

**FACTORS CONTRIBUTING TO POOR PERFORMANCE OF
INTERNAL AUDITING IN PUBLIC SECTOR:
A CASE STUDY OF ZANZIBAR ELECTRICITY
CORPORATION (ZECO)**

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CORPORATION (ZECO)**

By

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**A Dissertation Submitted in Partial/Fulfillment of the Requirements for the
Award of Master of Science in Accounting and Finance of Mzumbe University**

2015

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommended for acceptance by the Mzumbe University, a dissertation titled “**Factors Contributing to Poor Performance of Internal Auditing in Public Sector: A Case Study of Zanzibar Electricity Corporation**’ in partial fulfillment of the requirements for the award of Master of science in Accounting and Finance of Mzumbe University.

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

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DEDICATION

This work is dedicated to my family and my beloved wife NURU MAULID HAJI and our children's, I particularly thank for her personal support and motivation.

LIST OF ACRONYMS

AR	Audit Report
ACFE	Association of Certified fraud Examiners
CAG	Controller and Auditor General
COSO	Committee of Sponsoring Organization of the Teaching Commission
EA	External Auditors
GOC	Government Owned Companies
GTF	Guidance Task Force
HIIA	Hellenic Institute of Internal Auditors
IFAC	International Federation of Accountants
IIA	Institute of Internal Auditors
ISA	International Standard on Auditing
KYU	Kyambogo University
MDAs	Ministries Department and Agencies
MOF	Ministry of Finance
MUK	Makerere University Kampala
NBAA	National Board of Accountants and Auditors
PAC	Public Accounts Committee
SOX	Sarbanes Oxley
SPSS	Statistical Packages for Social Sciences
ZECO	Zanzibar Electricity Corporation
ZIC	Zanzibar Insurance Corporation

ABSTRACT

This study aimed to assess factors contributing to poor performance of Internal Auditing in Public sectors in Zanzibar. The study based on examining the roles of internal Audit in minimizing the chance of misused and mismanagement of public resources, also determine the reliance of External Auditors on Internal Auditors works and to examine the challenges faced by internal Auditors in implementing their duties in public sector.

The study was conducted in Zanzibar west urban region at Zanzibar Electricity Corporation, Zanzibar Insurance Corporation, Office of Controller and Auditor general and Ministry of Finance. The questionnaires and interviews were used to gather information from the respondents in which random sampling was used to get the senior officers from the targeted departments, internal auditors, external auditors and accountant. The study adopted both qualitative and descriptive statistics approach

The study found that there were numbers of factors that contribute to the poor performance of Internal Audit in public sectors in Zanzibar which include less independence of Internal Auditors, poor response of top management on recommendation made by Internal Auditors, limited scope of service of Internal Auditors, competence of Internal Auditors, ineffective planning of audit work, lack of availability sufficient resources and poor communication between Internal Auditors and Management.

In conclusion the study recommended that the government of Zanzibar in order to improve the performance of Internal Audit Unit, it should make Internal Audit be impartial unit offering services to the organization with professional integrity and high ethical standards based on acknowledged best practice.

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CHAPTER ONE

1.0 Introduction

The first part of the chapter provides background to the study, the second part of the charter gives the statement of the problem, part three research objectives, and part four research questions, part five scope of the study, part six significance of the study, and part seven layout of the dissertation. The last part of the charter explains the limitation of the study.

1.1 Background to the Study

The Institute of Internal Audit (2006) has elaborated a definition of Internal Audit which is now widely accepted: Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This definition encapsulates the scope and challenges for modern Internal Audit.

However, in order to go from merely ensuring compliance with rules and regulations, the so called "tick and flick" approach, to being able to deliver an added value to the organization in line with the above definition, demands a massive culture and organizational change. The organizational culture must be one of appreciation and responsiveness to the findings and recommendations of Internal Audit. The Internal Audit needs to be truly independent, have a good understanding of the situation in the organization and the issues it is facing, as well as being responsive to management's needs. To understand the situation, Internal Audit must be able to assess key business risks in order to advise and assure the management. It must contribute to performance improvement and be proactive in communication with management. The Internal Audit functions must be in a position to match its skills set to the organization's needs and use enabling technology and work smarter (Cecilia, 2005).

Internal Audit can take many forms, since in designing a workable Internal Audit system, the wider Public Finance Management system, into which Internal Audit must fit, must be taken into account. “Whatever form internal audit takes, an important issue in establishing its credibility, and the extent to which the Supreme Audit Institutions can rely on its work, is independence. Internal auditors should be independent of the activities they audit.

In 1992, Institute of Internal Audit issued five Standards and Guidelines for the Professional Practice of Internal Auditing, consolidating previous guidance. The standards cover: independence, professional proficiency (standards, due professional care), scope of work, performance of audit work (planning, testing, and review) and management of the internal audit department. These standards are the same and identical as those issued by the United Nations Organization.

Currently, there are several forces that will necessitate further development of the profession such as risk management, governance, e-business, privacy concerns, technology, environmental, health and safety, fraud/money laundering, outsourcing, co-sourcing, etc. Looking at fraud, as a major concern, as it happened recently in United State. A typical United State organization loses 6% of its annual revenues to fraud. Forty per cent of fraud is detected by a tip by employees 60%, but also by clients, vendors and undisclosed sources). Internal audit discovers 24% and internal controls 18% - 21% are unveiled Association of Certified fraud Examiners. (ACFE, 2004).

In Zanzibar, Internal Audit is governed by the Public Finance Act No. 12 of 2005. A section 34 and 35 of the Public Finance Act Regulations legally recognizes Internal Auditor as an overseer/inspector of the planned activities in Ministries, Departments and Agencies (MDAs) including their revenues and expenditures. The sections similarly stipulate the audit objective that is to enable the internal Auditor to be free in the provision of independent opinion regarding to actual implementation of MDAs roles and responsibilities in the period under review. Another objective of the audit noted in the aforesaid regulations is to ensure that all official documents, books

accounts and justification on various issues are properly stored for verification, roles and responsibilities performed by MDAs reflects its vision and mission, adherence of good governance principles in the utilization of public resources within MDAs, transparency in assets and liabilities and adherence of the Zanzibar Public Procurement Act No. 9 of 2005 in the acquisition of goods and services in MDAs (PFA, 2005).

The Controller and Auditor General (CAG) Report of 2011/2012 highlighted a list of shortfalls practiced in different institutions. The report shows irregularities with percentage in the brackets, non-compliance with the Public Procurement Act No. 9 of 2005 (41 per cent), payment to service providers without supporting documents and without following procedures for inspections (38.5 per cent). Other weaknesses observed include, non-adherence of the laid down standards and guidance in the preparation of MDAs final accounts, expenditures based on inappropriate votes, poor registration of assets in ledger stores and weaknesses associated with the payments of pensions for retired people. The CAG report also revealed out 61 institutions obliged to submit their financial accounts to CAG office for auditing only 43 institutions (70 percent) complied with. In general, reports of external auditors in that public sector have shown qualified audit reports meaning that there are several weaknesses in managing resources in public sector, so the researcher will assess the factors contributing to the poor performance of Internal Audit Units in Public Sector (AR, 2011/2012).

1.2 Statement of the Problem

Practically, Internal Audit Units works with structures charged with governance in a respective organization. These include; Board of Directors, Audit Committees, and Senior Management or, where appropriate, work with an external oversight body in ensuring that appropriate systems of internal control are designed and implemented. As such, Internal auditing can provides assistance regarding accomplishment of goals and objectives, strengthening controls, and improving the efficiency and effectiveness of operations and compliance with authorities. It is important to clarify

that while internal auditing provides assistance on internal control, it should not perform management or operational duties.

Strategically, Internal Audit is an important unit that must act ethically for national development and for the benefit of general public. It is responsible for providing efficient audit services to enhance accountability and value for money in the collection and use of public resources. Objectively, Internal Audit is supposed to be impartial unit offering services to the organization with professional integrity and high ethical standards based on acknowledged best practices.

During the audit process, Internal Auditors are guided by the Tanzania Auditing Standards released by the National Board of Accountants and Auditors (NBAA), Internal Audit Manual (2009) from the Ministry of Finance – Zanzibar, Public Finance Act No. 12 of 2005 and Public Procurement and Assets Disposal Act No. 9 of 2005. Furthermore, Internal Auditors have capacitated through various trainings to be conversant and able to comply with international frameworks including the on-going reforms in financial reporting frameworks issued by the International Federation of Accountants (IFAC). All these guiding documents as well as capacity building initiatives are aimed to ensure that Internal Auditors are familiar with relevant laws, regulations, circulars, directives and various emerging issues both locally and globally.

However, despite of the laid down framework governing the auditing services in MDAs, still Internal Audit Units fails to uncover a list of shortfalls in a number of Institutions and various major deals conducted in the country. Practically, controversial expenditures and dubious payment of public funds, massive embezzlement of public resources and irregulars in awarding tenders without competitive floating as required by law are some of the persistence malpractice disclosed in some MDAs auditing reports annually. Regrettably, these irregularities are repeatedly discovered by the Control and Auditor General (CAG) instead of Internal Audit Units which are working within the MDAs throughout the year.

This is surprising, since in all public sector institutions there are Internal Audit Units which are responsible for ensuring smooth operations of their institutions. It is against this background, that the study aims at assess factors contributing to the poor performance of Internal Audit Unit in Public Sector.

1.3 Research Objectives

The general objective of the study is to assess factors that contribute poor performance of Internal Audit unit in Public Sectors.

1.3.1 Specific Objective

- i. Examining the roles of Internal Audit in minimizing the chance of misuse and mismanagement of public resources.
- ii. Determine the reliance of External Auditors on Internal Audit work.
- iii. To examine the challenges faced by Internal Auditors in implementing their duties in Public Sector.

1.4 Research Questions

The study will be guided by the following research questions

- i. What is the role of Internal Auditors in minimizing the chance of misuse and mismanagement of public resources?
- ii. How does External Auditors improve the work of Internal Auditors?
- iii. What challenges are faced by internal auditors in implementation of their duties in Public Sectors?

1.5 Scope of the Study

The Government of Zanzibar consists of Ministries, Departments, Parastatals and other Public Bodies. This study focused in the Zanzibar Electricity Corporation (ZECO), Zanzibar Insurance Corporation (ZIC) and Ministry of Finance Zanzibar. The study also involved Internal Auditors and Accountants at Ministry of Finance and External Auditors from the Office of Controller and Auditor General Zanzibar

who are responsible for government auditing as well as accountability mechanism for ensuring there is proper use of Public resources.

1.6 Significance of the Study

The study is expected to be much value to a number of beneficiaries such as;

- i. Research report will be significant to the internal auditors since it may help them to illustrate their significant roles in minimizing the chance of misuse and mismanagement of the public resources through budget.
- ii. It depicts the advantages Internal Audit for improvement on financial performance of the organizations.
- iii. Furthermore, this research will also act as a reference to other scholars or researchers who in future want to investigate the same field of the study.
- iv. Lastly, this research is significant to the researcher in the sense that it is in a partial fulfillment of the academic requirements for the award of Master of Science Accounts and Finance of Mzumbe University.

1.7 Layout of the dissertation

This dissertation is organized in five chapters. Chapter one provides a general introduction to the study. Chapter Two presents a literature review. This chapter provides conceptual definitions. In addition, the literature review enabled a conceptual framework for solving the problems and analyzing data to be developed.

Chapter Three describes the research methodology. It describes the study area, research design, sample size and sampling techniques used, data collection techniques adopted, data processing and analysis, limitation of the study, validity and reliability. Chapter Four presents the study findings and analysis. The chapter includes key characteristics of respondents, discussions and interpretation of the findings. Chapter Five provide for the description on the matter related on the conclusions, recommendations as well as areas for further research.

1.8 Limitation of the study

It is necessary to highlight some limitation of this study even though the finding and conclusions are not affected, that include:

- i. The study was only conducted at Unguja Urban Districts hence it does not examine regional variation in Tanzania.
- ii. The study was only captured the circumstance prevailing at the time of interview.
- iii. Respondents delayed to fill in and return the questionnaires.
- iv. It is also possible that some of the respondents didn't give their true opinion during the interview on the sense that they regarded as some of the questions are sensitive however this group was small and we assume that it didn't affect the overall results and conclusions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The first part of the chapter provides historical analysis of internal audit in global, while the second part of the chapter definitions of internal audit. The third part of the chapter gives the function of internal audits and the theories behind for audit services that provide support and explanations appropriate for this study, also there is a clarification of the Internal Audit quality as well as the successful of Internal Audit in Zanzibar. Under the same chapter, there is also as a demonstration the relationship between External and Internal Audit and reliance on External Auditors to Internal Auditor's works followed by empirical analysis on issues related to Internal Audit on assessing the performance on Public Sector and finally followed by the conceptual framework of the study.

2.2 Historical Analysis of Internal Audit

Internal auditing began as one person clerical procedure that consisted primarily of performing independent verification of bills before payment (Boynton and Kell, 1996). This was, therefore, an origin internal audit. In the early 1900s, the emphasis on auditing shifted from the detection of fraud to the needs of the various users of financial statements (Guy et al, 1996). 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 (Aisiopoulos, 1980).

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 fore. The American Institute of Internal Auditors, the predecessor of the Institute of Internal Auditors (IIA), was set up in 1941 (Dittenhofer, 2001). From the first authoritative definition of internal control by the American Institute of Public Accountants in 1949 to the definitions which still exist in professional pronouncements, there seems to have been no substantial change of meaning, yet a sea change in the internal control of companies was underway during the 1980s and 1990s.

From all the definitions, it is clear that internal auditing is the centre of integrated activities within an organization, and is best suited for a new role as an agent of change. This can be developed on the one hand in terms of demand for audit committees and the growing importance of management efficiency and performance audits (Cooper et al, 1996), on the other hand because of the growth of information technology; and changes in audit methods (Spira and Page, 2003).

