local Government Authorities. 34
CHAPTER THREE 36
RESEARCH METHODOLOGY 36
3.0. Introduction 36
3.1 Area of the study 36
3.2 Research Design 36
3.3. Population of Study 37
3.4. Sampling techniques and sample size 38
3.4.1. Purposively or judgmental sampling 38
3.5. Methods of data collection 38
3.5.1 Documentary Sources 38
3.5.2 Interviews and Discussions 39
3.5.3 The Administered Questionnaires 39

3.6. Type of data used 40
3.6.1 Primary Data 40
3.6.2 Secondary Data 40
3.7. Data Analysis and Presentation 41
CHAPTER FOUR 42
PRESENTATION AND DISCUSSION OF FINDINGS 42
4.1. Introduction 42
4.2. Demographic characteristics of respondents 42
4.2.1. Age of respondent 42
4.2.1. Sex of respondents 43
4.2.2. Educational level of Respondents 43
4.3. Findings from the Respondents 44
4.4. Functions of the IAU in the Study Area 45
4.5.1. Findings regarding Objectivity and independence of IAU at SMC 47
4.5.2. Findings regarding adequacy of Internal Controls at SMC 48
4.5.3. Findings regarding proficiency of IAU of SMC 49
4.6. Improvement Suggestions 54
CHAPTER FIVE 57
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS 57
5.1 Introduction 57
5.2 Summary of findings 57
5.2.1 Lack of Independence and Internal Control 57
5.2.2 Lack of Skills and Compliance with the Auditing Standards 57
5.2.3 Problem of organizational structure and information dissemination 58
5.4 Comments 58
5.5 Conclusions 59

5.6. Recommendations 60

REFFERENCES 62

INTERVIEWS AND QUESTIONNAIRES 65

QUESTIONNAIRES 66

STRUCTURED INTERVIEW QUESTIONS 69

LIST OF TABLES **Page**

Table 1: Socio-demographic characteristic of respondents…….32

Table 2: Experience and education needs of the Staffs under IAU…….37

Table 4.4: Independence of IAU at SMC……48

Table 4.5: Adequacy of Internal controls at SMC……49

Table 4.6: Proficiency of IAU at SMC ……52

LIST OF FIGURES **Page**

Figure1: Model of safeguarding Public Funds in LGAs……..……21

Figure2: Competence of Internal Auditors in LGAs……...……22

Figure3: Objectivity of Internal Auditors in LGAs……..... 23

Figure4: Work performance of IAU in LGAs……..… 24

Figure 5: Availability of Internal Auditors Staffs in LGAs……...…. 34

Figure6: Situation of IAU Independence in LGAs…….…. 39

CHAPTER ONE

INTRODUCTION

1.0. Introduction

This chapter provides the general introduction of doing the research, the background of the research, the background of the study, the back ground of the problem, the statement of the problem, the objectives of the study and the significance of the study all of them have shown in this chapter

1.2. Background of study

Auditing is very essential in any organization because it gives concerned on the evaluation of various controls, examining deviation from applicable standards and any instance or act of irregularity, inefficiency and ineffectiveness with the motive of taking corrective action (Aikins, 2011). The noble role served by auditing activity to the organization has been underscored by the government of the united republic of Tanzania through article 143 of the Constitution of the United Republic of Tanzania, and Sect. 45 of the Local Government Finances Act No. 9 of 1982 (revised 2000) together with Sect. 10(1) of the Public Audit Act No.11 of 2008, which requires the Controller and Auditor General to be the statutory auditor of all Government revenue and expenditure, including the revenue and expenditure for Local Government Authorities. Moreover, Local Government Finance Act No 9 of 1982 (revised 2000) requires the accounts of every district and Urban Council to be audited internally by an Internal Auditor employed by the authority concerned.

Recently, consideration in the topic of internal audit is receiving more attention especially when considering its contributions to the management of either public or private sectors in the aspect of organizational resources this is because internal audit has become an unavoidable control mechanism in both public and private sectors (Cohen

and Sayag, 2010), therefore it is the right time to seriously consider the issue of internal audit. Internal audit could also add value by helping organisations to achieve economy, efficiency and effectiveness (Al-Twaijry, and Gwilliam, 2003).

Ruud (2003) noted that internal audit render two main services to an organisation i.e. assurance and consulting services. An assurance service are those service that has to do with the ability of the internal auditor to provide such as independent assessment on the level of risk management, control, and governance processes of the organization, financial aspect, performance, compliance, system security and due diligence engagements (ibid).

Moreover, Ruud (2003) argue that, consulting services are those service that concerned with the advisory and related client service activities that concerned with the nature and scope agreed upon with the client and which are intended to add value and improve the organization's operations. These may also include advice, counsel, facilitation, process design, and training. Despites, all those service above, Dezoort, Houston and Peters (2001) suggested that those internal auditors that act as consultant to the organization they may not be able to maintain their objectivity within such organization. Therefore, in order for the internal auditor to provide both assurance services as well as consulting service, they needed to be independent with objectivity, competency, as well as ethical behaviour. In addition, internal auditor needs to be independent and should have right of access to council's records, personnel and must have sufficient authority to carry out the internal audit role (Payne, 2005).

In a nut shell, internal audit unit provide organization with the following services mainly; reviewing the internal control system and identify weaknesses and suggest improvement on the same; device and introduce new control systems. The internal auditor is responsible to management for the efficient operation of the other internal controls by reviewing the work of the other employees, thereby promoting efficiency. Also, they inspect subsidiary companies, branches, departments and the head office. It is

concerned with the detection and prevention of errors and mistakes. Checking the day to day transactions in sufficient details to reduce external auditors work which might save time and money. Other services rendered by internal auditors includes; identifying adverse trends in business, identify transactions which raise issues of integrity, identify transactions indicating careless judgments and wrong decisions, testify in courts on eventualities like frauds and thefts.

All of the above roles served by internal auditors in an organization can be summarized by saying among other issues; they focus on safeguarding resources of the organization such that they will be utilized for the betterment of the organization. Resources in the LGAs require special care so that the prime objective of having LGAs which is effective and efficient service delivery to the public can be attained appropriately. In order to safeguard resources owned / controlled by LGAs, the Tanzania Government through the Ministry responsible for Local Government (Prime Ministers' Office Regional Authorities and Local Governments- PMORALG) provided a guideline to the councils to make sure that they recruit an internal auditor so as to check if the relevant controls of the council are being followed by the management for the purpose of safeguarding resources mainly fund which are being channeled to LGAs.

1.2. Statement of the problem

Scholars (Jurchescu, 2010; Ruud, 2003; and Al-Twaijry 2003) view internal audit as an independent and objective functional activity which provides security and management advice with the aim of ensuring effective management of public income and expenditure, ensuring proper activities within public organization, helps the public organization to achieve their objective through systematic and methodical approaches, evaluate and improves the efficiency and effectiveness of internal control system, risk management and management processes. This view brings an understating that activities of internal auditors in public organization, especially on the protection of the public property, the proper utilization of revenue and expenditure as well as the evaluation of

the efficiency and effectiveness of risk management, internal control system and organizational process will be taken care accordingly by having effective and efficient internal audit unit in the organization. This means, by having internal audit unit, public entities in particular LGAs, will be able to detect and prevent risks due to fraud, irregularities and misuse of public fund. It is expected that internal audit report could be forefront in highlighting risks and advice the management on the best way forward to curb for the detected risks out of operations of LGAs.

However, empirical observations from reports prepared by internal auditors and that prepared by external auditors (C.A.G) reveals that internal auditors have been unable to serve the LGAs in the way it was expected. For instance, C.A.G audit reports have been exposing a number cases which shows embezzlements of public funds, fraud due to collusion between unfaithful employees and bank officers, misrepresentation of financial records on financial statement, and improperly vouched expenditure to mention a few when auditing financial statements of Sumbawanga municipal council (SMC) exemplify argument that internal auditors at SMC have failed to serve the intended purpose in protecting and safeguarding resources of SMC.

In line with the same argument, during the financial year 2011/2012 the audit report of C.A.G shows a number cases such as missing acknowledgement of receipts from recipient to the tune of Tsh 15, 704, 189; expenditures charged to wrong codes to the tune of Tshs 13,503,500; expenditures made out of budget to the tune of Tshs 10,975,000; misstatement of expenses to the tune of Tsh 7,872,340,746; and under collection of revenue from own sources to the tune of Tsh 624,632,020. Worse still, in the year 2005/2006 audit report of C.A.G. reveals embezzlement of public funds of Tshs 274 million which aimed at building the council headquarter.

The above empirical observations from the audit report of C.A.G shows succinctly that internal audit unit of LGAs particularly that of SMC do not provide the prior expected role of providing assurance services as well as advisory services to the SMC because all

of those cases took place before the eyes of internal audit unit and they had failed neither to detect nor to prevent occurrence of such malpractices by officials of LGAs. In that respect, researcher in this study is motivated to look for the critical reasons as to why LGAs have been faced by the problem of fraud, irregularities, and embezzlements of fund as well as misuse of public fund despite of having internal audit unit present at SMC.

1.3 Research Objectives

In order to assess reasons for continuing malpractice of officials of LGAs despite of having internal audit unit present at LGA premises, the following general and specific objectives are hereby put forward to govern the study.

1.3.1. General objectives

The general objective of this study was to assess the role of internal audit unit on safeguarding the public funds on Local government authorities.

1.3.2. Specific objectives

This particular study was guided by the following specific research objectives which were;

i. To examine objectivity and independence of IAU in safeguarding public funds at SMC
ii. To examine adequacy of internal controls in safeguarding public funds at SMC
iii. To examine proficiency of IAU in safeguarding public funds at SMC

1.4. Specific Research Questions

In order to meet the afore said specific objectives, this particular study is focused to provide answers on the following specific research questions which in turn will led into fulfillment of the specific objectives of the study.

i. Does IAU at SMC objective and independent to safeguard public funds at SMC?
ii. Does internal controls at SMC adequate in safeguarding public funds?
iii. Does IAU at SMC proficient in safeguarding public funds?

1.5. Significance of the study

Study on the role of IAU on safeguarding public funds at SMC reveals a number of valuable facts which will enable the management of SMC and the parent ministry to take a remarkable milestone in an effort to increase effectiveness and efficiency in discharging services to the public with economic sense in incurring expenditures. First, the study found that, at SMC there is poor internal control over financial reporting associated with inefficient IAU.

1.6. Limitations of the study

The following limitations were encountered by researcher when undertaking this particular study namely;

The first limitation that was encountered by researcher was poor cooperation from respondents as they had negative perception toward the study that probably their response could have brought negative impact on their employment. Secondly, financial constraints to finance research expenses limit the study to collect data from respondents in all wards of SMC hence researcher had to sample respondents from xx wards only.

1.8. Scope of the study

This study on the role of internal audit unit in safeguarding public funds at SMC was conducted by using case study design in which the study focus only on one case in details. In that regard, the study concentrated on one case only which is SMC. Thus observation and findings obtained from analysis of data pertain only to SMC and not to other LGAs in Tanzania unlike if it could be a survey study.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter provides reviews from various authors on explaining the meaning of various terms, concepts, and theories as well as providing empirical observation on matters relevant to the focus of the study. Literature review is divided into two major frameworks named, Theoretical and Empirical literature review frameworks.

2.1. Theoretical Literature Review

2.1.1. Definitions of terms

Accounting Officer refers to any person appointed under section 33 of the Government Finance Act of 2001 which states that "every director of an urban authority and every director of a district council shall be the accounting officer for the LGA of which he/she is the chief executive officer.

Audit risk; this refers to the risk that an auditor will not discover errors or malicious misrepresentation or fraud while reviewing financial statements or while performing an engagement assignment.

Internal controls – This term refers to a set of established regulations, policies procedures and systems operated by the council or unit to ensure that financial records and other records are reliable and complete and that they adhere to management policies in an orderly and efficient manner in the conduct of the council or unit's business.

Internal Audit- This term refers to an Independent appraisal activity established within the unit involved which controls its activity functions by examining and evaluating the

adequacy and effectiveness of internal controls in the council or unit and for conducting operational or value for money audits throughout the council

Agency theory is extensively employed in the accounting literature to explain and predict the appointment and performance of external auditors. The agency theory also provides a useful theoretical framework for the study of the internal auditing functions. The agency theory not only helps to explain and predict the existence of internal audit but that it also helps to explain the role and responsibilities assigned to internal auditors by the organization, and that agency theory predicts how the internal audit function is likely to be affected by organizational change.

Adams (1994) Concludes that agency theory provides a basis for rich research which can benefit both the academic community and the internal auditing profession.

The principal-agent relationship, as depicted in agency theory, is important in understanding how the audit has developed.

Principals appoint agents and delegate some decision-making authority to them. In so doing, principals place trust in their agents to act in the principals' best interests. However, as a result of information asymmetries between principals and agents and differing motives, principals may lack trust in their agents and may therefore need to put in place mechanisms, such as the audit, to reinforce this trust.

Alongside this, we know that there are other stakeholders, such as regulators, who have an interest in the audit and agency theory does not provide a simple or complete explanation of their expectations.

Furthermore, whilst agency theory would suggest that principals do not trust their agents, we know that there must be some trust in agents because of the volume of unaudited information that directors provide to shareholders.

The principal-agent relationship, as depicted in agency theory, regards the internal auditors as the agents and the government/directors/organizations etc as the principals whereby the agents (internal auditors) work on behalf of their principals (government)

Furthermore, whilst agency theory would suggest that principals do not trust their agents, we know that there must be some trust in agents because of the volume of unaudited information that directors provide to shareholders.

Audits serve a vital economic purpose and play an important role in serving the public interest to strengthen accountability and reinforce trust and confidence in financial reporting. As such, audits help enhance economic prosperity, expanding the variety, number and value of transactions that people are prepared to enter into. However, in recent years, and in the light of corporate scandals, we have witnessed ongoing global demands for improvements in audit quality. Changes have been made in the UK to promote greater transparency in the audit and accountability in auditors but there are continuing demands for further improvements to be made

This raises questions about how (and to what extent) these various demands and concerns can be addressed as follows:

Motives of agents and information asymmetries

Agents are likely to have different motives to principals. They may be influenced by factors such as financial rewards, labour market opportunities, and relationships with other parties that are not directly relevant to principals. This can, for example, result in a tendency for agents to be more optimistic about the economic performance of an entity or their performance under a contract than the reality would suggest. Agents may also be more risk averse than principals. As a result of these differing interests, agents may have an incentive to IAU information flows.

Mechanisms to align interests and the role of audit

Differing motivations and information asymmetries lead to concern about the reliability of information, which impacts on the level of trust that principals will have upon their agents. There are various mechanisms that may be used to try to align the interests of agents with that of principals and to allow principals to measure and control the behavior of their agents and reinforce trust to agents. The first approach to align interests of agents and principals is through the use of remuneration. Remuneration packages and incentives for agents can provide an effective mechanism.

Trust

The simplest agency model assumes that no agents are trustworthy and if an agent can make himself better off at the expense of a principal then he will. This ignores the likelihood that some agents will in fact be trustworthy and will work in their principals' interests whether or not their performance is monitored and output measured. The degree of untrustworthiness is therefore a key factor in determining the extent to which incentives and monitoring mechanisms need to be put in place.

Auditors are engaged as agents under contract but they are expected to be independent of the agents who manage the operations of the business. The primary purpose of audited accounts in this context is one of accountability and audits help to reinforce trust and promote stability.

This is a simple agency model of audit, where an expert independent auditor is introduced and a statutory audit performed to help address a simple agency conflict between shareholders and directors.

Auditors as agents

If as simple agency theory implies, principals do not trust agents to provide them with reliable and relevant information, then they will hire in external experts, who are independent of these agents. This, however, introduces the concept of auditors as agents of principals, which leads to new concerns about trust, threats to objectivity and independence.

2.1.2 About Local Government Authority in Tanzania

Local government refers collectively to administrative authorities over areas that are smaller than a state. The term is used to contrast with offices at nation-state level, which are referred to as the central government, national government, or (where appropriate) federal government. Local government only acts within powers delegated to it by legislation or directives of the higher level of government.

2.1.3. Legal Basis of the Local Government Authorities

Local Government is a non-Union matter. It is nonetheless enshrined in the Union constitution as well as in the constitutions of the mainland and Zanzibar. In mainland Tanzania, **the Constitution of the United Republic 1977, Articles 145 and 146** state that the National Assembly or the House of Representatives must provide for local government through legislation. **Article 146** provides that one of the objectives of the local government is to enhance the democratic process within its area of jurisdiction and to apply the democracy for facilitating the expeditious and faster development of the people

2.1.4 Aim of Local Government in Tanzania

Local Government Authorities exist for the purpose of consolidating and giving more power to the people to competently participate in the planning and implementation of

development programmes within their respective areas and generally throughout the country.

In modern nations, local governments usually have some of the same kind of powers as national governments do. For instance, they have some power to establish the IAU though these may be limited by central legislation.

2.1.5. Historical analysis of internal audit

Boynton and Kell (1996), internal auditing began as one person clerical procedure that consisted primarily of performing independent verification of bills before payment

In the early 1900s, the emphasis on internal auditing shifted from the detection of frauds to the needs of the various users of financial statements; in other words, internal audit is the product of modern social and economic development. The significant changes pushed forward by the European Industrial Revolution in the eighteenth century greatly promoted the establishment of many large share-holding companies and monopoly trust groups. With the rapid development of productive technology, expansion of operational scope, and large-sized organizations with many managerial levels, heads of companies could not directly carry out supervision so they needed some full-time representatives to do it for them. After the 1940s, internal audit entered its golden developing period, in which the theory of internal audit began systematically taking shape and internal audit organizations also came to the force. The American Institute of Internal Auditors, the predecessor of the Institute of Internal Auditors (IIA), was set up in 1941 (Boynton, and Kell1996)

2.1.6. Meaning of Internal Audit

Historically, internal audit has been viewed as a monitoring function, the Asare (2008) “organizational policeman and watchdog tolerated as a necessary component of organizational control but deemed subservient to the achievement of major corporate

objectives''. Internal audit unit is an independent, objective assurance and consulting activity designed to add value and improve an organizations' operations. It helps an organization accomplish its objective by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes. Internal audit is performed by the internal auditor who is required to fulfill some policing function to ensure that prescribed management policies and laid down procedures that are dully followed.

Buttery and Simpson (1990), defined internal audit as an integral part of the financial structure of public authorities .Most of the public authorities recognized the importance of internal audit in many years ago. It is managerial control which functions by measuring and evaluating the effectiveness of the control.

Millchamp (1996) defines internal audit as an independent appraisal function established by the management of an organization for the review of internal control system as a service to the management.

According to the Internal Audit Charter of the SMC, the Internal audit will provide reasonable assurance on the extent to which controls are in place to mitigate the business, operational and financial risks, it is important to emphasize or reiterate the fact that the council (through its management) will always assume the full responsibility and accountability for the internal controls of the local municipality. It is important therefore that each member of the council understands the significant risks impacting the district council and is therefore able to make informed decisions on the appropriateness of the focus of the internal audit function as well as passing judgment on the work performed by internal audit to draw an opinion on the functioning of the controls in place to mitigate the service, operational and financial risks.

2.1.7. Internal Control

Internal control are those elements of an organization (including resources, systems processes, culture, structure and tasks) that taken together, support people in the achievement of business objectives.

Milllichamp (1996) Defined internal control system as ‘the whole system of controls, financial and non financial established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible the completeness and accuracy of the records. Due to that description we find that the implementation and maintenance of the internal control procedures is one of the important issue in the organisation, therefore the review of the internal control must be done effectively by the internal auditor.

Tuteja and E. Malubi (2011) explain the broad objectives of maintaining a good system of internal control in an organization. They argue that, internal control system (ICS) ensures reliable financial reporting. Reports emanating from a strong internal control system will be reliable whereas reports emanating from a week internal control system will be unreliable.

Secondly, E. Malubi and Tuteja (2011) argue that, an important objective of these controls is to provide accurate financial and non financial operation information about the organization’s operations for decision making. Also, to ensure compliance with laws and regulations. An organisation must operate in accordance with the laws and regulations .These laws may relate to issues such as anti-fraud legal provisions and taxation.

In line with the same argument, a good internal control system will usually help a company achieve its objectives and minimize loss of resources. In that end, it is vivid that, an organization can achieve the above objectives if there is strong IAU whereby

one of their function is to ensure that organization maintain a good internal control. Auditors need to understand the internal control because: They can be able to assess their reliability for the preparation of financial statement and they can be able to design suitable audit procedure.

According to Cai (1997) an authority's system of internal control has a key role to safeguards the public funds and an authority's assets and the promotion of best value. Internal control facilitates the effectiveness and efficiency of operations, helps to ensure the reliability of internal and external reporting and assists compliance with laws and regulations. Each authority should seek to maintain a sound system internal control

According to Internal Audit Manual (2005), the Internal Audit shall review the soundness, adequacy and application of internal controls for both financial, management and the use of resources. Review of internal control is a useful exercise as it provides quality information to management on Safeguard of Assets, Reliability of records, Promotion of operational efficiency and Monitor adherence to policies and directives

In order to achieve the good internal control system the Internal Audit Handbook (2011) suggests that an internal control system is when internal controls with a common purpose are grouped together. Internal controls are implemented by controls activities which are the daily policies and procedures used by the management to meet its objectives, they are divided into: Adequate segregation of duties, Proper authorization of transactions and activities, adequate documents and records together with Independent checks on performance

The IAU is therefore responsible to give assurance by determining how much reliance can be placed on the entity's system internal controls to safeguard the public fund.

More recently, the Hellenic Institute of Internal Auditors (H.I.I.A., 2004) defined internal control, as: an independent, objective, adequately designed and organized

procedure, which through the technical and the scientific approaches, assess how adequately the system of internal control functions.

Internal Audit Handbook (2011) also identified the main areas of internal control that can be more closely checked by the IAU as the Financial Control and Management Control.

For the case of Financial Control, IAU should check Budgetary Control where as the LGA should plan and control its expenditures and income to meet its predetermined objectives. In order ensure financial control, the following controls should be put in place by the IAU namely;

i. The IAU should check the Legitimacy of Income and Expenditure where as all income and expenditure should be in accordance with policies of the LGA,
ii. The IAU should assess the Security of Assets where by Assets of the LGA should be kept in proper custody and not wrongly applied either by error or intent
iii. The IAU need to check also the Accounting Controls whereby All transactions should be correctly recorded and accurately processed and control accounts maintained

For the case of Management Control, the IAU needs to assess the nature of management control, whereby several basic control areas should always be checked by the IAU. The LGA should regularly review its objectives relating to any operational activity and determine the methods needed to achieve them. Management has the responsibility for determining objectives, policies and plans and the Internal Auditor should not intervene in such processes. An audit may however show inadequate controls on the supply of information to management for decision making and these aspects are legitimate areas of audit concern.