The early as the beginning of the twentieth century, economic growth made it difficult for organizations to maintain control of their business activities and operational efficiency. Management lost direct contact with most of its subordinates. To overcome the problem of controlling the activities of the organization, people known as internal auditors were appointed to review and report on what was happening. The tasks performed by the internal auditors to analyzing and appraising these activities (Institute of Internal Auditors Inc 2003).

2.3 Definition of Internal Audit

Historically, internal audit has been viewed as a monitoring function, the “organizational policeman and watchdog” (Morgan, 1979), tolerated as a necessary component of organizational control but deemed subservient to the achievement of major corporate objectives. Under the market economy system, with its keen

competition, the modern internal audit system has emerged and been developed to suit the enterprises' needs of struggling for existence (Yan Jin'e, 1997).

It is very important to give the definition of the internal audit in order to understand its great importance in the modern business environment. Indicative of its great importance is the large amount of definitions that are given by many researchers. According to Cook and Winkle (1976), the Internal Control System and consecutively internal audit resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management.

Furthermore, Carmichael and Willingham (1987), and Grigorakou (1989) argue that internal auditing is the audit that performed by employees of organizations functioning in a staff capacity and reporting to a high level officer in the organization. According to the Institute of Internal Auditors, (IIA, 1991; Taylor and Glezen, 1991; Konrath, 1996) internal auditing is "an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization". By measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device (Carmichael et al, 1996), which is directly linked to the organizational structure and the general rules of the business (Cai,1997). Within this framework, COSO report defined internal control as: a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, Reliability of financial reporting and Compliance with applicable laws and regulations.

The report defined internal control and describes a framework for internal control. But the difference of this report is that it also provides criteria for the management to utilize so as to evaluate controls. (Aldridge and Colbert, 1994) From the above, it is clear that internal auditing is being implemented in businesses as a tool that provides a unique service to businesses (Rittenberg and Schwieger, 1994). In this way, we can achieve a systematic approach towards the most effective operation of the

organization, as a unity (Schleifer and Greenwalt, 1996). In other words, enterprises that implement internal audit early have achieved a competitive advantage, and internal audit services are increasingly requested rather than imposed, although there remain pockets of resistance (Zhuang, 1997).

Furthermore, Wang (1999) argue that internal audit is an independent activity conducted by departments, enterprises and undertakings so as to perform internal supervision examine accounts and related assets, supervise authenticity, legality and effectiveness of financial revenues and expenditures. In June 1999, the Institute of Internal Auditors (IIA) officially adopted a new definition of the internal auditing function. The new definition was developed by the Guidance Task Force (GTF) and defines the internal audit function as: an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IIA, 2000).

More recently, the Hellenic Institute of Internal Auditors (H.I.I.A., 2004) defines 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. From the above definitions, it is clear that the internal audit is considered to be the security belt of the business for avoiding either the involuntary or the intentional release of information concerning any form of useful first hand stock as well as the avoidance of loss of income from misuse or from any errors in operation (Papastathis, 2003).

2.4 Internal Audit function

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (IIA, 2002). It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and

governance processes (Collier, et al, 1991). According to (IIA) Institute of Internal Auditors (1999), internal audit is an important part of the corporate governance structure within an organization. Corporate governance includes those oversight activities undertaken by the board of directors and audit committee to ensure the integrity of the financial reporting process.

Evaluating the internal audit function is to examine how well it can detect errors within an organization as well as fraud that have received greater emphasis (Rittenberg Anderson, 2006). The internal audit function is an important function that has been shown to add value and reduce detected errors by external auditors (Godwin, 2003; Carcello, 2005). Farber (2005) observed that the objective of internal audit function is to improve on the effectiveness of risk management, control and governance. Nestor (2004) observed that internal audit function is taken to be an important governance tool to protect corporations from internal criminal behavior. Further, the professional literature suggests that internal audit is a vital tool in fraud detection when assets are misappropriated by employees or outsiders (Carcello et al, 2005b; Rittenberg and Anderson, 2006).

Highly competitive business environment, internal audit plays a catalytic role (Papadatou, 2005). Summarized the different roles of internal audit in this extremely fluid environment (Xiangdong, 1997):

2.4.1 Roles of supervision, prevention and protection

Within this framework, internal audit supervise departments and enterprises in order to compliance with state policies, laws and regulations, prevent from asset losses, avoid significant faults and therefore ensure integrity.

2.4.2 Role of promotion

Furthermore internal audit strengthen enterprise management, advance production technology, reduce production cost, and consecutively improve business economic benefits.

2.4.3 Role of evaluation and certification.

More recently, internal audit evaluate and certify enterprises' production, measure financial revenues and expenditures, finally value business economic accountability and other economic activities.

2.4.4 Roles of consultancy

Providing leaders of enterprises with sufficient, timely, and accurate information, assisting them in prior decision-making, internal audit plays a significant consultative role. Within this framework, Morgan (1979) identified the aspiration of internal auditors to move from "controller" to "controller-adviser" as part of the process of professionalization of internal audit.

2.5 Internal Auditors Competency

Competency can be relate to the ability of an individual to perform a job or task properly base on the educational level, professional experience and the effort of the staffs for continuing professional development. Internal Auditors' competency determines the effective auditing in the organization. It contributes to the ability of the auditors to perform the systematic and discipline audit approach to improve the effectiveness of Internal Auditors.

Internal Auditors can effectively carry out their duty in the public sector if there are enough Internal Auditor personnel with required competencies. Competency of auditors determines the quality of the audit work performed in an organization. Competency is measured in terms of academic level, experience, skill and the effort of the staffs for continuing professional development. Competency determines the efficiency of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's activities and financial management as well as governance processes.

2.6 Independence of Internal Auditors

The other factor may contribute to the effective government audit activities is the need of organizational independence and objectivity which can allow the audit activity to conduct work without interference by any party for the audit task. The independence and objectivity of internal auditing is with respect to both assurance services and consulting for the organization. Independence and objectivity are closely related where the freedom from conditions that may threaten objectivity and no significant quality compromises are made during rendering the audit service. In fact, the audit activity should have sufficient

Independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so.

This is very crucial element in conducting audit because the auditors can access to any document relating to the audit work without favor and fear. This will make the auditors provide the objective report and reliable professional judgment on the auditing work to achieve the mandate given to them with integrity. Independence of auditors would not be considered to be impaired if the auditors do not appear to act in a capacity equivalent to a member of client management or as an employee. In certain extent there is a confusion of the role of Internal Auditors as internal auditors are part of the management team and at the same time to independently evaluate management's effectiveness and efficiency. However, in more recent years, there has been heightened interest in issues associated with the independence and objectivity of internal audit.

This could affect the effectiveness of internal auditing as even though internal auditor are charged with upholding the best interests of their employer, they may be reluctant to counter management, regardless of consequences

2.7 Management support to the roles of Internal Auditors

The support and commitment of management also have the certain impact to make sure Internal Auditor is functioning effectively. The success of Internal Auditor's function will depend on the strength of management's support for the auditing process. They have to accept the fact that the Internal Auditor process is just as critical and important activity as any other process within the organization. Without management support and encouragement, the internal audit process is likely to face failure and worse – time and money wasted as a result the recommendations are not afforded enough attention. Though the audit reports are generally well prepared, they do not separately highlight the status of past audit results and they could be presented in a more consistent way. Besides, the audit evidence is attached to the reports. This provides a bulky appearance of the audit reports and reduces readability.

2.8 Risk Based Audit Plan

The internal audit process begins with the Risk Based Audit Plan, which is updated annually and approved by the Audit Committee of the Ministry. Once approved, the Plan becomes a guideline for conducting audits in the coming year. In addition to the audits performed under the Plan, Internal Audit also conducts special audits and consulting work on demand.

2.9 Planning Phase

In the planning phase, the audit staff reviews any past audit work, looks over literature on the area being reviewed, and makes a preliminary review of the unit budgeted and actual revenues and expenses. The auditors also formulate the audit scope and objectives on which they base the fieldwork phase. The planning phase also includes an introductory meeting to discuss objectives, timelines, and other important information that can ease the internal audit process. At this time, the audit staff may request few pieces of information, such as an organization chart, a contact list and literature describing the unit's procedures, if available.

2.10 Fieldwork Phase

In the fieldwork phase, typically the lengthiest part of the audit, the audit staff gathers information about the auditee's operations, gains an understanding of the unit's functions, and identifies both strengths and weaknesses. This work includes reviewing financial activity, administrative and business procedures, overall unit functions, and other activities specific to each section in the unit. The audit staff interviews key personnel, observes unit procedures, and periodically reviews the audit progress with the unit's heads and personnel. Ultimately, this phase allows the audit staff to identify areas of risk and concern in the unit's internal controls and procedures, all of which are discussed with the auditee before or at the conclusion of the fieldwork.

2.11 Reporting Phase

In this phase, all fieldwork results are compiled, presented and discussed with the client. The client must provide action plans with timeframes that address all recommendations. A final summary report then goes to Senior Management and the Audit Committee for review

2.12 Follow-up Phase

Based on timeframes in the action plans, a follow-up is performed to ensure that the required measures have indeed been implemented.

2.13 Availability of Resources of Internal Auditor

Resources are crucial factors that contribute effective performance of Internal Auditors, so lack of resources may hinder their performance. The audit activity must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control of the organization being audited because the budget impacts the audit activity's capacity to perform its responsibilities.

2.14 Scope of Internal Audit

Scope of Internal Auditor may influence the effective performance in exercising different types of audit include financial, compliance and performance audit. The Internal Auditors in Public Sector concern about the compliance rather than the financial and performance audit which has the limited scope on accessing the relevant documents for audit, this mean that the audits be conducted will not complete

2.15 Types of Audit

Power indicates that there have been many attempts to break the idea of auditing down to its constitutive parts in order to outline different preoccupations. One can distinguish between verification and review, regularity and value for money, private and public sector audits financial and non-financial audits, assessment and inspection and other forms of assurance services, between internal and external audits (Power 1997).

In the public sector the three main types of audit usually classified and practiced are: the financial audit, the compliance audit and the performance audit. The financial and the compliance audit also exist in similar form in the private sector, but in place of the term ‘performance audit’ the terms operational and management audit are mainly used (Arens and Loebbeck 2000) Below, the three main types of audit practiced in the public sector are described briefly.

2.15.1 Financial Audit

Financial audit has been defined as an independent examination of, and expression of opinion on the financial statements of an enterprise (White and Hollingsworth 1999).

In other words, it is conducted to determine whether the overall financial statements information being verified is stated in accordance with specified criteria. Usually, these criteria are generally accepted accounting principles. Although it is common to conduct financial audit also using other bases of accounting appropriate for the

organization (Arens and Loebbeck 2000). A public sector financial audit, however, goes further than in the private sector and examines whether money has been spent for the purposes intended by parliament and whether the expenditure conforms to the Authority.

2.15.2 Compliance Audit

The purpose of compliance audit is to determine whether the auditee is follow specific procedures, rules and regulations set by some higher authority. The compliance audit is more common in the audit of governmental units, because of the extensive regulation by higher government authorities (Arens and Loebbeck 2000).

2.15.3 Performance Audit

A performance audit represents a modern vision of an audit. It is distinctive to the state audit, although it has also influenced the private sector audit (Arens and Loebbecke 2000). The very identity of a performance audit is neither precise nor entirely standardized, as it has been differently defined and practiced in different countries. The actions have also varied from one period to another and from one audit and another. However, it is generally acknowledged that as a minimum a performance audit includes an examination of economy, efficiency and effectiveness.

The increased focus on the performance audit is associated with increased concern about government expenditure in the 1960s and 1970s which caused public auditors to take a wider perspective and to reorient ate the approach to the audit (Bowerman 1996).

2.16 Theories behind demand for audit services

There are several different theories that may explain the demand for audit services. Some of them are well known in research and some of them are more based on perceptions (Hayes, 2005).

2.16.1 The Policeman Theory

The policeman theory claims that the auditor is responsible for searching, discovering and preventing fraud. In the early 20th century this was certainly the case. However, more recently the main focus of auditors has been to provide reasonable assurance and verify the truth and fairness of the financial statements. The detection of fraud is, however, still a hot topic in the debate on the auditor's responsibilities, and typically after events where financial statement frauds have been revealed, the pressure increases on increasing the responsibilities of auditors in detecting fraud (Hayes, 2005).

2.16.2 The lending credibility theory

The lending credibility theory suggests that the primary function of the audit is to add credibility to the financial statements. In this view the service that the auditors are selling to the clients is reliability. Audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management (in the financial statement). The users' are perceived to gain benefits from the increased credibility, these benefits are typically considered to be that the quality of investment decisions improve when they are based on reliable information (Hayes, 2005).

2.16.3 Agency Theory

Agency relationship could be defined as a contract among the organization owner(s) and its top management. Managers work with the organization as agents to perform some service on behalf of owners who delegate some decision making authorities to managers. These authorities could be misused by managers to meet their own personal interests. Therefore, the existence of the audit committees and the external and internal auditors will help the organization in enhancing their performance, and also will ensure that the management carries out its plans according to procedures (Adams, 1994). Peurseem and Pumphrey (2005) considered internal auditors as agents and monitors for a variety of the internal audit users that include the board, audit

committee and senior management. Agency problems could occur when the board or its audit committee is inefficient, and hence, the senior management is likely to be a powerful influence over the internal audit. This complex web creates an inherent dilemma for the internal audit: how can it carry out their monitoring role over management if it is ineffective itself?

Internal auditors often are employed by senior management, but at the same time, they are also agents of the board and audit committee who trust in the internal auditors' ability to evaluate senior management's works. However, internal auditors may have varying motives to act against the board of directors' interests and its audit committee and these motives include financial rewards from managers, personal relationships with them, and the power of senior management in shaping the future position of internal auditors and their salaries. In such a work environment, internal auditors as agents may have an incentive to be bias of information flows, which leads to new concerns of the board and audit committee about their trust on the internal auditors' objectivity, and preventing such threats of objectivity becomes necessary for the board and its audit committee.

Internal auditors as agents must perform audit processes at the professional level requiring education and professional certifications, experience, and other competencies needed to perform their responsibilities perfectly. Having internal auditors with such requirements and the existence of training programs for internal auditors, would increase the confidence level of the board and audit committee in the internal auditor competence. At the same time, internal auditors, by proving their duties in accordance with the professional level, can refute charges of neglecting their duties. The internal audit department works are achieved under supervision of the chief audit executive who is the main responsible individual for putting the internal audit plan, reporting internal audit findings and following-up internal audit recommendations.

The organization members are required to evaluate the internal control system (SOX, Section 404, 2002), and in order to achieve this requirement they depend on the internal audit department. During this evaluation, internal auditors should collect sufficient and reliable evidences that will support their assessment of the internal control system. The existence of such evidences will increase the confidence level of organization members on the works performed by the internal audit. Hence, internal audit department performance is a crucial requirement for organization members to consider internal auditors as agents. Internal auditors, as agents of the organization members, need their support. The existence of an effective audit committee in the organization enhances internal audit independence and also, reduces senior management interferences either in internal audit scope or its performance.

2.17 Internal audit quality

Internal audit quality, which is demonstrated by the office's capability to provide useful audit findings and recommendations, is one of the most prominent factors on which audit effectiveness is anchored. The performance standards of the IIA (1999b) require the auditor to plan and perform the work such that he or she would be able to arrive at useful audit findings and forward recommendations for improvement. The office's ability to properly plan, perform and communicate the results of audits is a proxy for audit quality. Therefore, audit quality is arguably a function of extensive staff expertise, reasonableness of the scope of service, effective planning, execution and communication of internal audits.

2.18 Successful of Internal Audit in Zanzibar

Public sector organizations are also required to have internal audit functions to support effective management. The Ministry of Finance in Zanzibar has the authority to issue internal audit manuals for use by all organizations that are wholly or partially financed by the government budget. The Ministry has issued a manual that contains a code of ethics for internal auditors and procedural guidance on the conduct of audits to ensure their functions are well successful (Zanzibar Internal Audit Manual, 2009).

The Internal Audit Office at Ministry of Finance Zanzibar provides management with information about the adequacy and effectiveness of the institution's system of internal controls and the quality of operating performance with established standards. The Office aims to assist the management in the effective discharge of the latter's responsibilities by providing objective analyses, appraisals, and recommendations concerning their functions.

2.19 Relationship between Internal Audit and External Audit

The coordination of internal audit activity with external audit activity is very important from both points of view: from external audit's point of view is important because, in this way, external auditors have the possibility to raise the efficiency of financial statements audit; the relevancy from internal audit's point of view is assured by the fact that this coordination assures for the internal audit a plus of essential information in the assessment of risks control (Dobroțeanu.& Dobroțeanu., 2002). The importance of the relationship from internal audit and external audit is reflected also by International Standards of Audit (610 – “Considering the work of internal audit”), which foresees, among others:

- i. The role of internal auditing is determined by management, and its objectives differ from those of the external auditor who is appointed to report independently on the financial statements. The internal audit function's objectives vary according to management's requirements. The external auditor's primary concern is whether the financial statements are free of material misstatements;
- ii. The external auditor should obtain a sufficient understanding of internal audit activities to identify and assess the risks of material misstatement of the financial statements and to design and perform further audit procedures;
- iii. The external auditor should perform an assessment of the internal audit function, when internal auditing is relevant to the external auditor's risk assessments;

- iv. Liaison with internal auditing is more effective when meetings are held at appropriate intervals during the period. The external auditor would need to be advised of and have access to relevant internal auditing reports and be kept informed of any significant matter that comes to the internal auditor's attention which may affect the work of the external auditor. Similarly, the external auditor would ordinarily inform the internal auditor of any significant matters which may affect internal auditing.

2.20 Reliance of External Auditor to Internal Auditor work

ISA 315 addresses how Internal Audit Functions knowledge and experience can inform the External Auditors' understanding of the entity and its environment, as well as identification and assessment of risks of material misstatement. Our interpretation of ISA 315 is that it provides meaningful guidance when viewing a strong IAF's activity as part of the control activity or an instrumental part of the monitoring component of internal control.

ISA 610 addresses the EAs' responsibilities when using work of the IAF as part of its evidence-gathering process, as well as using the IAF to provide direct assistance under the direction, supervision, and review of the EA. Specifically, to determine whether the work of the IAF can be used for purposes of the audit, the EAs must evaluate:

- i. The extent to which the Internal Audit Function's organizational status and relevant policies and procedures support the objectivity of the Internal Audit
- ii. The level of competence of the IAF, and
- iii. Whether the IAF applies a systematic and disciplined approach in gathering and evaluating audit evidence, including quality control. This aspect of the Standard takes on greater importance because the major area of non-compliance with the IIA. standard is the lack of a quality control review.

2.21 Empirical Analysis

Different studies have been done in assessing the factors contributing poor performance of Internal Audit in Public Sectors.

For instance Zulkifli (2014) investigates the factors that contribute to the effectiveness of internal audit in the Malaysian public sector. The study intended to determine the auditors' perception toward the effectiveness of internal audit work, influenced by the quality of audit work in order to perform in an effective manner as control instrument in public financial management. It also aimed to determine the relationship between factors that contribute to the effectiveness of Internal Audit works in promoting better transparency and integrity of public management. The scope of this study covered the internal auditors that work in the ministries in Putrajaya.

Zulkifli study employs a cross sectional survey to investigate the effectiveness of internal audit. Several statistical techniques such as the descriptive statistic, correlation and regression analysis were used to analyze the data from the survey. The result of the study showed that there were significant positive relationships among the factors analyzed in this study such as auditor competency, auditors' independence and objectivity and management support to the effectiveness of internal audit. Thus, the effectiveness of internal audit will depend strongly to the attributes of the factors analyzed in this study.

Moreover, Peurseem (2004) conducted a survey of New Zealand internal auditors to identify functions that internal auditors perceive to be essential to their role. The survey also sought to understand the nature of the internal auditor's "role dilemma" which arises from the expectation that internal auditors will both assist management and independently evaluate management. Comments received from respondents indicated that internal audit's role has changed in recent years to one of consultant rather than of "policeman". Most of those who commented on this change did not perceive it as a problem. Van Peurseem (2005) followed up her survey with a multiple case study involving six senior internal auditors.

The study was designed to explain how these internal auditors deal with the conflict between their audit oversight responsibilities and the provision of support to management. Van Peurseem found that the tension involved in maintaining this dual role leads to role ambiguity but that this ambiguity is not necessarily undesirable. Three concepts emerged from the interviews which impact on internal auditors' ability to maintain their independence: the position in which they establish their own role and duties, the role of professional status, and the nature of the communications in which they engage.

Also, Ahlawat and Lowe (2004) examined whether internal auditors can remain objective when consulting to management in a corporate acquisition setting. The study involved internal auditors acting for the buyer or seller in an acquisition. The role that the company was taking in the negotiation process was found to influence participants' judgments, with internal auditors allocated to the buyer condition providing significantly higher likelihood judgments about inventory obsolescence compared to those allocated to the seller condition. The researchers concluded that this suggests that internal auditors who act as consultants may not be able to maintain their objectivity.

Futhermor, Aderajew (2007), examined the factors impacting the effectiveness of internal audit services employed case study of a large public sector higher education institution in Ethiopia to identify factors influencing internal audit effectiveness, using a model developed for the analysis. The model consisted of four interrelated factors: internal audit quality; management support; the organizational setting; and attributes of the Audits. The findings of the study reveal that the internal audit office of the organization studied needs to enhance the technical proficiency of the internal audit staff and minimize staff turnover so as to foster audit effectiveness.

The organizational status and internal organization of the internal audit office are fairly rated, but internal audit's lack of authority on budgets reduces its control of resource acquisition and utilization. The scope of internal audit services is limited to regular activities. Extending the scope of services by widening the range of systems

and activities audited, with appropriate risk analysis, would improve audit effectiveness. Management's commitment in providing greater attention to internal audit recommendations and staffing the office with well-qualified employees deserves attention in this study. The internal auditors, under the impression that their reports are not sufficiently utilized by the management, may not be encouraged to exert the maximum possible effort in their engagements. In addition, the lack of attention by management may send a wrong signal about the importance of internal audit services to the Audit, which in turn adversely affects the audit attributes.

The study has shown that internal audit of the organization studied needs improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations. Audit effectiveness could be enhanced by ensuring consistency in documenting audit work to enable improved review of audit work; proper follow-up of the status of audit findings and recommendations; increased distribution of audit reports; and further improvement in the quality of reporting.

Another study is from Bariyima, (2012), who assessed the internal auditing practices on the financial performance of government-owned companies (GOCs) and to consider the effect of a contextual factor-Political influence – on this relationship. While much empirical works have given diverse reasons for the poor financial performance of GOCs, research evidence of the impact of internal auditing practices on the financial performance of GOCs in the Nigerian context.

The study adopted quantitative approach. Data were collected from key informants using a research instrument. Employing the Statistical Package for Social Sciences (SPSS) Version 13.0, returned instruments were analyzed using frequency tables, Pearson's and Stepwise Regression Method. The study found no strong association between internal auditing practices and financial performance of GOCs and that political influence do not significantly impact this relationship. The weak association between internal auditing practices and financial performance is attributed to these enterprises' inadequacy and poor implementation of internal auditing practices.

Where internal auditing is de-emphasized it cannot impact positively on performance.

Also, Tumwine, (2007) examined the relationship of internal audit function and employee attitudes affect the financial performance of Public Universities. The study focused in examining the relationship between the internal audit function and financial performance, the relationship between employee attitude and financial performance in Public Universities. The study adopted the quantitative research methodology employing a cross sectional research design. A population of 434 was selected from some selected departments of Kyambogo University and Makerere University Kampala using stratified simple random sampling. The findings of the Tumwine study revealed a significant and positive relationship between internal audit function and financial performance and between employee attitudes and financial performance in public Universities.

Institute of Internal Auditor (2006) examined the role of auditing in public sector governance; the study concluded that government auditing is the key to good public governance, it is crucial to maintain an appropriate configuration with an appropriately broad mandate to achieve the organization's governance objectives. The government audit activity's mandate should be as broad as possible to enable it to respond to the full scope of the government's or governmental unit's activities.

Although auditors may be able to add value to any segment of the organization for which they can provide independent, objective assurance, at a minimum, every government requires some form of independent audit activity that has authority to evaluate the full range of the government's activities. Full audit coverage is frequently provided by complementary external and internal audit entities.

Again, Thomas (2008) emphasized on the duties and obligation of internal Auditors which include: ensure ring compliance with statutory requirement and reporting to the audit committee of the board. Assure the board that the public organization is being conducted in the most economic, efficient and effective manner. Confirm that

the system and procedure of internal control and risk management are adequate and effective and also assist in identifying risk, evaluating and assessing significant organizational risks.

This certify that there is adequate compliance with the laws of the land and prudent corporate governance practice and ethos of the public organization are upheld, applied and implemented by the corporation, its personnel and all who deal with it. Evaluate the relevance, reliability and integrity of management and financial information, advice on appropriate system of control and other accounting and operational matter in a consulting capacity. Draw attention to any failure to take remedial action, carry out any ad hoc appraisals, inspection, investigations, examination or reviews request by the audit committee or by the senior management, recommend improvement in procedure and system to prevent waste, extravagance and fraud, ensure implementation of social responsibility policies adopted by the board and top management.

Stephen (2012) examined the role of oversight in the allocation and management of public resources in order to deliver the best possible public services. The study reported that in order to get best possible public services there is an effective government audit in which the public integrity should be upheld throughout the entire processes of the public resource management framework. Systems should be in place to track abuse of resources as well as potential conflicts of interest. Prompt corrective action should be initiated in response to any breach of the regulatory framework.

Furthermore, Nankunda (2013) examined the internal audit function and financial performance of public sector organizations and use cross-sectional research design, the study concluded that, there are number of internal control systems at National Water and Sewerage Corporation public sector organization. including; checking of goods entering National Water and Sewerage Corporation after their purchase, checking of people at the building entrance, frequency supervision of the Municipal activities, writing of reports to the National Water and Sewerage Corporation

workers concerning all that has been done under departments by the heads of departments every after two months, use of recording systems, internal audit system, training and workshop programs to the corporation employees, screening of prospective employees in addition to the use of budgetary and financial controls, also it indicated a positive impact of internal audit function on the financial performance of the corporation.