Procedures: Staff at all levels need to be regularly informed both of their overall objectives and the organizational procedures which are to be followed in order to ensure the achievement of the operational activity

Organization: The organizational structure should be clearly defined and be adequate to ensure that staffs appreciate their role, responsibilities and obligations

Management Information: Management needs to be continually informed with relevant and up to date data, of the financial and operational performance of any activity under its control

Systems of supervision and internal check (e.g. division of duties, independent checking of work, quality control etc) should be maintained to ensure that break downs including irregularities and fraud or weaknesses within the operation are revealed at an early stage

The KPMG (2001) argues that in general the internal controls act as ship's captain who is given absolute responsibility for the vessel whilst it is at sea, so they can take appropriate and timely actions to remedy any problems that may arise during the course of the voyage.

2.1.8. Public Funds

Larry (1996) defined public funds as "money that is generated by the government to provide goods and services to the general public". Poor service delivery and standards of governance constitute two major constraints to poverty reduction in Tanzania. Management of public funds can, in many cases, be characterized by inefficiency, lack of integrity, indifference and low levels of capacity of the Internal Audit.

Policy and legislative choices often prioritize prescribed objectives while failing to address the needs of the marginalized adequately. As a result, limited resources are not used to best effect.

‘The government needs to pass regulations to reduce the mismanagement of the public funds in the local government by establishing the Independent Internal Audit Department and strengthening the Audit Committee of the local government’ (CAG’s Report 2008/2009)

There are serious problems with misuse of public funds of the local government in Tanzania. The national government at central level would like to see higher efficiency in service delivery at lower levels, but this depend on the work of the IAU of the local government authorities.

‘The raising issues of misuse of public funds is controversial and sensitive, and involves a concrete commitment of the Internal Audit Unit’ (PETS Report Version 15.04.2010.) by Selina Mbulu.

2.1.9. Overall activities of the internal audit

Internal Audit Handbook (2011) identified the activities to be performed by the IAU in order to check the misuse of the public funds of the local government authorities as reviewing and appraising the soundness, adequacy and application of accounting, financial and other operating controls and promoting effective control at reasonable cost ascertaining the extent of compliance with established policies, plans and procedures, ascertaining the extent to which organization assets are accounted for and safeguarded from losses of all kinds, ascertaining the reliability of management data developed within organization ,appraising the quality of performance in carrying out assigned responsibilities ,ensure compliance by the council with legal and regulatory provisions, code of conduct, by –laws, procedures and rules established by the council

2.1.10. The role of internal Audit Unit in Safeguarding the Public Funds

Specific Internal Audit Activities shows the activities that internal auditors perform in local governments. Monitoring financial information comprises the internal auditor's

efforts. This is contrary to an emerging view in corporate governance that monitoring financial information may not add value to organizations and that, instead, internal auditors should undertake activities that management perceives are value-added.

The IIA describes the following as the major roles of the IAU which can help the local government authorities to be flee with the misuse of the public funds;

Evaluates and provides reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the organisation's objectives and goals to be met

Reports risk management issues and internal controls deficiencies identified directly to the audit committee and provide recommendations for improving the organisation's operations, in terms of both efficient and effective performance

Evaluates information security and associated risk exposures together with regulatory compliance program with consultation from legal counsel

Evaluates the organization’s readiness in case of business interruption and Maintains open communication with management and the audit committee together with continuous education and staff development

The local government audit manual (2009) Identified the following roles of the internal audit in local government authorities

To enhance that the management of the council do follow the proper ways of maintaining the internal control

To satisfy that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of the resources

To consider whether items of the Accounts are contrary to law or whether the losses have been caused by willful misconducts or a failure to account.

To access all documents and to obtain all information needed by the IAU and to audit in accordance with the general accepted audit standards and guidelines governing the audit profession

To review accounting systems and its related internal controls to examine financial and operating information for management

To review the VFM that is economy, efficiency and effectiveness of operations and of the functioning of non financial controls that is cost effectiveness, utilization of resources adherence to terms of contracts etc

To review compliance and adherence to various legislations governing financial matters including; The PPA Act 2004 and its regulations 2005, LAFM (2009),Internal Audit Handbook (2011) etc

To review and report on the adequacy of measures and actions taken by the council management in respect of the previous internal audit findings and those arises from the current audit

Due to that we note that the internal audit are there to review, appraise, and report upon the extent to which the organizations' assets and interests are accounted for and safeguarded from losses of all kinds arising from fraud and other offences and waste, extravagance and inefficient administration ,poor value for money and other cases

The Auditing Practices Board (1995) describes that the independent appraisal of the functions of the internal audit in has not been accepted by all public sectors particularly in Local Government, For example some local governments do not have separate internal audit sections engaged solely on audit duties, there is a confusion over internal

audit and internal control, Internal control is quite clearly Management's responsibility that is conducted in an efficient and well ordered manner, An internal Audit is not the substitute for the good management and it is in this area where the misunderstandings arise .For example the Municipal Engineer Sumbawanga Municipal Council is responsible for the whole system of the controls which is established within his department to safeguards its Assets, to ensure reliability of the records, promote operational efficiency and monitor adherence to policies and objectives, it is not the internal audit jobs to implement and operate such system, it is the responsibility of the Sumbawanga Municipal Council,

Therefore according to The Auditing Practices Board (1995) the IAU must perform the following functions for the purpose of safeguarding the public funds:

Review and report on controls over the receipt, custody and utilization of all financial resources.

Review and report on conformity with financial and operational procedures laid down in any legislation or any regulation or in instructions issued on good accounting practice to ensure effective control over the expenditure.

Review and report on the classification and allocation of revenue and expenditure accounts

Review and report on the reliability and integrity of financial and operating data so that information provided allows for the preparation of accurate financial statements

Review and report on the systems in place used to safeguard assets and as appropriate the verification of the existence of such assets

Review and report on operations and programmes to ascertain whether results are consistent with established objectives and goals

Review and report on the adequacy of action by management in response to internal audit reports and assisting management in the implementation of recommendations made by those reports.

Thus it is the management's responsibility to prevent, detect and investigate internal fraud, although in conducting audit assignments the IAU shall be alert to opportunities such as control weaknesses that could allow fraud and where fraud is suspected the appropriate authorities should be notified.

Regulation 34 (1) of the Public Finance Act 2001, describe duties and responsibilities of the Internal Audit Service Unit. Among the duties vested in the internal audit service are: to evaluate the adequacy and effectiveness of the internal control in the entity, to review and report on the adequacy of actions taken by managements in response to Internal and External Audit Reports, review and report on proper control over receipt, custody and utilization of all financial resources of the unit and review and report on conformity with financial and operational procedure laid down and good practice as from time to time

Reg.28 of the Public Finance Regulation of 2001 requires the Accounting Officers of each public entity to establish an effective internal audit service unit. Tuteja and E. Malubi (2011) tell us that 'historically internal audit was mostly internal audit was mostly confine to ensure that the accounting and allied records have been properly maintained, the assets management system is in place in order to safeguard the assets and also to see whether standing policies and procedures are duly complied with. But with the passage of time the objectives of the internal audit have been significantly changed. Now cost benefit analysis, resources utilization and their proper deployment, effectiveness of management decisions etc are also reviewed by the internal auditor' according to them the following are the roles of the IAU:

Evaluation of business control system; internal audit is concerned with ensuring effective and efficient system of accounting control, standard cost control, budgetary control and other financial control

Compliance with standard policies and procedures; Reporting to management about the compliance of standards policies and procedures is an important objective of internal audit. For example suppose company's standing policy is that any purchase order worth more than Tshs 4,000,000 cannot be awarded without asking quotation from at least three parties. If internal auditor found that this has not been strictly followed then he must report those cases to the management

Safeguarding and adequate utilization of business assets; Internal audit has to ensure that all assets of the company are properly recorded. It has to verify assets utilization report and determine whether fixed targets have been achieved or not. For example suppose internal auditor found that valuable scrap is not being properly recorded in the books he should include this observation in his audit report

Reliability of Management Information System (MIS); Internal audit ascertains the reliability of financial and operating reports prepared throughout the organization. The management relies on the reports of internal auditors as they provide an assurance as to validity of records and transactions of the enterprise

However, IAU as a control measure does not only minimize the opportunities for corruption through the verification of procurement processes but also ensures effective physical monitoring of capital items procured and actual utilization to avoid fraud and abuse so as to enhance that the public funds of the local government authorities are properly safeguarded.

The IAU function has become an integral part of government financial management and an instrument for improving performance in the public sector. The need for good governance and accountability has compelled governments to demonstrate a stronger

sense of responsibility in the use of public funds and efficiency in the delivery of services to the society. Management of national economies today is more complex and demands greater competency and professionalism from internal auditors if they are to be able to assist government in ensuring that scarce resources are deployed more efficiently and to also effectively deal with the associated risks.

The report of commonwealth Secretariat 2005, p.17. tell us 'that internal audit function is an essential part of any public expenditure management system and should ensure that public spending is within budgetary provisions ;disbursements comply with specified procedures, provides for the timely reconciliation of accounts and effective systems for managing and accounting for physical and financial assets of the local government'

Boynton and Kell, (1996) puts forward the case that "Management must recognize the value added role of internal audit and contribute towards its effectiveness on safeguarding the public funds.", and that "As internal auditing in the public sector assumes a status of professional practice, management would benefit from its recommendations in improving its decision-making and thus would be playing a more proactive and foresight role."

Also tell us that the internal audit function is in a good position to help senior management of public institutions and the local government authorities to identify risks, suggest risk management strategies and, ultimately, provide assurance that the risks are being appropriately managed. Thus, the internal auditing function evaluates the effectiveness of public institutions and local government authorities in achieving agreed objectives and thereby promoting strong governance and accountability regime.

Internal audit function also applies professional skills through the evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the organization's objectives. The recommendations made by internal

audit for improvement helps management in public sector entities to improve their risk management, control and governance processes.

Gray, and Manson, S(2000) tell us that internal auditors could play instrumental role in performing value-for-money (VFM) audits otherwise called "Performance Audit".

Performance audits are concerned with the audit of economy efficiency and effectiveness of government expenditures or spending plans. In practice, performance auditing is focused on assessing whether organizations are doing the right things and in the smartest way.

The lecture guide notes of E. Malubi E(2011) shows that the establishment of the IAU in any organization will provide the following advantages in an organization as that it facilitate the early detection and easy prevention of the frauds and errors and helps in reducing wastages and chances of losses or damage to business property

According to the report of the INTOSAI, (2004, p.11) shows that the performance audits may serve as a good mechanism in evaluating operating performance in the budget execution process.

It is based around the following questions and functions of which the Internal Auditors will make follow up of How much do programs cost?, How were they financed? What was achieved? What were the processes followed in achieving the assessing impacts that may provide a useful feedback

Thomas (2012) tells us that internal audits provide a number of important services to an organization. These include detecting and preventing fraud, testing internal control, and monitoring compliance with organization policy and government regulation. Establishing an internal audit function provides a vital step in the growth of organization as well as local government authorities to reach their goals.

According to Jeffrey Thomas(2010) the non establishment of the IAU may cause the local government authorities to experience the fraud, local governments lose millions of money every year to employee theft. Types of fraud committed by employees include skimming payments from customers, check tampering, cash theft, and improper payroll transactions. Central government may believe they lack the staffs to create an internal audit policy or carry out audits to combat these problems. However, even with a small staff, an organization may create a program for monitoring employees and their behavior. An announced policy of internally auditing financial transactions for fraud may inhibit an employee from misusing company resources.

A formal internal audit policy, even if conducted part time by individuals normally assigned other duties, performs other tasks besides detecting fraud. Examining policies and procedures on a regular basis ensures that organization minimizes its exposure to fraud and other losses.

Through the website Http//www.ciia.org.uk.retrievied on 10th may 2013, the descriptions of the Chartered Institute of Internal auditors (2013) shows the following importance of the IAU

Internal auditors deal with issues that are fundamentally important to the survival and prosperity of any organization. Unlike external auditors, they look beyond financial risks and statements to consider wider issues such as the organization's reputation, growth, its impact on the environment and the way it treats its employees.

In sum, internal auditors help organisations to succeed. We do this through a combination of assurance and consulting. The assurance part of our work involves telling managers and governors how well the systems and processes designed to keep the organisation on track are working. Then, we offer consulting help to improve those systems and processes where necessary.

The internal audit assist all members of management in the effective discharge of their functioning, by furnishing them with objective analysis, appraisals, recommendations and pertinent comments concerning the activities reviewed. The internal audit, in essence should be concerned with any phase of business activity wherein it can be of service to management

It protects the management by the bringing to its notice the deficiencies in advance, before the external auditors point out

Audit report, an audit report is prepared following the audit and offers a summary of the investigation. Besides providing a summary, the report will document any observations noted by the auditors. The response to the audit report is another important component. In the response, any individual or department that is cited for an observation is able to explain what corrective procedures will be taken to prevent further occurrence of deviations

According to Quality Gurus (2009) there were asked a question of 'why is internal audit important to an organisation?' different scholars replied the importance of internal audit as follows:

Internal Auditing is an independent and objective appraisal mechanism within the institution. The findings and recommendations highlight the areas were corrective action and improvement are needed.

Internal auditing can cover more than one topic at the institution or concentrate one aspect assess the efficacy and reliability of different processes.

Frequent internal auditing measure compliance with the institution policies and procedures.

Internal Auditing improves accountability, ethical and professional practices and the quality of output, support decision making and performance tracking.

It can be used to examine and evaluate activities, as a service to the institution promoting effective control at a reasonable cost and Internal auditing helps organizations achieve their stated objectives.

Martin (2012) remind us that, many councils, have been busy reshaping internally in recognition that 'salami slicing' won't work over the long term. Some have been adopting innovative structures, seeing agile commissioning models as the answer. Others have been looking to use the Localism Act to delegate delivery to community groups, to unlock both efficiency and generate the kind of 'ownership'

Spending time, effort and money therefore on activities such as internal audit may not feel like 'saving' but a focus on audit and compliance can, in fact, pay significant dividends. Carrying out a wholesale contract audit, for example, can very quickly identify savings across the piece.

It's often in safeguarding the routine controls that the true value of the 'third line of defence' is demonstrated. Using intelligent techniques, internal audit can provide good comfort on changing systems even with smaller overall service budgets about.

Therefore effective internal audit unit oversight and monitoring are crucial to good governance and effective Public Financial Management (PFM). Internal oversight includes the internal audit function that must be effective and should comply with generally accepted auditing standards with regards to practice and approach. The focus of internal auditing is to determine whether public funds have been spent for the purposes for which they were appropriated and thereby promoting accountability. Internal audit undertakes reviews of individual systems and processes.

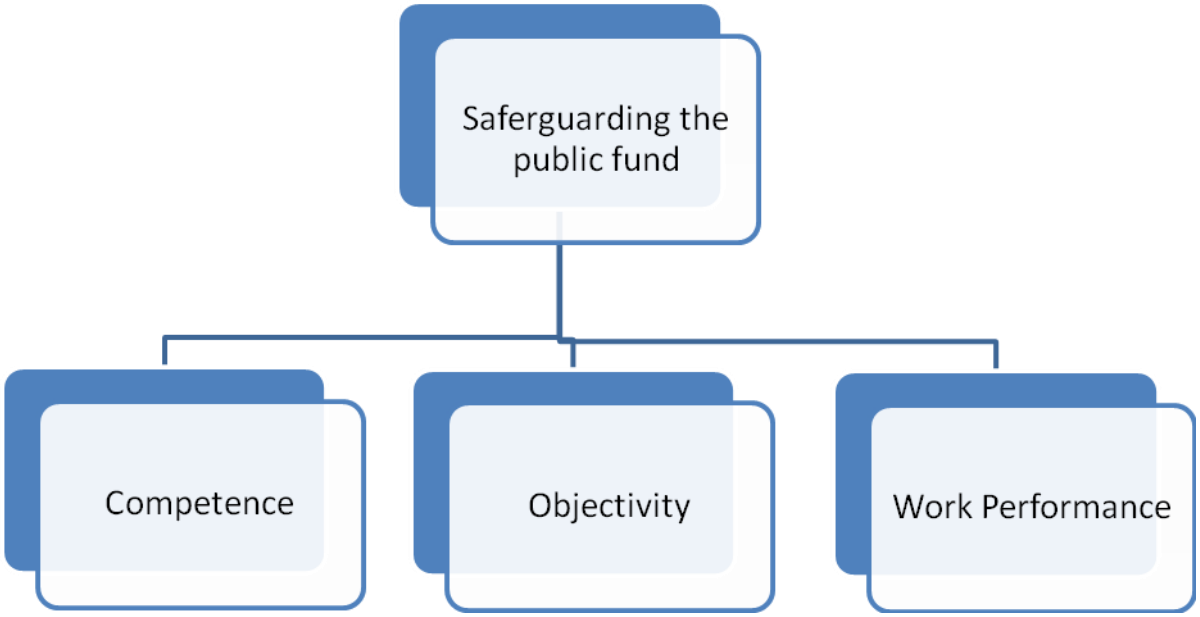
2.2. The Conceptual Framework of the Study

2.2.1. Meaning of a conceptual framework

Conceptual framework is described as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Reichel and Ramey, 1987).

In day to day practices, safeguarding the public funds on local government requires the level of competence, objectivity and work performance. These aspects represent major components that enrich the safeguarding of the public funds within the framework of local governments as demonstrated below:-

Figure 2.1: **safeguarding the public funds in local government**



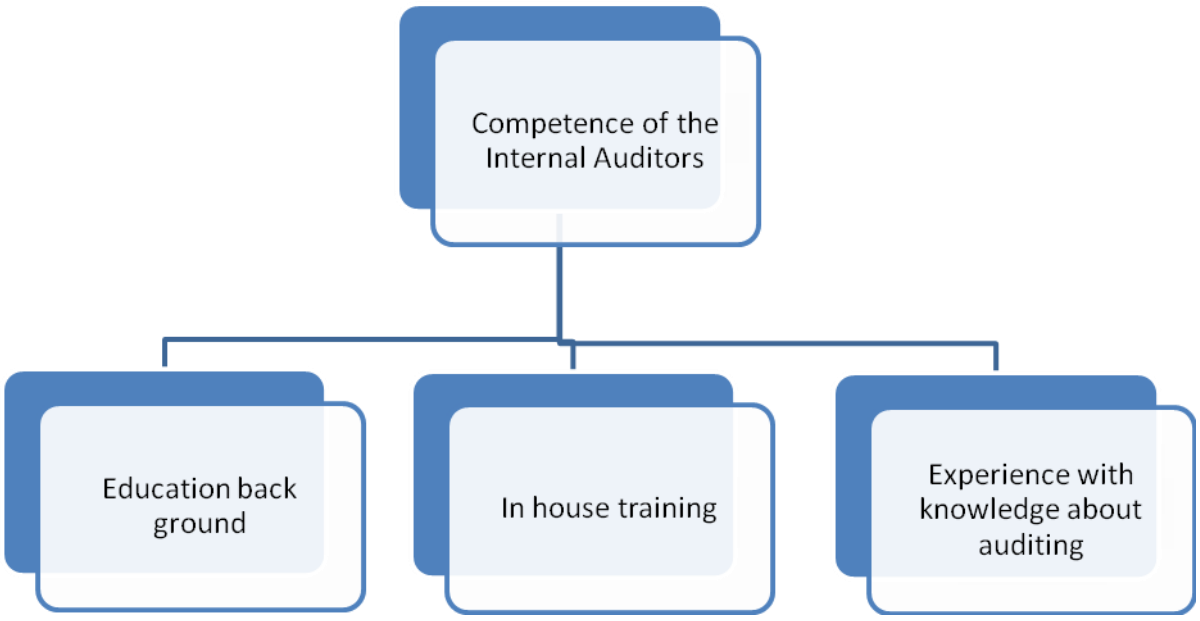
Source: Baltaci & Yilmaz,2006 , p.11

2.2.12.2 Descriptions of independent variables used in the conceptual framework

Competence

A competent internal auditor is expected to exhibit better work performance. Similarly, one can also expect work performance to be dependent on objectivity since an objective and independent auditor is more likely to make judgments that improve work performance. According to Messier and Schneider, 1988; Dezoort et al., 2001, the competence of the internal auditor depends upon the following summarized diagram:

Figure 2.2: factors which determine the competence of the Internal Auditors



Source: Messier and Schneider, 1988; Dezoort et al., 2001

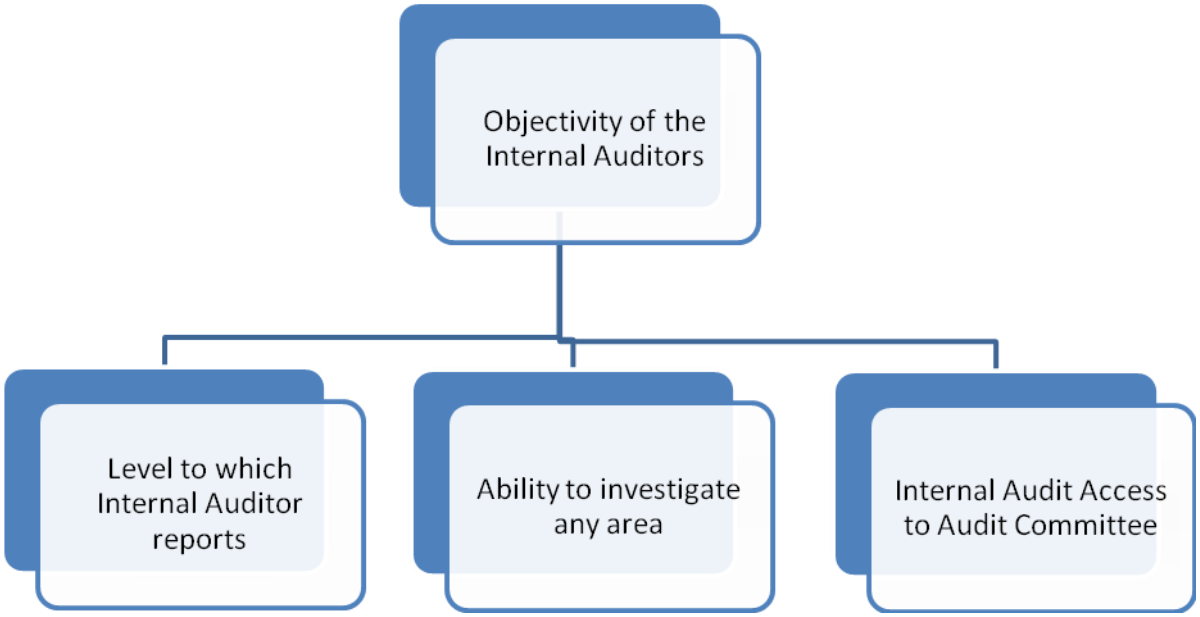
Objectivity

When we find the work performance of the internal auditors to be of high quality on safeguarding the public fund, we assume that the internal auditors must be highly objective in the performance of their duties.