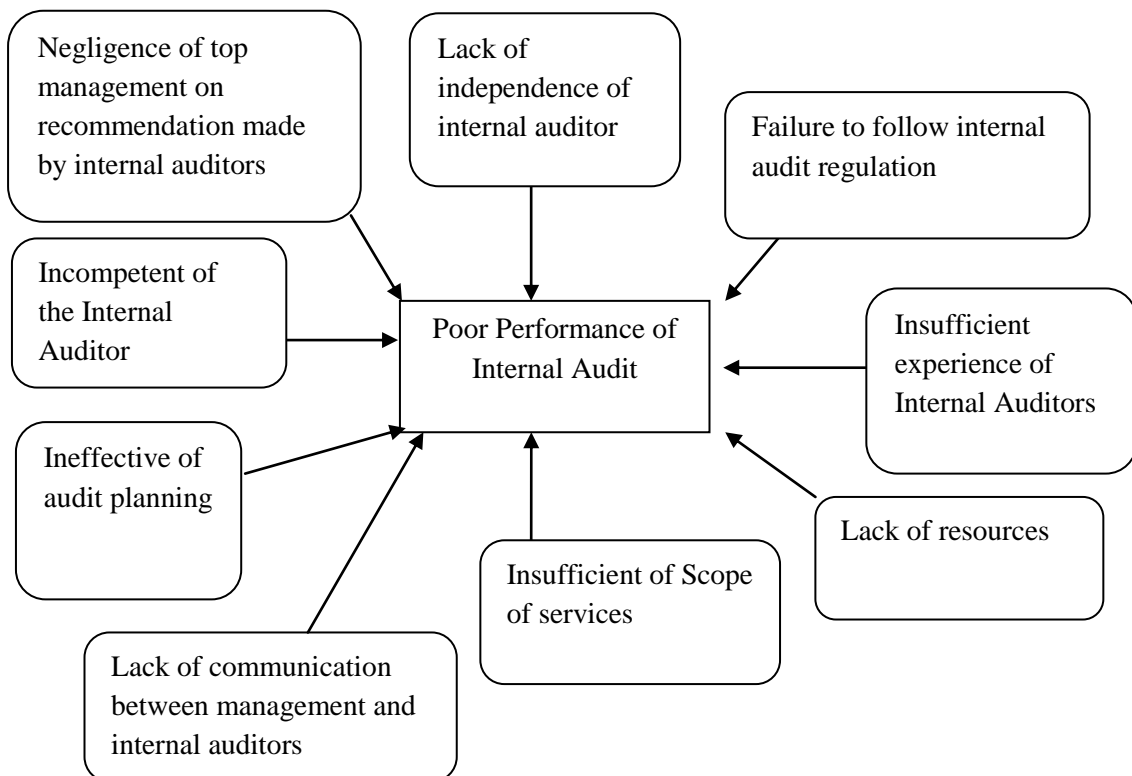
This is so because, majority of the respondents that internal audit function have a positive impact on the financial performance of National Water and Sewerage Corporation public sector organization. These respondents said that when internal audit function is well applied can impact on the financial performance of the corporation like National Water and Sewerage Corporation positively. This is because; respondents said that proper application of internal audit function can help the corporation to achieve its objective, help in the detection of fraud, help in minimizing costs, help employees to perform their assigned tasks both effectively and effectiveness all of which improve on the financial performance of the corporation.

Various studies have been done worldwide about the factors that contributing poor performance in internal audit in public sectors and the finding from those studies show that there is relationship between those factors including competence , independence, follow up etc, which influence the performance of the Internal Audit, there are few studies which have been conducted within the Tanzania context especially in Zanzibar in assessing the factors that contributing poor performance of Internal Audit in Public Sector. The current study will focus on the factors that contributing to the poor performance of Internal Audit in Public Sector which include independence of Internal Auditor during the audit function, management response on audit recommendations, exercise due care of Internal Audit, experience, scope of Internal Audit, effective audit planning, competency, resources and communication.

2.22 Conceptual Framework

Poor performance of Internal Audit is the dependent variable of the study where by the Independent variables are role of Internal Audit which measured by using the indicator of lack of independence of Internal Audit, negligence of top management on recommendation made by internal auditors, failure to follow internal audit regulation, on other hand the reliance of External Auditor also act as the independent variable which measure by using the indicator of insufficient experience of Internal Audit auditors, ineffective of audit planning, insufficient of Scope of services and finally the independent variable is challenges face by Internal Auditor during the audit function which measure by using the indicators of incompetent of the Internal Auditor, lack of resource and lack communication between management and internal auditors. These assumptions are summarized in figure 2.1 below:

Figure 2.1: Conceptual Framework and Research Model



Source: Author's own Construct, 2015

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The first part of the chapter provides a research design that was used. The second part of the chapter gives the study area, while the third part explains the study population. The sample size and sampling procedures were gives in part four of the chapter. Data collection methods are explained in part five of the chapter. The last part of the charter discusses how the collected data were processed and analyzed.

3.2 Research Design

The study adopted a cross sectional survey design where both qualitative and quantitative methods of data collection and analysis were used. The respondents were selected from different institution that include; Zanzibar Electricity Corporation (ZECO), Zanzibar Insurance Corporation (ZIC) and Ministry of Finance and Office of Controller and Auditor General (CAG).

3.3 Study Area

The study conducted in Zanzibar West Urban region at Zanzibar Electricity Corporation (ZECO), Zanzibar Insurance Corporation (ZIC), Ministry of Finance and Office of the Controller and Auditor General Zanzibar (CAG). The Zanzibar West Urban region is one of 5 regions of Zanzibar and is located on the island of Unguja. This region is at the centre of the island, and it holds Zanzibar Town. The Zanzibar Electricity Corporation was selected due to fact that many frauds were reported from that corporation in the year 2013 (PAC report 2013). For the case of Zanzibar Insurance Corporation a large Institution which operates country wide so my suspicious was that the researcher would be able to access data and information required in answering the research questions from Institutions. The selection of this Ministry of Finance was due to the fact that, it was a test site for the study at hand (Kuhn, 1962). This is so truly because the Ministry of Finance currently dealing with

Internal Audit. Controller and Auditor General was chosen because they dependent upon the report of Internal Audit.

3.4 Study Population

The population of the study comprises Accountants, Internal Auditors, External Auditors, Senior Officers from Ministry of Finance, and OCAGZ, Senior Officers from ZECO and ZIC. Total populations of 100 respondents were interviewed during the study.

3.5 Sample Size

This study composed of seven types of units of analysis which consists of Accountants, internal auditors, external auditors, senior officers from Ministry of Finance, senior officer from OCAGZ, senior officer from ZECO and senior officer from ZIC, so the targeted sample size of the study was 28 respondents from Accountants, 30 respondents from Internal Auditors, 20 respondents from External auditors, 5 Senior Officers Ministry of Finance, 5 Senior Officers from OCAGZ, 6 senior officers from ZECO and 6 senior officers from ZIC making a total of 100 respondents as summarized in table 3.1 The selection of the mentioned respondents is due to fact that all of them are participating in accounting and auditing issues, in order to get them the researcher used Pilot testing by conducting the dialog on the issue concerning the performance of Internal Audit Unity in Public sectors.

Table 3.1: Sample size of the study

Category of respondents	Targeted sample size
Accountants	28
Internal Auditors	30
External Auditors	20
Senior officers MoF	5
Senior officers OCAGZ	5
Senior officers ZECO	6
Senior officers ZIC	6
Total	100

Source: Author's own Construct, 2015

3.6 Sample Procedures

The purposive sampling procedure had been used in this study .Accountants, Internal Auditors, External Auditors, senior officers from MoF, ZECO, OCAGZ and ZIC had been selected purposively due to their own experience on the auditing matter and the researcher had assured on the information regarding their study on answering the research questions.

3.7 Data collection methods

The study consisted of both primary and secondary data. Primary data were ones collected for the first time by the researcher. Primary data have the advantage of giving the researcher an in-depth familiarity with the research findings, promoting accurate answers, and a better understanding of the research process (Gall, 2005). Primary data were obtained through interviews and execution of questionnaire that were administered the respondents. On the other hands, secondary data are those obtained from literature sources or collected by other people for some other purposes. Thus secondary data provide second hand information and include both raw data and published ones (Saunders & Thornhill, 2000). The secondary data were obtained from documentary review.

3.7.1 Primary data

Primary data were obtained through interviews and execution of questionnaire that were administered to participants.

3.7.1.1 Questionnaires

Questionnaires were administered to 78 correspondents, who include 28 respondents from accountants, 30 respondents from Internal Auditors and 20 respondents from External Auditors. The questionnaires included both open- ended and close- ended questions. Open ended questions were used in order to get the experiences and feelings from correspondents about internal audit in public sectors. Closed-ended questions will be for gathering information that the researcher intended to get which

could not be obtained using open-ended question. These research tools have been presented in Appendix A

3.7.1.2 Interview Schedule

Structured and unstructured interview involved 5 senior officer from MoF, 5 senior officers from OCAGZ, 6 senior officers from ZECO and 6 senior officers from ZIC. The intention was to know in order to get the experiences and feelings from correspondents about internal audit in public sectors as well as constraints faced by the Internal Auditors during the exercise their duties. Interviews allowed flexibility in data collection since the researcher used to modify difficult questions for more clarity and even ask some more questions depending on the context. Semi-structure interview were designed for the purpose of getting intended information in a more systematic way. These research tools have been presented in Appendix D.

3.7.2 Secondary data

These data which are obtained from literature sources or data collected by other people for some other purposes. Thus secondary data provide second hand information and include both raw data and published ones (Saunders & Thornhill, 2000). The secondary data were obtained from documentary review. By using this various documents had been reviewed in Public Institutions such as MoF, OCAGZ, ZECO and ZIC. The documents which were reviewed include Internal Audit Reports, External Audit Reports. These documents were obtained from ZECO and ZIC and Office of the Controller and Auditor General Zanzibar. In selection of the Ministry of Finance the documents that were reviewed include list of Internal Auditors including their respective academic qualifications and experiences.

3.7.3 Validation and Testing of Reliability of Research Instruments

Validity and reliability are two important aspects in research and these had been considered in this study. Validity is the quality that an instrument used in research is accurate, correct, true, meaningful and right (Nyenzi, 2010) and reliability refers to consistency of result that an instrument will give when applied repeatedly in the

investigation (Saunders et al, 2000). These two qualities are important in research as they have a great influence on the nature of result and hence conclusion that can be made regarding the research findings. The instrument for this study was subjected to test for validity and reliability to determine whether they needed improvement or not. The following techniques were used to establish validity and reliability of the study

- i. Multiple methods had been used to collect data and information (questionnaires, interviews, documentary review) and from different units of analysis in order to confirm data source and reduce bias and thus improve validity of data and information obtained.
- ii. Pilot testing of instruments had been conducted before being administered, after which some modification had been done to eliminate ambiguities in the instruments. This in turn brought about consistency in understanding the questions by all respondents.
- iii. The Researcher adopted the Test- Retest Method; where by the same instrument is given twice to the same group of respondents. The reliability is the correlation between the scores on the two instruments. If the results are consistent over the time, the scores should be similar.
- iv. Data had been collected by the main researcher alone. This gives the researcher ability to avoid reliability error which might arise due to observer error and bias.

3.8 Data Processing and Analysis

The study adopted both qualitative and descriptive statistics approach. Qualitative approach used descriptive method to present the findings obtained from the respondents through interview. Descriptive statistics were used to summarize, organize, and make sense of a set of scores or observations. Descriptive statistics are typically presented in graphically, in tabular form or as summary statistics through the use of simple counts, tables, percentages and chart presentation for easy understanding. In conducting this analysis the SPSS and Excel were used.

CHAPTER FOUR

RESULT AND DISCUSSION

4.1 Introduction

This chapter presents the study findings and analysis of data collected in the field. The results of the findings were presented in texts, tables and figures. In order to realize the objectives of the study, the researcher assessed the factors contributing poor performance of internal audit in public sectors.

The discussion of findings has been arranged in accordance with demographic characteristics of respondents' and objectives of the study as were formulated in chapter one of this report. These objectives include (i) examining the roles of Internal Audit in minimizing the chance of misuse and mismanagement of public resources (ii) determine the reliance of External Auditors on Internal Audit work and (iii) examine the challenges faced by Internal Auditors in implementing their duties in Public Sector.

4.2 Background Characteristics of Respondents

4.2.1 Type of Respondents

The study had a total of 68 respondents, out of that respondents, 28 equivalent to (41.2%) were Internal Auditors, 17 equivalent to (25%) were External Auditors and 23 equivalent to (33.8%) were Accountants

Table 4.1: Type of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Internal Auditor	28	41.2	41.2	41.2
External Auditor	17	25.0	25.0	66.2
Accountant	23	33.8	33.8	100.0
Total	68	100.0	100.0	

Source: Field data, 2015

4.2.2 Sex composition of the respondents

The sex of respondents was established. This aimed at knowing how males and females as community members actively participate in Public Sector Auditing. The study targeted both male and female which gave a variety of findings that were not biased making it gender sensitive.

According to the study findings, most of the respondents were male as compared to the female. The number of males who participated in the study was represented 60.3% as compared to 39.7% of the female respondents, this due to fact that in Public Sector Auditing most of the employees were males.

Table 4.2: Sex of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	41	60.3	60.3	60.3
Valid Female	27	39.7	39.7	100.0
Total	68	100.0	100.0	

Source: Field data 2015

4.2.3 Education background

In order to get information from all categories of respondents, those that have attained Secondary, college and University levels of education were all approached during the study process.