Results of the sensitivity analyses reveal that objectivity is the most dominant factor in the evaluation of the safeguarding the public fund, even when high levels of belief in the competence and work performance of the internal auditors are present, the strength of the Internal Audit Unit function is found to be very low when there is no information about the level of objectivity of the internal auditors. One reason for this contradictory finding, from prior research, could be the level of difficulty in obtaining evidence about the objectivity of the internal auditors.

Therefore the objectivity of the Internal Auditors depends on the following factors as summarized in the following diagram

Figure 2.3: factors which determine the objectivity of the Internal Auditors

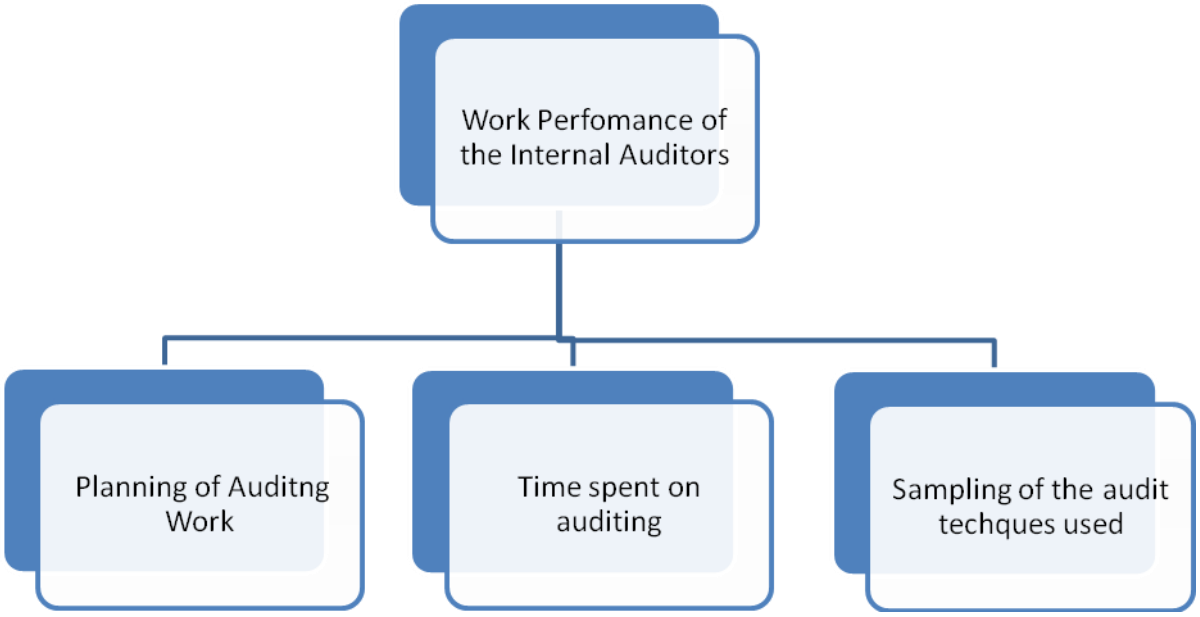


Source: Baltaci & Yilmaz, 2006, p.11

Work performance

When internal auditors were found to be highly committed on his duties, the strength of the audit function was perceived to be quite high on safeguarding the public the public fund of the local government even when there is no evidence about the competency of the internal auditors.

Figure 2.4: **factors which determine the work performance of the Internal Auditors**



Source: Krishnamurthy (2001)

2.3. Empirical Literature Review

Many research studies have been undertaken by different scholars in relation to the role of the internal audit unit on safeguarding the public funds on Local Authorities. The following is the brief review of their studies and their findings

2.3.1. Experience on Effectiveness of the internal audit in safeguarding the public funds in Local Government Authorities.

In the light of the recent development trends, the internal audit plays the great role on safeguarding the public fund of the local government, but the proper safeguarding of the public fund depends much on the level of independence of the internal auditors. Independence to make objective judgment implies that the auditor will have no direct management responsibility for.

Diamond (2002) in his research presented to IMF he said that "in order to archieve the best means of safeguarding the public funds,the internal auditors needs to be more independent in his work" therefore he described different examples from different countries of which the IAU work independently to safeguard the public fund of the local government authorities among the country is Kenya where there is internal audit service department within the treasury, the service being responsible for providing Internal Audit service for all government departments and is headed by the internal auditor general.

The KPMG (2001) research on 'Internal Control Mechanisms' revealed that the IAU functions should be decentralized for in order to take action on internal audit recommendations. This research revealed that in Africa, the South Africa and Ghana are examples where the internal audit units are managed without guidance or control from central finance ministry. The units form part of the departments' own structures.

However in the case of Ghana there exists the internal audit agency that is established under the internal audit agency act 2003 as an oversight agency and charged with responsibilities of facilitating, coordinating and providing quality assurance for internal audit practices and technical performance on the public fund .The oversight agency reports to the president

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. Introduction

This chapter described the methodological framework of the study which included area of study, research design, units of units of inquiry, sampling techniques, data collection methods, data presentation methods and analysis plan. The methodology which will be selected aimed to meet the objective of the study which is to assess the role of the internal audit unit on safeguarding the public fund on local government authorities.

3.1 Area of the study

This study was carried out at SMC. The SMC is found in south-western part of Tanzania, in the Southern Highlands of Ufipa Plateau. It is located between latitudes 7° 48'S and 8°31' South of the Equator, and longitudes 30° 29'E and 31° 49' east of the Prime Meridian The municipal covers an area of 1329 km². Sumbawanga Municipal Council is one of four councils of Rukwa region. Others are Sumbawanga Rural, Kalambo and Nkasi. The municipality comprises of two divisions of Lwiche and Itwelele, and has 15 wards and 25 villages. The headquarters of Rukwa region and Sumbawanga District Council are found within the municipality. At the municipal level, the administrative tasks are entrusted to Sumbawanga Municipal Council leadership. The leadership is assisted by the 13 ward executive officers, who are in turn assisted by several hamlets and Streets leadership. The divisional leadership is answerable to district commissioner office.

3.2 Research Design

The research design is the overall plan or program of the research, based on this particular area of the study. This has been so to cope with time and financial constraints allocated for the purpose. Also design enabled a researcher to use effectively and

efficiently the scarce financial resources endowed for the study. For the purpose of this research, the researcher used a case study research design because it allows using combinations of technique such as interview, questionnaires, observation and documentation that can help in collection of data. Moreover, the use of case study design it led into in depth understanding of the phenomenon (Krishna swami, 2006).

According to Krishna swami, (2006) a case study research design involve an in depth comprehensive study of a person, a social group, an episode, a situation, a program, a community, an institution or any other social unit. It involves the empirical investigations of a particular contemporary phenomenon within its real lie context where multiple sources of evidence were used. Case study research design used in this study because provides more comprehensive evidence for studying a research problem. Researchers was given permission to use all of the types of data and tools of data collection available rather than being restricted to the types of data collection typically associated with qualitative or quantitative approach. The main challenges of case study design are may be suspicious when unscientific approach used and insufficient data collected can lead to inappropriate results.

3.3. Population of Study

Population of study is a group of individuals who have one or common characteristics that are of interest to the researcher (Best and Khan, 1998). In addition population is referred as a full set of cases from which a sample is taken (Saunders, 2007). Therefore, population for this particular study comprised of members of the IAU, management of SMC, councilors of SMC, and employees of SMC are belonging to other departments within the municipality.

3.4. Sampling techniques and sample size

Kothari, (2004) described sample size as the total number of units or items used to represent the characteristics of whole population Sample size must satisfy some requirements such as representativeness, flexibility, efficiency and reliability. Other factors such as desired precision, acceptable confidence level for estimate, budgetary and time constraints play a crucial role in deciding sample size. According to Sakaran, (2000) sample sizes larger than 30 and less than 500 are appropriate for most research. Sampling technique refers to the method that researcher used in selecting representatives cases for the study from the target population.

3.4.1. Purposively or judgmental sampling

This method was used to determine the sample to represent SMC's officials basing on their position, experience and knowledge of the topic at hand because of their unique position they have from other employee. The group under this category included Director, councilors, heads of department and heads of section because of their unique position they have from other employee

3.5. Methods of data collection

The researcher used the following techniques in collecting data from the study; review of documents, conducting interviews and discussions, as well as administering questionnaires. Data collection processes and rationale for the selection of the techniques was as follows;

3.5.1 Documentary Sources

The researcher reviewed the official as well as non official documents so as to gather secondary data for the study**.** This method involved reviewing of various literatures related to internal audit. Documents that was reviewed includes Internal audit charter of the Sumbawanga municipal council,, Local Authority Financial Memorandum (LAFM)

1997 and 2010, Reports of Controller and Auditor General (CAG), Local Government Finances Act of 1982,Internal audit manual of the local government authorities of 2005, Public finance act of 2001 and its regulation of 2004 and others .

3.5.2 Interviews and Discussions

The researcher was as well conducted interviews and discussions with various key employees like the director and heads of departments and other respondents of lower level to fill questionnaires. Interviews conducted were structured, that is the questions and their sequence was fixed such a way that information be sought. Interviews used to attract the high response rate, to enable control on the interview proceedings, to ensure that all questions are answered and to appreciate the non verbal behavior. The structured questions was similar to questions that be developed in the questionnaires for consistency.

3.5.3 The Administered Questionnaires

The aim of using the written questionnaire in this study was to gather data on the demographics of the respondents, on their frequency and reasons for the existing revenue collection procedures. Both open ended and closed questionnaires will be prepared and given to the required respondents who work in different departments.

Every data collection method has inherent weaknesses. Self administered questionnaires with closed-ended questions could affect anonymity and limit respondents perceptively. Some of the research questions will be added with a phrase “others please specify” to give a room for a respondent to add any other views which have not been captured among the choices.

3.6. Type of data used

For the purpose of this study and in order to achieve its objectives both primary and secondary data were used.

3.6.1 Primary Data

This refers to data or information which collected for the first time; therefore they happen to be origins in character (Kothari, 2004). These are information, facts or statistical materials which collected direct from the field; it may be through oral interviews or discussions or through written diaries, minutes, proceedings, pictures and objects (ibid). In this study primary data were collected directly by the researcher himself from individual households and consultation with the key stake holders through interview and questionnaires for the purpose of answering research questions and provided first hand information concerning the role of IUA in safe guarding public funds at SMC.