The study showed that most of the respondents had attained up to Bachelor level of education with 54.4%, followed by 23.5% of the study respondents who had Master and above level then Diploma was reported by 20.6% of the respondents, and finally 1.5% of the respondents who cited that had attained certificate level. The level of Bachelor education of respondents is higher as compared with other level this is due to the fact that, Bachelor Degree who participate in the study this because the

Bachelor Degree level of participants who is the front line in Public Sector Auditing as compared with Master level participants who are the decision maker in the organization,

Table 4.3: Education level

	Frequency	Percent	Valid Percent	Cumulative Percent
Certificate	1	1.5	1.5	1.5
Diploma	14	20.6	20.6	22.1
Valid Bachelor	37	54.4	54.4	76.5
Master and above	16	23.5	23.5	100.0
Total	68	100.0	100.0	

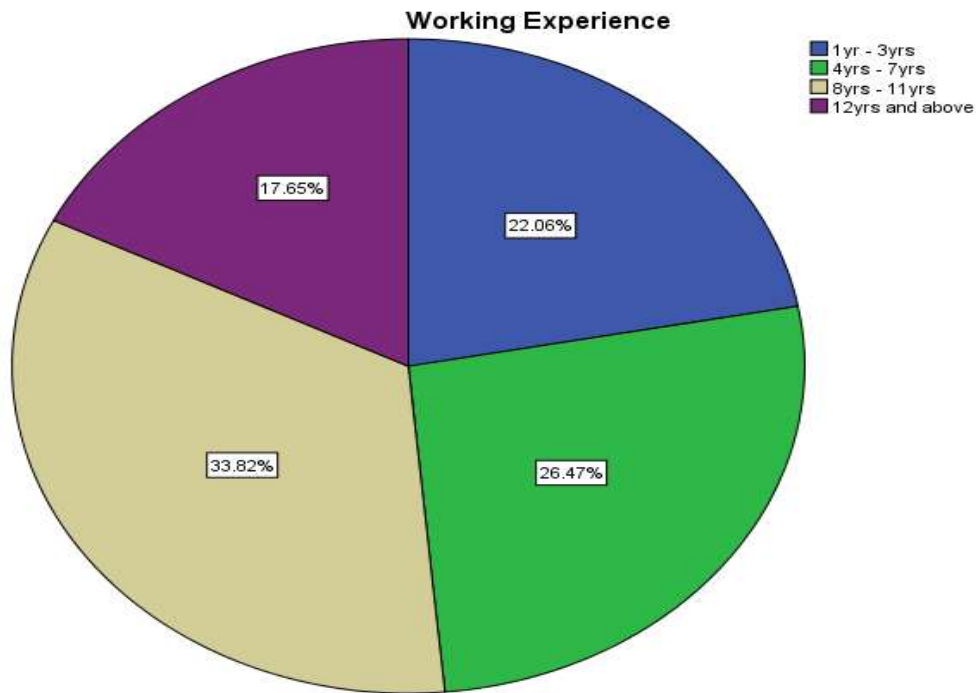
Source: Field data 2015

4.2.4 Worked Experience

Respondents were asked about their experience of work in the study area. It was hoped that respondent's time of the stay on work influenced their impact in the area. Those who had stayed longer in the worked area were further believed to have witnessed several changes, trends and patterns of work offered by the institutions to its clients.

The study revealed that 17.65% of respondents had worked experience on Public Sector Auditing for a period of twelve years and above, while 33.82% of respondents had worked experience on Public Sector Auditing for a period of eight to eleven years, followed by 26.47% of respondents had worked experience on Public Sector Auditing for a period of four to seven years and finally 22.01% of respondents had worked experience on Public Sector Auditing for a period of one to three years.

Figure 4.1: Working experience of respondents



Source: Field data 2015

4.3 The Roles of Internal Audit in Minimizing the Chance of Misuse and Mismanagement of Public Resources

Auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results. In performing this role Internal Auditors help public sector organizations in minimizing the chance of misuse and mismanagement of public resources. In this objective two possible indicators were assessed include independence of Internal Auditors and response of top management on recommendation made by Internal Auditors.

The questions regarding the Independence of Internal Auditors and response of top management on recommendation made by Internal Auditors were directed to External Auditors, Internal Auditors and Accountants.

4.3.1 Independence of Internal Auditors

Internal audit is independent in the sense that it is not subject to the authority of the areas of the entity it audits. This independence, best described as 'operational independence', assists in ensuring that internal audit acts in an objective, impartial manner free from any conflict of interest, inherent bias or undue external influence. Independence contributes to the accuracy of the auditors' work and the ability to rely on reported results, hence it may minimize the chance of misuse and mismanagement of public resources. However, internal audit is not independent of the organization in the same way as the external audit function is, because it provides a service to management, reports to the Audit Committee and is ultimately accountable to the Chief Executive or the Board for the achievement of its objectives and the use of its resources.

The study revealed that 47.94% of the respondents strongly agreed that independent of Internal Auditors influence the performance of their work, 43.82% of the respondent agree that independent of Internal Auditors influence the performance of the audit work ,

5.88% of the respondents remained undecided about the independent of the Internal Auditors, 1.76% of the respondents disagreed about the independence of Internal Auditors and 0.59% of the respondents strongly disagreed about the independent of Internal Auditors. This information is well presented in figure 4.4 below

Table 4.4: Independent of Internal Auditors

		Strong Disagree	Disagree	Undecided	Agree	strong Agree	Total
Independent of Internal Auditor is crucial for reduction of misuse and miss management of Public Resource	0	1	2	28	37	68	
Independence of Internal Auditor influence their performance	0	1	2	30	35	68	
Independence act as catalyst to reduce risk of org	1	0	3	29	35	68	

Independence may control fraud mechanism within org	0	4	5	37	22	68
Independence may influence strong internal control in org	1	0	8	25	34	68
Average	0.40	1.20	4.0	29.8	32.6	68
Percentage	0.59%	1.76%	5.88%	43.82%	47.94%	100%

Source: Field data 2015

4.3.2 Response of Top Management on Recommendation Made by Internal Auditors

Top management responses are the situation where the management of an organization required to clearly indicate if the entity agrees or disagrees with the recommendation which are reported by internal audit unit and that responses should include actions that the entity's senior management intends to take to respond to the recommendation. However the management cannot agree with the recommendation, but the response must state the reason.

The response narrative must be consistent with the "Agreed" or "Disagreed" statement. It should also include actions, timelines, and clear accountability, all of which provide a basis for a potential future follow-up. The Organization determines whether the response wording is appropriate and sufficient. If agreement is conditional or partial, as a last resort only, the audit team in consultation with the product leader can consider changing the response to "Partially agreed" and communicate this to the management. So that if the top management has a a good response to the internal audit unit, this will minimize the chance of misused and mismanagement of public resources

The study revealed that 32.72% of the respondents a strongly agreed about the response of top management on recommendation made by Internal Auditors that can lead organizations to remedy the weaknesses and deficiencies, 48.89% of the respondents agreed upon the response of top management on recommendation made by Internal Auditors that can lead organizations to remedy the weaknesses and

deficiencies, 11.76% of the respondents were in undecided position upon the response of top management on recommendation made by Internal Auditors , 5.88% of the respondents were disagreed upon the response of top management on recommendation made by Internal Auditors and 0.74% of the respondents were strongly disagreed upon the response of top management on recommendation made by Internal Auditors. These respondent response have clearly been presented in table 4.5 below

Table 4.5: Response of Management on Recommendation Made by Internal Auditors

	Strong Disagree	Disagree	Undecided	Agree	strong Agree	Total
Response on audit finding and recommendation by mgt my indicate proper use of public resources	0	3	9	32	24	68
Management of organization influence the roles of Internal Auditor through finding and recommendation	2	9	6	28	23	68
Proper mgt increase accuracy of information through audit recommendation	0	4	9	34	21	68
Clear response of management may weigh the effectiveness of Internal Auditors	0	0	8	39	21	68
Average	0.5	4	8	33.25	22.25	68
Percent	0.74	5.88	11.76	48.89	32.72	

Source : Field data 2015

Apart from questionnaires provided there were some interview despondence relating to the roles of Internal Auditors in improving the performance of the Organization from 4 Senior Officers from Zanzibar Electricity Corporation, 2 Senior Officers from Ministry of Finance, 3 Senior Officers from Office of Controller and Auditor General and 3 Senior Officers from Zanzibar Insurance Corporation .

Senior Officers from Zanzibar Electricity Corporations stated that:

“The role of internal auditors improves the performance of the organization as a result of reducing of their risk. Because the aim of internal audit is to see the internal control of the organization is working properly, this also includes the risk management process of the organization. So internal auditor is required to see the risk of organization and make suggestion on the ways that an organization may apply in order to minimize the risk of the organization”

Senior Officers from Ministry of Finance stated that:

“Internal auditor is responsible for the overall looking of internal control of the organization as well as management of risk. So the roles played by internal auditor improve the organization performance by applying the audit skill.”

Senior Officers from Office of Controller and Auditor General State that:

“Internal Auditors have a crucial important in improving the performance of the organization , because they were responsible in assessing the internal control of the organization to ensure that there is not misappropriate and mismanagement of the public resources so as to improve the performance of the organization in terms of value for money on utilization of public resources”

Senior Officers from Zanzibar Insurance Corporation stated that:

“The role of internal auditors improves the performance of the organization as a result of reducing of their risk. Because the aim of internal audit is to see the internal control of the organization which is working properly, apart on assessing the internal control, Internal Auditor has a crucial important to the organization on detecting the fraud through pre audit of the appropriate documents.

Additional information was obtained through documentary review; the Researcher reviewed Internal Audit Guide for Auditors to assess the roles of Internal Auditors in minimizing the chance of misuse and mismanagement of public resources based on Independent of Internal Auditors in exercising their duties and response of management on Internal Audit recommendation.

The Guide showed that:

The Internal Audit Unit in Zanzibar has a lack of autonomy because the Internal Auditors are part of the management of the organization, so they can impair the integrity as the results affect the performance of Internal Audit. As the case of response of management on Internal Audit recommendation there is low response due to fact Internal Auditors are directly reported to the top management.

General discussion

Role of Internal Auditors in minimizing the chance of misuse and mismanagement of public resources through independent of Internal Auditors and response of management on Internal Audit recommendation influence the factors that contribute efficiency of the Internal Auditor's performance. The above facts and findings from questionnaires, interview and documentary reviews, therefore, there is less independent of Internal Auditors and low response of management on Internal Audit recommendation. In Zanzibar, Internal Audit in Public Sector establishes the Audit Committee for reasons on assisting the top management of the organization on responsiveness of audit recommendation made by the Internal Auditors, but this Unit is under the Ministry of Finance through Accountant General which impair the independency as well as integrity as the result of poor performance on exercising their duties.

4.4 The Reliance of External Auditors on Internal Audit Work

An effective Internal Audit functions may reduce, modify or alter the timing of External Audit procedures but can never eliminate them entirely. The external auditors assess the internal audit function in the following aspect; Organization status, scope of the function, technical competence and due professional care.

In this objective three possible indicators were assessed include scope of services, competent of Internal Auditors and effective of audit planning.

The questions regarding the scope of services of Internal Auditors, competence of Internal Auditors and effective audit planning were directed to External Auditors, Internal Auditors and Accountants.

4.4.1 Scope of Services of Internal Auditors

The scope of Internal Auditors considers the coverage of the audit work without interference with outside or management of the organization .The effective Internal Audit work requires effective scope to ensure the External Auditors to rely upon their duties conducted by Internal Auditors.

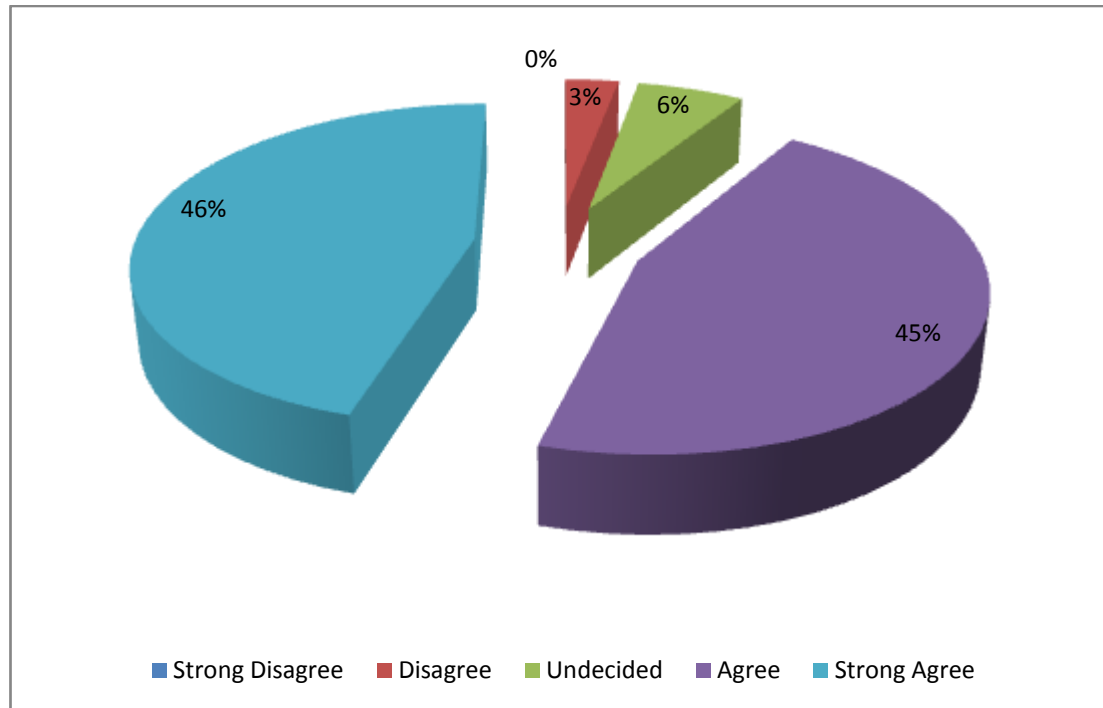
The study reveals that 45.5% of the respondents strongly agreed on the scope of the Internal Auditor’s function that the External Auditors relies on the Internal Audit work 45.5% of the respondents agreed on the scope of the Internal Auditor’s function that the External Auditors relies on the Internal Audit work 6% of the respondents are undecided upon the scope of the Internal Auditor’s function that the External Auditors relies on the Internal Audit work, 3% of the respondents disagreed upon the scope of the Internal Auditor’s function that the External Auditors relies on the Internal Audit work as realized in figure 4.6 below

Table 4.6: Scope of service of internal auditors

	Strong Disagree	Disagree	Undecided	Agree	Strong Agree	Total
Scope of service of Internal Auditor cause reliance of External Auditors	0	2	4	31	31	68
Average	0	0.03	0.06	0.455	0.455	
Percentage	0	3.0	6.0	45.5	45.5	100