3.6.2 Secondary Data

These are materials from records or other documents like books, journals, newspaper reports and other research works that obtained from the libraries (Saunders, 2007). In the simplest form, secondary data are not firsthand information. In this study secondary data were obtained from the office of chief internal auditor of SMC, the office of chief accountant of SMC. As far as objectives of the study are concerned, secondary data are appropriate since data are ready available and contributed toward the formation of background information, hence constructively build the project. Secondary data also broaden the data base from which specific generalization and conclusion were made concerning the objectives of the study.

3.7. Data Analysis and Presentation

Data analysis refers to the computation of certain measures along with searching for the pattern of relationship that exist among data group. In analyzing the data collection the researcher used both quantitative and qualitative techniques. Quantitative analysis involved computation of some mathematical measures such as total and percentages. Qualitative data analysis on the other hand involved factual and logical interpretation, comparison and explanation of study findings

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF FINDINGS

4.1. Introduction

This chapter presents and discusses the results of the analysis that has been conducted to address specific objectives of the research. It is divided into four major sections. The first section presents the demographic characteristics of sample of respondents comprised of Heads of Departments of SMC. In the second section, findings regarding independence and objectivity of IAU are presented. The third section shows findings regarding adequacy of internal controls to safeguard public finds at SMC. Finally, the fourth section presents findings regarding the proficiency of IAU in safeguarding public funds at SMC.

4.2. Demographic characteristics of respondents

In this section researcher presents some important demographic characteristics of respondents such as age of respondent, economic status of respondent, sex of respondent, and education level of respondent.

4.2.1. Age of respondent

In this end, researcher provides description of age of respondent. Table 4.1 below shows that, there were 8 respondents (9.5%) whose age range from 18 to 25 years old. Also there were 27 respondents (33.3%) whose age range from 26 to 32 years old. Moreover, there was other group of 15 respondents (19%) whose age range from 33 to 40 years old. The last category of respondent refers to group of 31 respondents (38.10%) whose age is 41 years old and above

Table.4.1. Description of respondent's age

Age category	Frequency	Percentage (%)
18-25 Years	8	9.5
26 - 32 Years	27	33.3
33 - 44 Years	15	19
45 and above	31	38.2
Total	81	100

Source: Researcher's own data 2013

4.2.1. Sex of respondents

Apart from age of respondent, herewith is the description of demographic characteristic of respondent according to their sex. According to De Matteo (2005) validity of research results depends on whether results can be generalised to variety of demographic and descriptive characteristics. Therefore researcher provides description of sex of respondent in view of the argument above. In this study, 30 respondents (36.8%) were female respondents whereas 51 respondents (63.20%) of respondents were male.

Table.4.2. Description of respondent's sex

Category	**Frequency**	**Percentage (%)**
Female	30	36.80
Male	51	63.20
Total	**81**	**100.00**

Source: Researcher's own data 2013

4.2.2. Educational level of Respondents

Educational level is another demographic characteristic captured by researcher from data collected to suffice the purpose of this study. Table 4.3 below shows different level of

education attained by different respondents. Analysis shows that, there were 24 respondents (30%) who are master's degree holder and 45 respondents (55%) who are degree holders. Moreover, 8 respondents (10%) were diploma holder and 3 respondents (3.5%) were secondary school leavers. The last category is made up of 1 respondents (1.5%) who are primary school leavers.

Table.4.3 Education level of respondents

Level of education	Frequency	Percent (%)
Masters	24	30
Undergraduate (Bachelor)	55	55
Diplomas	8	10
Secondary school level	3	3.5
Other levels of education	1	1.5
Total		**100**

Source: Researcher's own data 2013

4.3. Findings from the Respondents

From the table above, the results revealed that 35.7% of the respondents were males and 64.3% of other the respondents were females as shown in the table above. The results also shows that the number of the females was very high compared to males due to the fact that most of the males were reluctant to give cooperation though the researcher tried much to convince them, but all in all the results revealed that both males and female interviewed found to be aware with IAU. Empirical evidence shows that, men and female are likely to participate in accessing the role of internal audit unit on safeguarding the public funds and their activities in the study area

Findings of 9.5% of the respondents were in the age group of 18 and 25 years, 33.3% were between 26 and 32 years, 19% were between 33 and 40 years, 38.1% were in the age of 41years and above. The respondents in the age group between 18 and 25 is relative low compared to other group due to the fact that the low number of employee

staffs on that age .Hence, most interviewed age groups were responding on the assessing the role of internal audit unit on safeguarding the public funds in the study area. This implies that all employed age group were involved in assessing the role of internal audit unit on safeguarding the public funds in Local government.

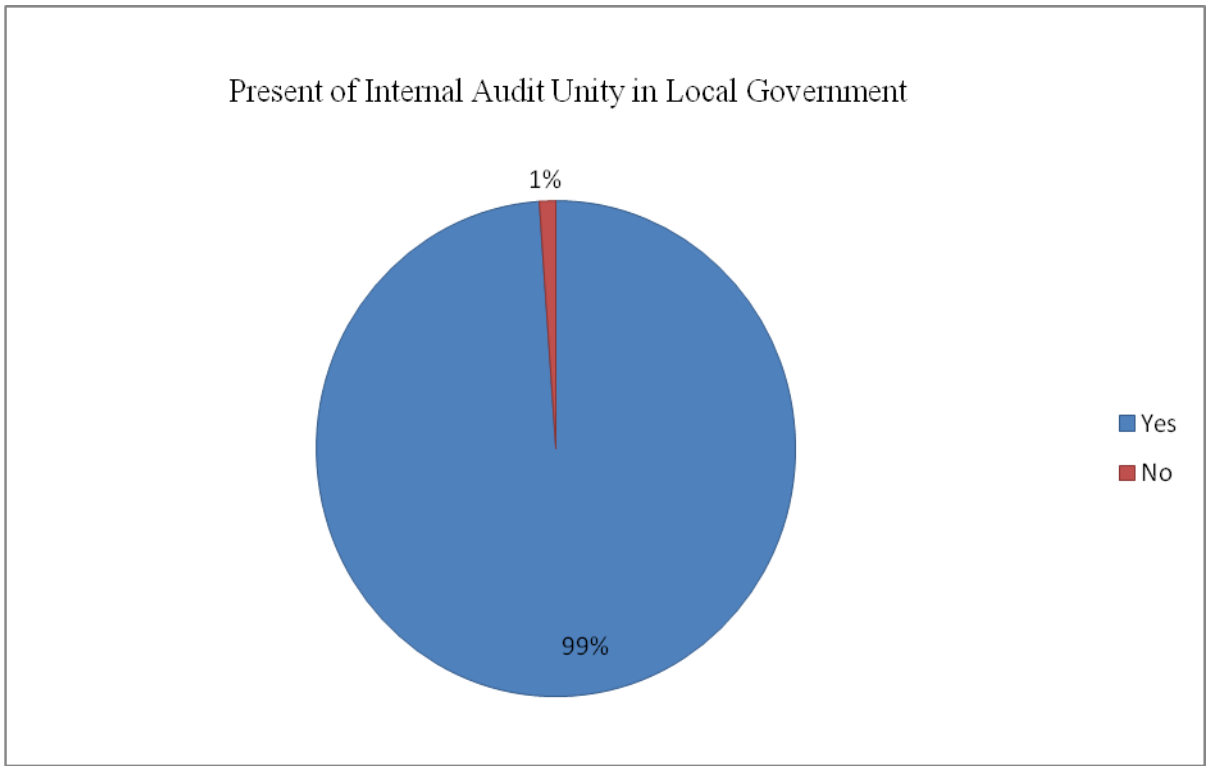
The results show that, 3.3% had Primary Education, This is very low percentage because nowadays most of people take struggles to pursue further studies, thus why the results shows the high percentage of the college education. 6.7% had Secondary Education, 78.9% had College Education and 11.1% had Masters Education. The dominancy of the respondents asked were much involved in the case study for assessing the role of internal audit unit on safeguarding the public funds in Local government, as per other studies have shown that people with good knowledge of education levels are less likely to know the role of internal audit unit on safeguarding the public funds in local government at Sumbawanga Municipality.

4.4. Functions of the IAU in the Study Area

The researcher here wanted to measure the respondents' knowledge and understanding of the role of internal audit unit on safeguarding the public funds in the study through identifying functions of IAU in the study area.

It was found that the rate of people's awareness on functions of the IAU in the Study area on safeguarding the public funds in the study area was high. Empirical evidence revealed that 99% of respondents were aware as shown by the following figure:-

Figure 4. 2: Availability of Internal Auditors staffs in Local Government



Source: Fieldwork Research 2013

However, all the respondents (100%) agreed that there is an internal audit unit in the study area. This shows that the local governments authorities comply with the requirement of the Civil Service Reforms which state that, "there shall be established in each local government an internal audit unit. Due to that establishment of the IAU in every local Council the researcher wanted to know if there is IAU why there are misuse of the public funds for example the year 2005/2006 which resulted to the removal of the some senior staffs and 2008/2009 and 2009/2010 got qualified 2010/2011 the CAG performed special audit under the directives of the Prime Minister Office

4.5.1. Findings regarding Objectivity and independence of IAU at SMC

Independence is a noble qualification for an auditor performing assurance services or auditing exercises. In order for his report to command authority and credibility, the auditor must be free from any interest that may impair his credibility. The confidence of the financial statements users is also closely related to the auditor's independence. The more independent the auditor is the more confidence the users have on the audit report and opinion. Moreover, to play fairly the bridging role between the shareholders and management or between principals and agents (in case of public sectors) it requires the auditor to be independent. Therefore the extent of auditor's independence matters a lot in order to examine whether IAU can safeguard public funds or they cannot. Herewith are findings of the study regarding objectivity and independence of IAU at SMC in safeguarding public funds.

Analysis of data collected reveals that 59 respondent (72.8%) asserts that IAU at SMC is not independent the fact that impair their effectiveness and efficiency in discharging their duties the fact that made SMC to be vulnerable of fraud and irregularities. Respondent argue that IAU cannot be independent to while the unit is not fully flagged department with its budget and resources to discharge its duties. At the moment IAU is just a section within the parent department of administration and human resources the fact which limit independence of the unit in terms of its position in the organization structure as well as in terms of reporting of its findings. Respondents assert that IAU being the section within the department of administration and human resource becomes vulnerable of interference from members of the management who are having personal interest against the work being performed by the IAU. Table 4.4 below shows detailed response from the field.

Table 4.4: Independence of IAU at SMC

Does IAU at SMC objective and Independent to safeguard public funds?	Reponses	Frequency	Percent (%)
Councillors	Yes	12	14.8
	No	3	3.7
Internal auditors	Yes	4	4.9
	No	0	0.0
Other employees	Yes	43	53.1
	No	19	23.5
Total		81	100

Source: Research data 2013

4.5.2. Findings regarding adequacy of Internal Controls at SMC

According to Cai (1997) an authority's system of internal control has a key role to safeguards the public funds and an authority's assets and the promotion of best value. Internal control facilitates the effectiveness and efficiency of operations, helps to ensure the reliability of internal and external reporting and assists compliance with laws and regulations. Each authority should seek to maintain a sound system internal control. Due to its importance, the second specific objective of this study was to examine adequacy of internal controls at SMC in safeguarding public funds.

Analysis made on data collected reveals that, 69 respondents (85.2%) asserts that SMC do not have adequate internal controls to safe guard public funds the fact that led into series of malpractice of officials. The occurrence of cases highlighted by the C.A.Gs audit report for SMC which reveals a myriad of quarrels in relations to under collection of revenues, improperly vouched expenditures, misrepresentation of financial records which led into understatement of income and overstatement of expenses at SMC for the financial year ended June 2012. Respondents argue that had it been the case internal controls are adequate, then the council could not have been revolving in serious malpractice which led to issuance of qualified audit report by the CAG for the same financial year. Moreover, findings show that, 12 respondents (14.8%) had different

opinions with regards to the adequacy of internal controls. They said that, internal controls are adequate, but the machinery to enforce them (IAU) is actually incapable of monitoring those controls which led to occurrence of those cases of mismanagement of public funds at SMC. Table 4.5 below shows detailed analysis of findings

Table 4.5: Adequacy of Internal controls at SMC

Does ICs at SMC adequate in safeguard public funds?	Reponses	Frequency	Percent (%)
Councillors	No	11	13.6
	Yes	4	4.9
Internal auditors	No	3	3.7
	Yes	1	1.2
Other employees	No	55	67.9
	Yes	7	8.6
Total		81	100

Source: Research data 2013

4.5.3. Findings regarding proficiency of IAU of SMC

The results shows that 74% of the respondents say internal auditors lack necessary auditing skills and experience needed for proper auditing functions. Some respondents gave an example of 2007 when the council lost about 270 million shillings and yet the present internal auditor failed to detect appropriately and in time the huge non – compliance available without experienced auditors from PMORALG to detect and give recommendations like termination of employment to officials charged with embezzlements of public funds, the council could not be able to detect the case with inexperienced auditor.

Furthermore, many of the respondents from this group appeal to the government to establish special college or an institute to train internal auditors; aspects and ethics of auditing process different from current situation in which auditors have training background on "accountancy" instead of "auditing" that make them impair in their functions.

The findings revealed that 88% of the respondents agreed that the section lacks necessary education and experience to function effectively. They went further arguing with example that 83% of internal auditors have experience ranging from 8 months – 1 year in serve that showed that most of them have no much awareness of the government business in place. They went far by arguing that when one internal auditor with experience of ten years in service went to study 18 months course, the remaining internal auditors were not active enough to detect various maladministration present rather it was a work of returning from school experienced internal auditor who came – up with serious non – compliances findings done even when he was outside the council in 2009/10 period.

Furthermore, respondents from this group further suggested that the experience in IAU is very essential so long there is repetition of audit queries' aspects like imprest, fuel consumption, implementation of the substandard projects, lack of supporting documents on various transactions made and therefore it is only through experience when someone can be sure of where to detect various maladministration present in local governments.

The findings revealed that 86% of the respondents have not agreed that they lack necessary education and experience to function effectively. They argued that they are familiar with all the policies, regulations and acts that enables them to function effectively by providing a guide. Only 10% of the respondents from this group indicated that they will find it difficult to interpret policies and acts governing their functions.

However, very interesting when they were asked why then the IAU seem not to function effectively, they answered that it is not because of their inability to know their functions rather inability of heads of departments to provide necessary support needed as well as selfishness and theft behaviors that make them corrupt. Also IAU being under Administration Department in Local Government makes difficult to function effective because of line of command.

92% of the respondents from this group agreed that having required skills and experience of the internal auditors are necessary criteria for them to function effectively. One respondent from the group mentioned that it is impossible for inexperienced internal auditor, be able to detect non- compliance and theft done by experienced staff. This response seemed to hold weight so long most of heads of department and sections should be have experience of at least 7 years and above in service, as one of the criteria for being head of department in local government and therefore it is not possible for the inexperienced internal auditors to detect theft done by them; keeping in mind that they make theft with great care and attention not to be easily identified.

Again, respondents from this group gave credit to the idea of establishing special institutes to train internal auditors unlike the current situation in which internal auditors are equipped with accounting packages as the background of their career training. The summary of the findings from the above explained groups of respondents can be illustrated by the following table

Respondents were asked to give their answer on whether the Internal Audit Department in the study area, were directly connected to High Management. With regard to their answer on the section's capacity to ensure that there is Internal Audit Unity Independence in local governments; it was found that all respondents were agreed that the Internal Audit Unity is directly connected to High Management. This led to the section not Independent doing its best to enhance duties and responsibilities. This argument was, however, different according to the position in which the respondents were placed.

The researcher found that 46% of responses from councilors' group argued that the IAU is directly connected to High Management of the section. One respondent from councilors' group said that "IAU is not directly connected to High Management in its operations to the extent that it is there to protect their fellow corrupt officials". When he

was asked why he responded so, he directly gives an explanation that almost all maladministration and theft are detected by the Office of CAG not the IAU.

Table 4.6: Proficiency of IAU at SMC

S/N	TYPE OF EMPLOYMENT	PERCENTAGE
1	COUNCILLORS	74%
2	HEADS OF DEPARTMENTS AND SECTIONS	88%
3	AUDITORS	86%
4	OTHER EMPLOYEES	92%

Source: Fieldwork Research Survey, 2013

Many of the respondents from this group cited the repetition of the same audit queries in local government unit proves complete break done in IAU. This interesting response when combine with lack of motivation and support base from internal auditors' group, showed that, to the large extent councilors were not satisfied with the performance of section.

Almost 90% of respondents from heads of departments' group who were asked to respond on the IAU directly connected to High Management in the enhancement of Independence and accountability in local governments; said despite of its good purpose of helping management in detecting maladministration and safeguarding public properties; the section has is not Independence to function its duties and responsibilities effectively in the study area.

Furthermore, 85% of the responses from other employees showed that IAU was not convinced by the Independence of the section because of being directly connected to High Management. Some respondents went further to mention that the section instead of making sure that all maladministration and theft are detected and wiped away; the

section has drawn the boundaries within staff in the institution in which only theft done by the junior staff are detected, but huge and most serious maladministration done by the heads of Departments are protected for the fear of losing their jobs once mentioned, because mentioning them might lead to disciplinary measures upon them.

However, staff from auditors' group seemed to be positive with their own section directly connected to High Management. About 92% of all responses; responded that the section is directly connected to High Management. Hence in its operations despite of various hardships they face such as lack of cooperation from fellow staff, lack of budget and working facilities like cars and computers but also they lack proper Independence in conducting their duties.

When they were asked to mention aspects which they think make the section directly connected to High Management in its operation, they mentioned line of reporting and responsibilities were based on organization structures of Local Government. This implies that the internal auditors of local government level lack the required independence (I.e. are not independent).

Furthermore, respondents from auditors group went further by hoping for the best that the situation will change for the good once local governments and central government will put efforts to help this section. For an auditor to be independent, the standards place the responsibility on each auditor such that conclusion, opinions, judgment and recommendations of the auditor should be impartial.

4.6. Improvement Suggestions

Respondents were also asked to generate possible suggestions for improving the standard performance of IAU. Most of them indicated that the problem is caused by the fact that the section lack support from within the council and without the council i.e. from local and central governments respectively. They cited problems like lack of working facilities, training and budget all caused by weak support base from both levels of the government. For example the current budget of the IAU is Tshs eighteen millions only (18,000,000) this the budget for the year and though is little budget but also not given all of the funds for example the Internal audit report of the SMC for the fourth quarter 2011 showed that the IAU was given only 26% of their budget for the whole year

Furthermore, organizational structures of local government that places the section under the authority of the Head of Administration and Human Resources Department in terms of budget and other official correspondences make the success of this section in jeopardy. One of the respondents from the heads of departments' group suggested that "different organizational structures and unit of command of the council are proven to be the barriers for the effective operations of the internal audit section".

Again, lack of support from other staff like heads of departments and sections seemed to affect much the operation of the section. One respondents from other employees group suggested that "different units or sections of the council should work as a team by meeting at least once on a monthly or quarterly basis to draft common aspects of the audit done by the IAU"

The above suggestion was achieved by a good number of respondents from both councilors' group and heads of departments' group who further suggested that they should be involved in the initial stages of auditing process aiming at rectifying the situation immediately. They feel that non-involvement when auditing is done initially

somehow undermines them; as a result they become unenthusiastic to execute their responsibilities in final stages when they are required to interfere.

Organize intensive workshops on functions, status and objectives of Internal Audit Section in order to increase the knowledge of all stakeholders" is another suggestion proposed by other employees group. Also, some respondents suggested that "there should be follow-up to monitor the performance on what has been presented at the workshops and to provide assistance where necessary"

I do agree with Thomas (2010) who tells us that 'operational audits examine the practices of an organization, rather than its finances. You need to ask is your business operating at maximum efficiency. Ineffective operations add to overhead without increasing profit. An operational audit may reveal these inefficiencies or point to unnecessary paperwork. Is your business following applicable regulations? Finding out you do not comply with a government regulation before the government discovers that fact avoids fines or other legal actions. A rapidly expanding business needs to monitor compliance with human resource laws as new employees join in an organisation. Internal audit performs a vital service in reviewing these functions'

From the discussion above, it is clear that much still has to be done in order to improve the role of internal audit unit on safeguarding the public funds in Local government in its operations. Internal auditors have shown that they are at least aware of their functions and the purpose of IAU as whole.

However, challenges identified in terms of fiscal, structural, experience, cooperation, terms work as well as training tend to hinder their initiatives of safeguarding the public fund in Local government.

The findings from the questionnaires reveal that there is a serious lack of Independence in Internal Audit Unity that threatens the sections' performance.

The analysis on the interviews conducted in the study has further shown that internal auditors are able to conduct auditing and produce quarterly reports timely. What seems to be still lacking is cooperation between internal auditors and heads of department during the whole process of auditing that threatens the sections' effective performance.. Again the analysis showed that internal audit units are under-staff hence the section is being flooded with a lot of financial transactions and projects to audit while the section has no sufficient man power in place to accomplish the auditing tasks.

Therefore the issue of IAU on safeguarding Public funds is still a matter of grave concern in local government due to the fact that the study has found that there have been attempts by both local and central governments to rectify the existing challenges for the betterment of the people. At the end of the year 2011 the government established the Internal Audit General office which is under the ministry of finance headed by Mohammed Mtonga to control and supervise the works of the Internal Auditors but still the internal auditors do not report directly to him rather is given the copy of the audited reports so still is difficult the internal auditor to be independent and to work effectively on safeguarding the public funds.

We have a professional duty to provide an unbiased and objective view. We must be independent from the operations we evaluate and report to the highest level in an organization senior managers and governors. Typically this is the board of directors or the board of trustees, the accounting officer or the audit committee.