Source: Field data 2015

Figure 4.2: Scope of service of Internal Auditor cause reliance of External Auditor



Source: Field data 2015

4.4.2 Competence of Internal Auditors

Knowledge, skills, and other competencies represent a collective term that refers to the professional proficiency required by internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

The study revealed that 44.1% of the respondents strongly agreed that experience and qualifications of Internal Auditors influence the reliance of External Auditors on the Internal Auditor's works, 27.9% of the respondents agreed that experience and qualifications of Internal Auditors influence the reliance of External Auditors on the Internal Auditor's works, 11.8% of the respondents are undecided upon the experience and qualifications of Internal Auditors influence the reliance of External

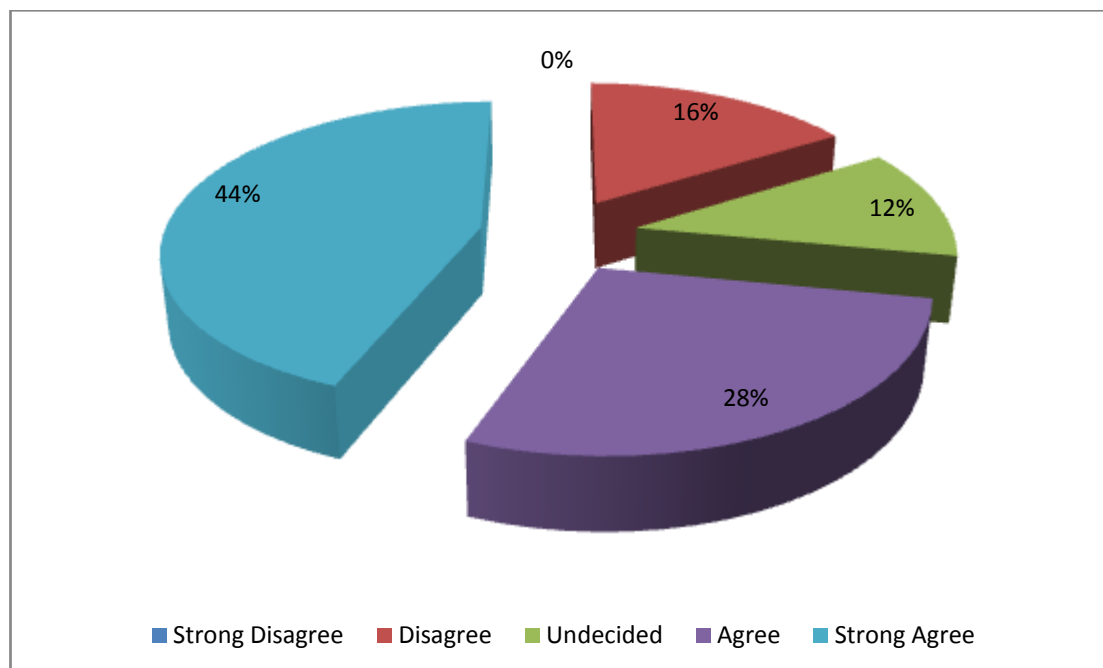
Auditors on the Internal Auditor's works, 16.2% of the respondents disagreed upon the experience and qualifications of Internal Auditors influence the reliance of External Auditors on the Internal Auditor's works as seen in table 4.7 below

Table 4.7: Competence of Internal Auditors

	Strong Disagree	Disagree	Undecided	Agree	Strong Agree	Total
Internal Audit Department staffed in terms of numbers, qualification and experience influence reliance	0	11	8	19	30	68
Average	0	0.162	0.118	0.279	0.441	
Percentage	0	16.2	11.8	27.9	44.1	100

Source: Field data 2015

Figure 4.3: Competence of Internal Auditors



Source: Field data 2015

4.4.3 Effective of Audit Planning

The Internal Auditor is responsible for developing a risk-based plan. The Internal Auditor takes into account the organization's risk management framework, including

using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the Internal Auditor uses his/her own judgment of risks after consideration of input from senior management and the board. The Internal Auditor must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

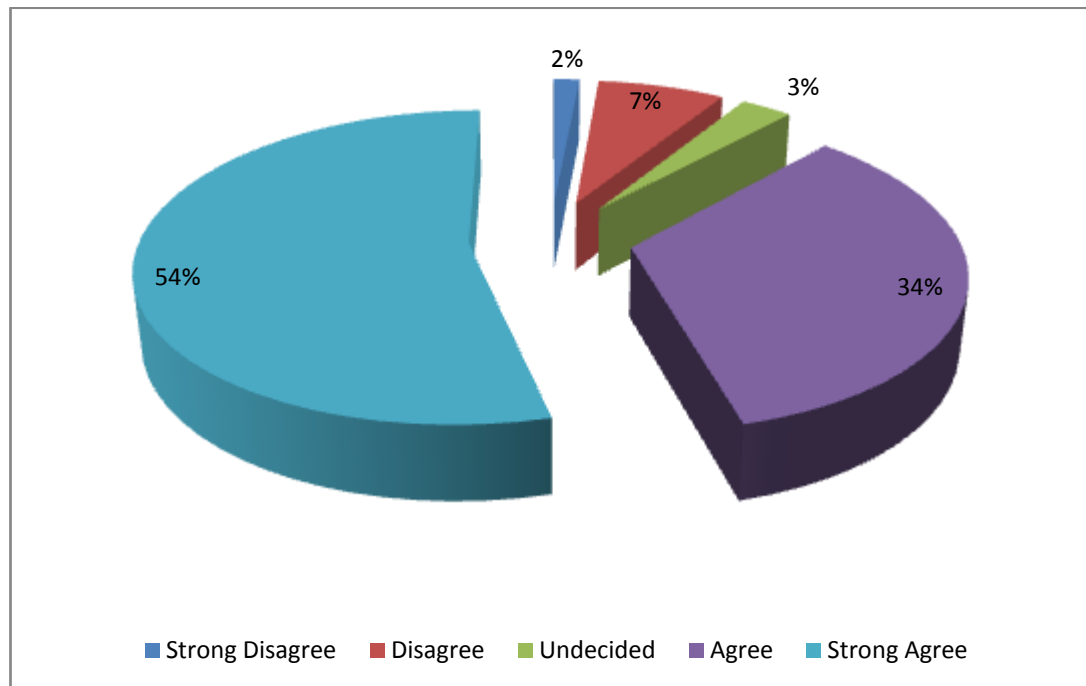
The study reveals that 54% of the respondents strongly agreed that effective audit plan of Internal Auditors weigh the reliance of External Auditors on Internal Auditor's work, 34% of the respondents agreed that effective audit plan of Internal Auditors weigh the reliance of External Auditors on Internal Auditor's work, 3% of the respondents are undecided upon effective audit plan of Internal Auditors weigh the reliance of External Auditors on Internal Auditor's work, 7.4% of the respondents were disagreed upon the effective audit plan of Internal Auditors weigh the reliance of External Auditors on Internal Auditor's work and 1.5% of the respondents strongly disagree upon the effective audit plan of Internal Auditors weigh the reliance of External Auditors on Internal Auditor's work .as realized in table 4.8 below

Table 4.8: Effective Audit Plan

	Strong Disagree	Disagree	Undecided	Agree	Strong Agree	Total
Freedom to plan and carryout the work may influence reliance	1	5	2	23	37	68
Average	0.015	0.074	0.03	0.34	0.54	
Percentage	1.5	7.4	3	34	54	100

Source: Field data 2015

Figure 4.4: Effective Audit Plan



Source: Field data 2015

Apart from questionnaires provided there were some interview question relating to the reliance of External Auditors from Internal Auditors that improve the work from 4 Senior Officers from Zanzibar Electricity Corporation, 2 Senior Officers from Ministry of Finance, 3 Senior Officers from Office of Controller and Auditor General and 3 Senior Officers from Zanzibar Insurance Corporation .

Senior Officers from Zanzibar Electricity Corporation stated that:

“The External auditors work directly with internal auditor this improve the capacity of internal auditors to work with organization. Internal auditor become knowing of the anomalies raised by external auditors.”

Senior Officers from Ministry of Finance stated that:

“Always the work of external auditors improve the work of internal auditors by showing areas that are weak and anomalies raised by external auditor help internal auditor to develop the work plan which is relevant to the weakness of organization and led to improvement of the organization:

Senior Officers from Office of Controller and Auditor General stated that:

“The work of the Internal Auditors and External Auditors nearly the same but differ in minor issues, so each other dependant between them in doing the work. The organization can be improved where by the both have competent enough to show the areas of the weakness for improving the performance of the organization in terms of the utilization of the public resources for achieve the intended result.

Senior Officers from Zanzibar Insurance Corporation state that:

“The External Auditors may improve the work of Internal Auditors on discover the mismanagement and misappropriate of public funds and make the recommendation on it for improving the performance of the organization”.

Additional information was obtained through documentary review, the Researcher reviewed Internal Audit Human Resource and Internal Audit Guide for Auditors to assess the reliance of External Auditors on Internal Auditor's work based on scope of services of Internal Audit, competency and effective planning

Internal Audit Human Resource showed that:

Most of the Chief Internal Auditors in Zanzibar have enough academic knowledge on Bachelor and Master Degree concerning the issue of Accounting and Auditing but there is lack of professional knowledge.

General discussion

Reliance of External Auditors on Internal Audit work may influence the performance of Internal Audit through their scope, competency and effective planning .The above fact and finding through questionnaire, interview and documentary review, most of the Internal Auditors have enough experience and knowledge concerning the auditing issued but have a limited scope on exercising the audit work as well as have been prepared the annual audit work plan but they fail to implement properly

4.5 Challenges faced by Internal Auditors in Public Sectors

The role of Internal Audit functions is evolving with the changing business environment .Today business environment in both elevating the important of Internal

Audit and subjecting it to significance challenges. Public Sector extends their operations across the world. Internal Audit department must recruit, train and manage staffs that can operate across a variety of cultures and far –flung locations. They must also deals with multiple regulatory regimes.

In this objective three possible indicators were assessed include lack of resources, lack of communication between Internal Auditors and Management and insufficient experience of Internal Auditors.

The questions regarding to lack of resources, lack of communication between Internal Auditors and Management and insufficient experience of Internal Auditors were directed to External Auditors, Internal Auditors and Accountants and forming a total of 68 respondents.

4.5.1 Lack of Resources

The audit activity must have sufficient resources relative to the size of its audit responsibilities. This important element that influences the performance of the Internal Auditor in exercising their duties, lack of it may hinder the efficiency and effectiveness of the audit result in Public Sector.

The study reveals that 65% of the respondents strongly agreed that lack of resources it may hinder the efficiency and effectiveness of the audit result in Public Sector.

29% of the respondents agreed that lack of resources it may hinder the efficiency and effectiveness of the audit result in Public Sector, 1.5% of the respondents are undecided upon the lack of resources it may hinder the efficiency and effectiveness of the audit result in Public Sector,3% of the respondents were disagreed upon the lack of resources it may hinder the efficiency and effectiveness of the audit result in Public Sector and 1.5% of the respondents were strong disagree upon the lack of resources it may hinder the efficiency and effectiveness of the audit result in Public Sector .This is demonstrated in table 4.9 below

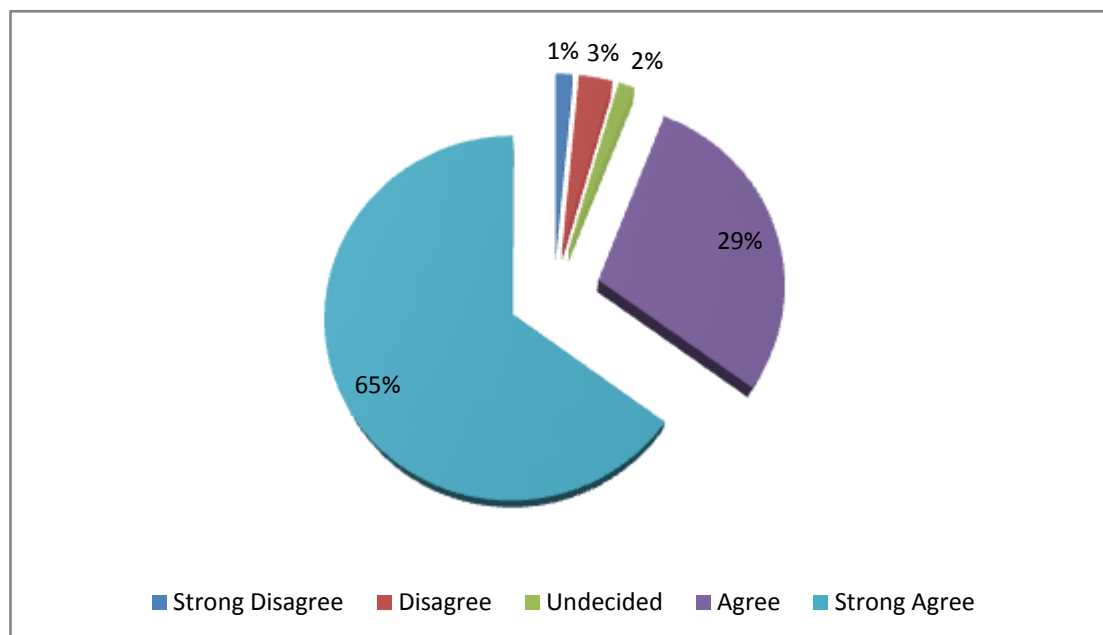
Further discussion with the respondents agreed that, the Internal Audit Unit in Zanzibar is under the Accountant General Office which contrary with the International Standards on Auditing, so resources allocated to Internal Audit Unit is limited that hinder the performance of Internal Audit in public sector.