The nature of internal auditing, its role within the organisation and the requirements for professional practice are contained within the International Professional Practices Framework (IPPF). The components and the detailed content of the IPPF are available in the Global professional guidance area of the website.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of findings described by the researcher, conclusions of the research work and the recommendations given by the researcher regarding to the role of the internal audit unit in safeguarding the public funds of the local government authorities so as to give them suggestions which will improve the work performance of the IAU in the different Local government authorities in Tanzania

5.2 Summary of findings

Based on the review conducted on related literature and the analysis and interpretation of data made, the following are the major findings of the research work:

5.2.1 Lack of Independence and Internal Control

Local governments' internal auditors lack proper independence in conducting their duties. This is due to the fact that the independent as to verify various records of the various departments and to ensure other control majors in place is very weak, the Internal auditors also do not evaluate the internal control system of the local government to the extent that it can prevent irregularities and fraud as the researcher found that the Councilors did complain that the Internal Auditors did not reveal the embezzlements of the SMC's funds in the findings of the chapter four

5.2.2 Lack of Skills and Compliance with the Auditing Standards

From the findings from the chapter four revealed that Councilors complained much about the internal auditors lack skills and experience for auditing, also the Heads of departments they argued that 83% of the internal auditors have experience ranging from 8 months to 1 year, which shows that most of them have no much awareness of the

auditing skills and not able to comply with the general standards (professional proficiency)

5.2.3 Problem of organizational structure and information dissemination

The IAU currently is the unit under the department of the administration, it means that all of the requirements in the daily activities must channel to the department of the administration instead of being dependent department and having access to report any issue to the Municipal Director.

5.4 Comments

Based on the findings enumerated above, the following are some comments which will improve the role of internal auditors with regard to financial control.

The internal auditors at all level should be adequately independent of members of various departments within the organization so that they can carry out their duties effectively. Therefore, there should be regular evaluation of control in order to determine their effectiveness in operation and identify weaknesses, so that corrective action can be taken.

Also, internal auditors should report directly to the internal auditor general office. The internal audit units at local government need additional staffs that are qualified and competent in order to perform their functions effectively. The government at all level should make a provision that would allow the internal auditors to attend important seminars, workshop and symposium which would improve their effectiveness on financial control and other controls. There should be a clear organizational structure at local government area so that the work of internal auditors can be effective.

There should be clear information dissemination within the various departments in all local government on the control measures taken, so that each department would comply with the respective control systems. Internal auditors should register themselves to the IIA so as to be aware with the current auditing issues addressed by the IIA

5.5 Conclusions

On my side I believe that to be effective, the internal audit activity must have qualified, skilled and experienced people who can work in accordance with the Code of Ethics and the International Standards. Whether the internal audit is undertaken by an outside audit firm or by an internal audit department of the organisation, the organisation status of the internal auditor must be high, in an ideal situation he should report to the highest authority of an organisation .He should have the liberty to directly communicate with the external auditor. The internal auditor also should ensure that his findings with recommendations should reach to the appropriate authority of the management .He should also ensure that proper follow up actions have been taken by the management based on his reports

The head of Internal Audit should gain the respect and co-operation of the governing body, chief executive; other senior managers and the audit committee

The Internal Audit section should have unrestricted rights of access to all personnel, records (both electronic or otherwise) and assets, and be able to obtain such information and explanations as the head of Internal Audit considers necessary for the proper fulfillment of its responsibilities.

Internal Audit should be objective, and, as far as possible, operationally independent of the organization's management. It is the responsibility of the audit committee to ensure that conflicts of interests do not arise and that its objectivity and independence are not compromised. The head of Internal Audit should report directly to an audit committee,

preferably the chief executive, with direct access, as necessary, to the governing body, chief executive and chair of the audit committee (or equivalent).

5.6. Recommendations

An effective internal audit function should include the systematic review, appraisal and reporting of the adequacy of the systems of managerial, financial, operational and budgetary control and their effectiveness in practice, including :

The adequacy of established regulations, guidance, policies, plans and procedures for IAU together with the appropriateness of organizational, personnel and supervision arrangements

The adequacy of accounting for assets and interests and the extent that these are safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause the appropriateness, reliability and integrity of financial and other management information and the means used to identify, measure, classify, report and act upon that information the economy and efficiency with which resources are employed the integrity of computer systems, including systems under development the adequacy and effectiveness of risk management and governance processes and the follow-up action taken to remedy previously identified weaknesses.

The Internal Audit section should have relevant documented procedures (e.g. an audit charter and manuals) and other guidelines. In some countries, Internal Audit has a direct role to play in the checking and authorization of payment vouchers through the pre-audit process. The governing body and chief executive may consider that this is a necessary role for Internal Audit. However, Internal Audit will often be more effective in a wider role. This would include the following changes:

Internal Audit should undertake independent reviews of internal controls (rather than just the transactions) under the direction of an audit committee

There should be management support for Internal Audit and the creation of a climate where management and those responsible for Internal Audit co-operate for their mutual benefit

Internal Audit should develop a constructive role: as an aid to risk assessment and a proactive approach to control and effective management control of high organizational status.

REFFERENCES

Asare, T. (2008), **'Internal Auditing in the Public Sector'**: Promoting Good Governance and Performance

Auditing Practices Board (1995) '**Accounting and Internal Control Systems and Audit Risk Assessments**', London,

Baltaci and Yilmaz (2006) **'Internal 'Journal On Government Financial Management P.11'**

Boynton, W.C. and Kell, W.G. (1996) **'Modern Auditing',** 6th edition, John Willey & Sons U.S A

Chaligha (2007) **'Local Government Systems in Tanzania'**, DUP Publishers

Cooper,H.M (1988) "**The structure of knowledge Synthesis**" Knowledge in Society Vol.1pp 104-126

Gray, I. and Manson, S. (2000) "**The Audit Process. Principles, Practice and Cases",** 2nd edition, Thomson Learning, U.S A

http://www.hiia.gr.retrieved on 6/8/2012

http://www.iia.org.uk/definition.retrieved on 5/8/2012

Jack Diamond (2002) '**The role of the internal audit in government financial management'**

Jeffrey Thomas (2010) **'The importance of the internal audit functions in a company'** DP Publication London

Justin Martin (2012) '**Understanding the importance of the internal audit'**

Konrath, Larry F. (1996) **'Auditing concepts and applications',** 3rd edition, West Publishing Company, United States of America, pp. 730

KPMG (2001) 'I**nternal Control Mechanisms'** DUP Publishers.

Millchamp A.H. (1996) 1996, '**Auditing and instructional manual for Accounting students',** seventh Edition, DP, Publications, London

Roger Buttery and Robert K Simpson. **(**1990) **'Audit in the Public Sector'** Wheatsons, Great Britain,

SK Tuteja and Elias Stephen E. Malubi (2011) **'Auditing and Assurance Services' 1st edition, Mzumbe University**

Www.wikpedia.definition. Retrieved **on 12/09/2012**

FOREWORD

My name is **ERNEST B**, **MBASYA** a student of Masters of Science in Accounting and Finance (Msc. A&F) at Mzumbe University 2011/2012 in Morogoro. I am making an assessment on the role of the internal audit unit on safeguarding the public fund of the local government authorities.

The central government needs to get assurance if there is no misuse of funds and requires the internal auditor of the council concerned are able to audit and enhance that the value for money is achieved .It is evidently that current existing reports of the CAG shows that there are poor performance of the projects and the internal auditor do not have access to audit all the projects and other information of which constitute the qualified reports regardless of the presence of the internal audit unit

Please assist by answering the following questions as honest as possible. The information you give will be treated with high degree of confidentiality and used solely for the purpose of this study. There is no need for you to disclose your name unless otherwise you decided to so.

Thank you very much for your time and cooperation. I greatly appreciate your contribution.

Appendix 1

INTERVIEWS AND QUESTIONNAIRES

FOREWORD

My name is **ERNEST B**, **MBASYA** a student of Masters of Science Accounting and Finance (Msc.A&F) at Mzumbe University 2011/2012 in Morogoro . I am making an assessment on the role of the internal audit unit on safeguarding the public fund of the local government authorities in Tanzania. The study is conducted in Sumbawanga Municipal Council (SMC) .This study is carried out as partial fulfillments of the requirements of the mentioned degree above.

There has been a growing public concern on how does the internal audit unit assist to safeguard the public fund, this is due to the fact that most of funds are released by the central government to the local government for the development projects. The central government needs to get assurance if there is no misuse of funds and requires the internal auditor of the council concerned are able to audit and enhance that the value for money is achieved .It is evidently that current existing reports of the CAG shows that there are poor performance of the projects and the internal auditor do not have access to audit all the projects and other information of which constitute the qualified reports regardless of the presence of the internal audit unit

Please assist by answering the following questions as honest as possible. The information you give will be treated with high degree of confidentiality and used solely for the purpose of this study. There is no need for you to disclose your name unless otherwise you decided to so.

Thank you very much for your time and cooperation. I greatly appreciate your contribution in this research.

QUESTIONNAIRES

LIST OF QUESTIONNAIRES FOR THE STUDY OF THE ROLE OF INTERNAL AUDIT UNIT ON SAFEGUADING THE PUBLIC FUNDS OF THE LOCAL GOVERNMENT.

1. **COMPETENCE OF THE INTERNAL AUDITOR**

A. What is your main occupation of the organization?

……

B. What is your maximum level of education?

Primary [ ]

Secondary [ ]

High school [ ]

Undergraduate [ ]

Master and above [ ]

C. Is there internal audit unit established in the local government? Yes. [ ] No.[ ]

D. Does the functions of the internal audit unit provide professional experience of internal audit and knowledge of auditing procedures which operate so as to perform its functions effectively?

Yes. [ ] No.[ ]

- If Yes, what are the contributions made by the internal audit unit on performing its functions so as can safeguard the public funds of the local government authority ?

  ……..

  ……

- If No, what are your suggestions?

……

……

E. Do you think that the in house auditing training enables the internal auditor to work efficiently on safeguarding the public funds? Yes.[ ] No.[ ]

- If yes provide the reasons which shows that the in house audit training has given the benefits to the council

  ……

  ……

- If no, what is your suggestions

  ……

  ……

2. OBJECTIVITY OF THE INTERNAL AUDITOR.

A. Does the internal auditor have the ability to investigate any area? Yes.[ ] No .[ ]

B. Do you think that the internal auditors have given freedom to implement the necessary internal audit procedures? Yes.[ ] No.[ ]

C. Does the internal auditor have the access to an audit committee regarding the issues of its reporting? Yes.[ ] No.[ ]

3. WORK PERFORMANCE OF THE INTERNAL AUDITOR

A. What do you consider is the major problem of the failure of the internal audit unit on safeguarding the public funds?

i . Internal auditors' experience

ii. Too much time spending on auditing

iii. Failure of the planning and executing of the audit work [ ]

iv Lack of support from the management

B. Do you think that the sampling techniques used by the internal auditor do add value to the council?.....……Yes.[ ] No.[ ]

C. Does the planning of the auditing work provide the sufficient means safeguarding the public funds?.....Yes.[ ] No.[ ]

STRUCTURED INTERVIEW QUESTIONS

TOPIC: "THE ROLE OF THE INTERNAL AUDIT UNIT ON SAFEGUARDING THE PUBLIC FUND ON THE LOCAL GOVERNMENTS; A CASE OF SUMBAWANGA MUNICIPAL COUNCIL".

1. What is your understanding of the concept internal audit unit?
2. What is the purpose of the internal audit unit?
3. Does internal audit sections have autonomy and powers to enable them to function properly?
4. Please give examples of internal control systems found in the government and provide their purposes.
5. Do all guidelines for the operation of council's internal audit section have same motives and aims at giving powers to this section?
6. Express your opinion on the internal audit section's ability to implement and enhance accountability.
7. What support in terms of financial, consistent guidelines, equipments and training from central and local government have in place to ensure effective operation of internal audit section?
8. What efforts have been taken by the local governments to ensure success of the internal audit section?
9. What, in your opinion, should be done to improve the values of internal audit section in your organization?