Table 4.9: Resource

	Strong Disagree	Disagree	Undecided	Agree	Strong Agree	Total
Inadequate resources	1	2	1	20	44	68
Average	0.015	0.03	0.015	0.29	0.65	
Percentage	1.5	3	1.5	29	65	100

Source: Field data 2015

Figure 4.5: Inadequate resources



Source: Field data 2015

4.5.2 Lack of Communication between Internal Auditors and Management

The Internal Auditor must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or

requested by senior management and the board. Lack of communication may hamper the performance of Internal Audit in public sector as a result of low response on audit queries issued by Internal Auditor.

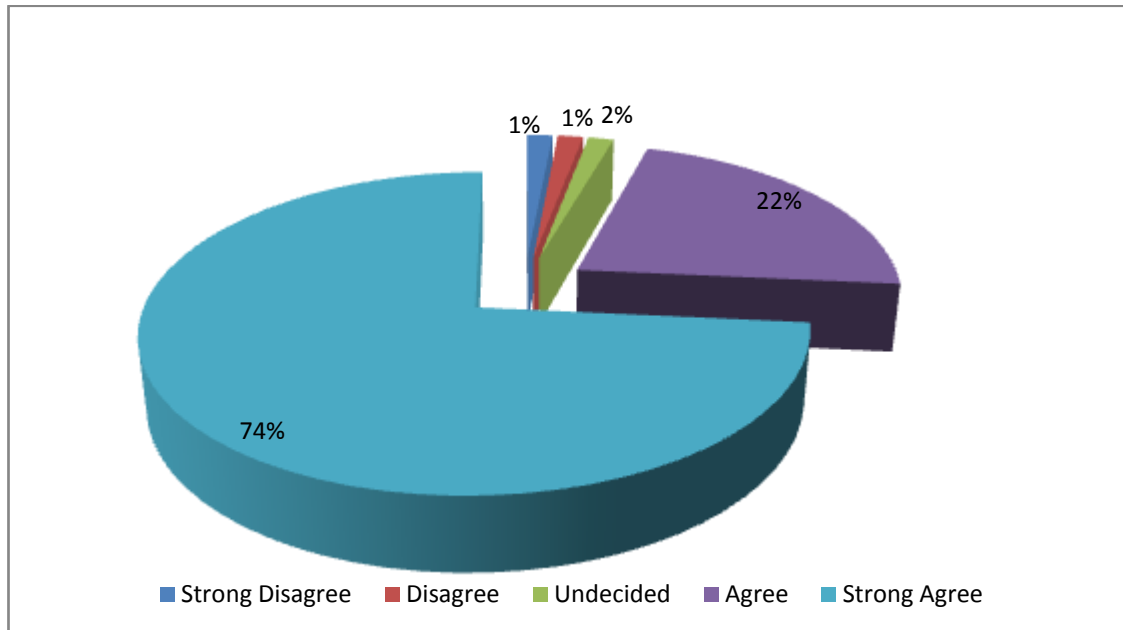
The study reveals that 73.5% of the respondents strongly agreed that lack of communication may hamper the performance of Internal Audit in public sector as a result of low response on audit queries issued by Internal Auditor, 22% of the respondents agreed that lack of communication may hamper the performance of Internal Audit in public sector as a result of low response on audit queries issued by Internal Auditor, 1.5% of the respondents are undecided upon the lack of communication may hamper the performance of Internal Audit in public sector as a result of low response on audit queries issued by Internal Auditor, 1.5% of the respondents were disagreed upon the lack of communication may hamper the performance of Internal Audit in public sector as a result of low response on audit queries issued by Internal Auditor and 1.5% of the respondents strongly disagreed that the lack of communication may hamper the performance of Internal Audit in public sector as a result of low response on audit queries issued by Internal Auditor. This is well demonstrated in table 4.10 below

Table 4.10: Communication between Internal Auditor and Management

	Strong Disagree	Disagree	Undecided	Agree	Strong Agree	Total
Lack of communication between management and Internal Auditors	1	1	1	15	50	68
Average	0.015	0.015	0.015	0.22	0.735	
Percentage	1.5	1.5	1.5	22	73.5	100

Source: Field data 2015

Figure 4.6: Lack of communication between management and Internal Auditor



Source: Field data 2015

4.5.3 Insufficient Experience of Internal Auditors

The Internal Audit activity needs a professional and experience staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate. Internal Auditors must comply with minimum continuing education requirements established by their relevant professional organizations and standards, so skill and expertise of Internal Auditors in any office are more valuable assets.

Lack of experienced staffs act as challenges to Internal Auditor in exercising their duties. The study reported that 75% of the respondents strongly agreed that lack of experienced Internal Auditor in public sector may reduce the confidence in exercising the audit work, while 21% of the respondents just agreed that lack of experienced Internal Auditor in public sector may reduce the confidence in exercising the audit work, 1.5% of the respondents were disagreed upon lack of experienced Internal Auditor in public sector may reduce the confidence in exercising the audit work and 3% of the respondents strongly disagreed upon the

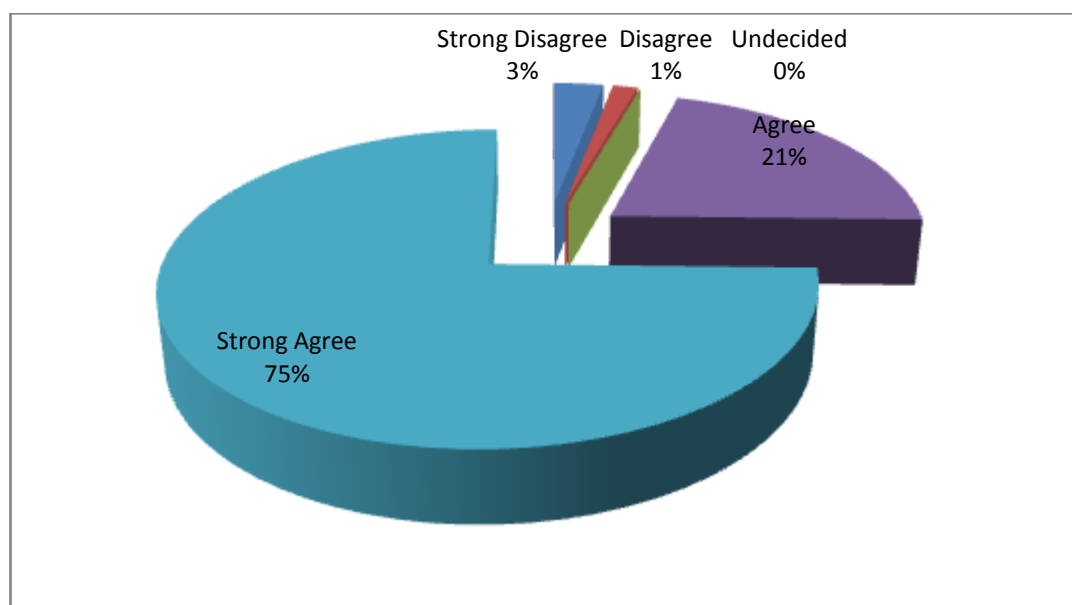
lack of experienced Internal Auditor in public sector may reduce the confidence in exercising the audit work. This well demonstrated in table 4.11 below

Table 4.11: Experience of Audit Staff

	Strong Disagree	Disagree	Undecided	Agree	Strong Agree	Total
Lack of experience of audit staff	2	1	0	14	51	68
Average	0.03	0.015	0	0.21	0.75	
Percentage	3	1.5	0	21	75	100

Source: field data, 2015

Figure 4.7: Lack of experience of audit staff



Source: field data, 2015

Apart from questionnaires provided there were some interview question relating to the challenges that hinder the performance of Internal Auditors in Public Sectors from 4 Senior Officers from Zanzibar Electricity Corporation, 2 Senior Officers from Ministry of Finance, 3 Senior Officers from Office of Controller and Auditor General and 3 Senior Officers from Zanzibar Insurance Corporation.

Senior Officers from Zanzibar Electricity stated that:

“The challenges that hinder the performance of Internal Auditors in Public Sectors were dependence in budget control, lack of audit skills, collusion with other departments and lack of support from other department.”

Senior Officers from Ministry of Finance stated that:

“The challenges that hinder the performance of Internal Auditors in Public Sectors were poor skills of auditors, corruption, non supportive activities and non compliance with professional standards.”

Senior Officers from Office of Controller and Auditors General stated that:

“The challenges that hinder the performance of Internal Auditors in Public Sectors were dependence in budget, collusion with other departments and non compliance with professional standards.

Senior Officers from Zanzibar Insurance Corporation stated that:

“The challenges that hinder the performance of Internal Auditors in Public Sectors were lack of response on audit recommendation, non supportive activities from different department, changing the public sectors Environments and Lack of Internal Audit Act in Public Sectors.

Additional information was obtain through documentary review, the Researcher reviewed Internal Auditor Annual Performance Review by assessed the challenges face the Internal Auditor in exercising their duties based on lack of resources in terms budget and equipment lack of communication and insufficient experience

The Annual Report showed that:

In Zanzibar ,the Internal Audit Unit suffer challenges concerning the lack of resources especially budget constraint, this due to fact that the Internal Audit Unit has no autonomy in preparing their own budget, but depend through Accountant General Office.

General Discussion

Lack of resources, communication and experience may hinder the performance of Internal Audit also acts as a factors that contributing poor performance of Internal

Auditors. The above fact and finding through questionnaire , interview and documentary review , the study showed that the Internal Audit Unit in Zanzibar is under the Accountant General Office which contrary with the International Standards on Auditing, so resources allocated to Internal Audit Unit is limited that hinder the performance of Internal Audit in public sector also , there is little communication between Internal Auditors and management in Public Sector that hamper their performance during the exercise the audit work. Currently most of the Internal Auditors in Public Sector have enough experience in auditing matters

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

In Zanzibar, Internal Audit is governed by the Public Finance Act No. 12 of 2005. A section 34 and 35 of the Public Finance Act Regulations legally recognizes Internal Auditor as an overseer/inspector of the planned activities in Ministries, Departments and Agencies (MDAs) including their revenues and expenditures.

Internal Audit is an important unit that must act ethically for national development and for the benefit of general public. It is responsible for providing efficient audit services to enhance accountability and value for money in the collection and use of public resources. Objectively, Internal Audit is supposed to be impartial unit offering services to the organization with professional integrity and high ethical standards based on acknowledged best practices.

The purpose of the study was assessed the factors contributing poor performance of Internal Audit in Public Sector. The research findings confirmed that the performance of Internal Auditors in Public Sector depend upon the variables which include independent of Internal Auditors, response of top management on recommendation made by Internal Auditors, scope of service of Internal Auditors , competent of Internal Auditors , effective planning of audit work , availability sufficient resources and proper communication between Internal Auditors and Management.

Due to compromise of Independent of Internal Auditors, in adequate response of top management on recommendation made by Internal Auditors, limited scope of Internal Auditors, low availability of resources and improper communication between the Internal Auditors and Management .The researcher conclude that these factors contribute the poor performance of Internal Auditors in Public Sector.

5.2 Recommendations

The findings of the study show that, Internal Auditors in Public Sector are very crucial important due to fact that, they reduce the misappropriate and mismanagement of public resources, reduce the risk of the organization by conducting pre-audit and insist the top management on keep the strong internal control in the organization. So the researcher comes out with the following recommendations.

5.2.1 Independent of Internal Auditors

In many government organizations especially in this case study organization there is no independency of Internal Auditors. When there is organizational independence and objectivity will allow the internal auditor to conduct work without interference by any party for the audit task. The study recommends that the Revolutionary Government of Zanzibar must ensure the independence of internal auditing with respect to both assurance services and consulting for the organization. Independence is closely related where the freedom from conditions that may threaten objectivity and no significant quality compromises are made during rendering the audit service. In fact, the audit activity should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so . This is very crucial element in conducting audit because the auditors can access to any document relating to the audit work without favour and fear. This will make the auditors provide the objective report and reliable professional judgement on the auditing work to achieve the mandate given to them with integrity. Independence of auditors would not be considered to be impaired if the auditors do not appear to act in a capacity equivalent to a member of client management or as an employee. Worldwide Countries were more assertive in their opinions about Internal Auditors being an independent evaluation function on the effectiveness of management, internal auditing is the centre of integrated activities within organization, and it is the best suited for the new roles as agent of change.

5.2.2 Limited Scope of Internal Audit

Currently, the Internal Audit currently is a part of the management of the organization which influences poor performance due to limited scope of the audit work. The study recommends that the Revolutionary Government of Zanzibar should establish the office and position of Internal Auditor General to ensure that all Internal Auditors in Public Sectors are reported directly to the Internal Auditor General. This aims to increase independence to Internal Auditors when performing their duties. It also provide more scope to Internal Audit functions by focusing on introducing new areas like risk management system, control and government processes, quality assurance, technical Audit and budget and payroll Audit. All these changes aim at improving financial management and accountability for the purpose of attaining value on the public expenditure.

5.2.3 Availabilities of Resources

Internal Audit Unit in Zanzibar is under the Accountant General Office which contrary with the International Standards on Auditing, so resources allocated to Internal Audit Unit is limited that hinder the performance of Internal Audit in public sector. The study suggests that the Revolutionary Government of Zanzibar should establish the Office and position of Internal Auditor General and ensure that there is proper vote of accounting in the Office of the Internal Auditor General.

5.2.4 Response on top Management.

The internal audit unit presents their report to the management regarding to the findings in relation to the work that has been done, unfortunately the management of the organization normally remain reluctant to observe and respond to the internal audit finding that pose constraints to the audit performance, therefore the organization should insist the implementation of auditors' report for the organization's success.

The support and commitment of management also have the certain impact to make sure Internal Auditors is functioning effectively. The success of Internal Auditor's function will depend on the strength of management's support for the auditing process. They have to accept the fact that the Internal Auditors process is just as critical and important activity as any other process within the organization.

Apart from the above recommendation, the Researcher recommended further on the following point such as behavior of Internal Auditors and characteristics of Auditee.

5.2.5 Behaviour of Internal Auditors

The behavior of the auditors during the audit process will likely influence the success of an audit. It is possible to identify two extremes. At one extreme, the auditor might emphasize his or her status and position as an independent auditor 'above' the auditee. At the other extreme, he or she might emphasize the cooperation, communication and participation in the audit process.

This can be perceived on the following levels include perception of a preference for collaboration on the part of the auditors; the auditees' perception of the power relations between auditors and auditees; the auditees' perception of the tone of the report; the auditees' understanding of the recommendations presented in the report; the auditees' perception as to whether the evaluation criteria were justified; the auditees' perception of the roles of the auditors and the auditees' perception of the competence of the auditors

5.2.6 Characteristics of the Auditee

The characteristics of the auditee influence the successful of the performance of Internal Auditors due to the following factors are included the auditees' degree of influence; the auditees' level of commitment; the auditees' level of tolerance; the degree of fluidity in the communication between auditees and auditors and the previous experience of the auditees with the auditors.

5.2.7 Improving Auditing standard

In order to improve the auditing standard in public sector in Zanzibar the following measures should be taken:

- i. Should ensure the application of acceptable accounting standard for financial reporting and disclosure.
- ii. Should develop adequate information control, evaluation and reporting systems that will facilitate the accountability process and ensure internal audit independence
- iii. Should develop specific and measurable objective and performance targets for efficiency auditing operation. Moreover oversight bodies should work indecently in their oversight function.

5.3 Area for Further Study

More research could be carried out on the effectiveness of Internal Audit function and employee attitude on organizational performance as a whole

I would like to propose for more research to be carried out on the effectiveness of Internal Audit function, employee attitude on financial performance of private organization.

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APPENDICES

APPENDIX A

QUESTIONNAIRE FOR INTERNAL AUDITORS

Dear Sir/Madam,

This study is part of my requirement to the award of Master of Science Account and Finance at Mzumbe University. Its major objective is to assess on the “*Factors contributing to poor performance of internal audit in Public Sectors in Zanzibar*” This study is done by taking Zanzibar Electricity Corporation as a case study . Based on that, it focuses at the Ministry of Finance, Office of Controller and Auditor General. Zanzibar Insurance Corporation. Therefore, you are kindly requested to participate in this study by filling in this short questionnaire.

Instructions:

Do not sign your name anywhere on this questionnaire.

SECTION A: BACKGROUND INFORMATION

Please put a tick (✓) to what you consider as right answer and explain where required

(1) Sex of respondent

Male

Female

(2) How many years have you worked with this organization?

1 yr - 3 yrs

4 yrs - 7yrs

8 yrs - 11yrs

12 yrs and above

(3) What is your highest level of education status?

Certificate Diploma Bachelor Master and above

SECTION B: EXAMINING THE ROLES OF INTERNAL AUDIT IN MINIMIZING THE CHANCE OF MISUSE AND MISMANAGEMENT OF PUBLIC RESOURCES.

To what extent do you agree with the following statements about the roles of Internal Audit in minimizing the chance of misuse and mismanagement of public resources?

Please tick the appropriate response.

S/NO		Strong Agree	Agree	Undecided	Disagree	Strong Disagree
1.0	Independence of Internal Auditor during exercise their duties is crucial to ensure that there is a reduction of misuse and mismanagement of public resources					
2.0	Independence influence the performance of Internal Auditors work and enhance reduce the misuse and mismanagement of public resources					
3.0	Independence of Internal Auditor act as catalyst to reduce the risk of the organisation					
4.0	Independent of internal auditor may control the fraud mechanism within the organisation					
5.0	Independent of internal auditor may influence strong internal control in the organisation					
6.0	Risk identified by internal auditor are managed immediately by management					
7.0	Response on audit finding and recommendation by management may indicate the proper use of public resources					
8.0	Management of the organisation influence the roles of internal audit through finding and recommendation					

S/NO		Strong Agree	Agree	Undecided	Disagree	Strong Disagree
9.0	Proper management within the organisation increase accuracy of information as a result of misused and mismanagement of public resources through audit recommendation					
10.0	Clear response of management may weigh the effectiveness of internal audit as a result to reduced the misused and mismanagement of public resources					
11.0	Due care of internal audit reduce the risk of organisation					
12.0	Due care of internal audit during audit factions reduce the fraud and errors.					
13.0	Due care of internal audit reduce the irregularities in financial matter as a result in reduction of misused and mismanagement of public resources.					

SECTION C; DETERMINE RELIANCE OF EXTERNAL AUDITORS ON INTERNAL AUDIT WORK.

To what extent do you agree with the following statements about the reliance of external auditors on internal audit work? Please tick the appropriate response

S/NO		Strong agree	Agree	Undecided	Disagree	Strong disagree
14.0	The scope of services of internal audit that cause the reliance of external auditors on internal audit work.					
15.0	Freedom to plan and carry out the work may influence the external auditor to rely on the internal auditor work.					
16.0	The internal audit department of the					

	organization is adequately staffed in terms of number, qualification and experience that external auditors can rely on internal audit work.					
17.0	The right of access to any part of the organisation and to any document lead to external auditor rely on the internal auditors work.					
18.0	Free access to the highest level of management it may influence the external auditors to rely on the internal auditors work.					

SECTION D: CHALLENGES FACED BY INTERNAL AUDITORS IN IMPLEMENTING THEIR DUTIES IN PUBLIC SECTOR.

To what extent do you agree with the following statements about the challenges face by Internal Auditors in implementing their duties in public sector? Please tick the appropriate response

S/NO		Strong agree	Agree	Undecided	Disagree	Strong disagree
19.0	Lack of knowledge and inadequate numbers of staff may lead the poor performance of internal audit					
20.0	Lack of communication between management and internal audit may influence poor performance to the organisation					
21.0	Delaying responsiveness of audit finding and recommendation by management					
22.0	Inadequate resource may cause the challenges of internal audit during the exercise of their duties					

QUESTIONNAIRE FOR EXTERNAL AUDITORS

Dear Sir/Madam,

This study is part of my requirement to the award of Master of Science Account and Finance at Mzumbe University. Its major objective is to assess on the “*Factors contributing to poor performance of internal audit in Public Sectors in Zanzibar*” This study is done by taking Zanzibar Electricity Corporation as a case study . Based on that, it focuses at the Ministry of Finance, Office of Controller and Auditor General. Zanzibar Insurance Corporation. Therefore, you are kindly requested to participate in this study by filling in this short questionnaire

Instructions:

Do not sign your name anywhere on this questionnaire

SECTION A: BACKGROUND INFORMATION

Please put a tick (√) to what you consider as right answer and explain where required

(1) Sex of respondent

Male

Female

(2) How many years have you worked with this organization?

1 yr - 3 yrs

4yrs - 7yrs

8 yrs - 11yrs

12yrs and above

(3) What is your highest level of education status?

Certificate Diploma Bachelor Master and above

SECTION B: TO ASSESS THE ROLES OF INTERNAL AUDIT IN MINIMIZING THE CHANCE OF MISUSE AND MISMANAGEMENT OF PUBLIC RESOURCES

To what extent do you agree with the following statements about the roles of Internal Audit in minimizing the chance of misuse and mismanagement of public resources?

Please tick the appropriate response.

S/NO		Strong Agree	Agree	Undecided	Disagree	Strong Disagree
1.0	Independence of Internal Auditor during exercise their duties is crucial to ensure that there is a reduction of misuse and mismanagement of public resources					
2.0	Independence influence the performance of Internal Auditors work and enhance reduce the misuse and mismanagement of public resources					
3.0	Independence of Internal Auditor act as catalyst to reduce the risk of the organization					
4.0	Independent of internal auditor may control the fraud mechanism within the organization					
5.0	Independent of internal auditor may influence strong internal control in the organization					
6.0	Risk identified by internal auditor are managed immediately by management					
7.0	Response on audit finding and recommendation by management may indicate the proper use of public resources					
8.0	Management of the organisation influence the roles of internal audit through finding and recommendation					
9.0	Proper management within the organisation increase accuracy of information as a result of misused and mismanagement of public resources through audit recommendation					
10.0	Clear response of management may weigh the effectiveness of internal audit as a result to reduced the misused and mismanagement of public					

	resources					
11.0	Due care of internal audit reduce the risk of organization					
12.0	Due care of internal audit during audit factions reduce the fraud and errors.					
13.0	Due care of internal audit reduce the irregularities in financial matter as a result in reduction of misused and mismanagement of public resources.					

**SECTION C; RELIANCE OF EXTERNAL AUDITORS ON INTERNAL
AUDIT WORK.**

To what extent do you agree with the following statements about the reliance of external auditors on internal audit work? Please tick the appropriate response

S/NO		Strong agree	Agree	Undecided	Disagree	Strong disagree
14.0	The scope of services of internal audit that cause the reliance of external auditors on internal audit work.					
15.0	Freedom to plan and carry out the work may influence the external auditor to rely on the internal auditor work.					
16.0	The internal audit department of the organization is adequately staffed in terms of number, qualification and experience that external auditors can rely on internal audit work.					
17.0	The right of access to any part of the organisation and to any document lead to external auditor rely on the internal auditors work.					
18.0	Free access to the highest level of management it may influence the external auditors to rely on the internal auditors work.					

SECTION D: CHALLENGES FACE BY INTERNAL AUDITORS IN IMPLEMENTING THEIR DUTIES IN PUBLIC SECTOR.

To what extent do you agree with the following statements about the challenges face by Internal Auditors in implementing their duties in public sector? Please tick the appropriate response

S/NO		Strong agree	Agree	Undecided	Disagree	Strong disagree
19.0	Lack of knowledge and inadequate numbers of staff may lead the poor performance of internal audit					
20.0	Lack of communication between management and internal audit may influence poor performance to the organisation					
21.0	Delaying responsiveness of audit finding and recommendation by management					
22.0	Inadequate resource may cause the challenges of internal audit during the exercise of their duties					

QUESTIONNAIRE FOR ACCOUNTANT

Dear Sir/Madam,

This study is part of my requirement to the award of Master of Science Account and Finance at Mzumbe University. Its major objective is to assess on the “*Factors contributing to poor performance of internal audit in Public Sectors in Zanzibar*”

This study is done by taking Zanzibar Electricity Corporation as a case study . Based on that, it focuses at the Ministry of Finance, Office of Controller and Auditor General. Zanzibar Insurance Corporation. Therefore, you are kindly requested to participate in this study by filling in this short questionnaire

Instructions:

Do not sign your name anywhere on this questionnaire

SECTION A: BACKGROUND INFORMATION

Please put a tick (✓) to what you consider as right answer and explain where required

(1) Sex of respondent

Male

Female

(2) How many years have you worked with this organization?

1 yr - 3 yrs

4yrs - 7yrs

8 yrs - 11yrs

12yrs and above

(3) What is your highest level of education status?

Certificate

Diploma

bachelor

Master and above

SECTION B: TO ASSESS THE ROLES OF INTERNAL AUDIT IN MINIMIZING THE CHANCE OF MISUSE AND MISMANAGEMENT OF PUBLIC RESOURCES

To what extent do you agree with the following statements about the roles of Internal Audit in minimizing the chance of misuse and mismanagement of public resources?

Please tick the appropriate response.

S/NO		Strong Agree	Agree	Undecided	Disagree	Strong Disagree
1.0	Independence of Internal Auditor during exercise their duties is crucial to ensure that there is a reduction of misuse and mismanagement of public resources					
2.0	Independence influence the performance of Internal Auditors work and enhance reduce the misuse and mismanagement of public resources					
3.0	Independence of Internal Auditor act as catalyst to reduce the risk of the organisation					
4.0	Independent of internal auditor may control the fraud mechanism within the organisation					
5.0	Independent of internal auditor may influence strong internal control in the organisation					
6.0	Risk identified by internal auditor are managed immediately by management					
7.0	Response on audit finding and recommendation by management may indicate the proper use of public resources					
8.0	Management of the organisation influence the roles of internal audit through finding and					

	recommendation					
9.0	Proper management within the organisation increase accuracy of information as a result of misused and mismanagement of public resources through audit recommendation					
10.0	Clear response of management may weigh the effectiveness of internal audit as a result to reduced the misused and mismanagement of public resources					
11.0	Due care of internal audit reduce the risk of organisation					
12.0	Due care of internal audit during audit factions reduce the fraud and errors.					
13.0	Due care of internal audit reduce the irregularities in financial matter as a result in reduction of misused and mismanagement of public resources.					

**SECTION C; RELIANCE OF EXTERNAL AUDITORS ON INTERNAL
AUDIT WORK.**

To what extent do you agree with the following statements about the reliance of external auditors on internal audit work? Please tick the appropriate response

S/NO		Strong agree	Agree	Undecided	Disagree	Strong disagree
14.0	The scope of services of internal audit that cause the reliance of external auditors on internal audit work.					
15.0	Freedom to plan and carry out the work may influence the external auditor to rely on the internal auditor work.					

16.0	The internal audit department of the organization is adequately staffed in terms of number, qualification and experience that external auditors can rely on internal audit work.					
17.0	The right of access to any part of the organisation and to any document lead to external auditor rely on the internal auditors work.					
18.0	Free access to the highest level of management it may influence the external auditors to rely on the internal auditors work.					

SECTION D: CHALLENGES FACE BY INTERNAL AUDITORS IN IMPLEMENTING THEIR DUTIES IN PUBLIC SECTOR.

To what extent do you agree with the following statements about the challenges face by Internal Auditors in implementing their duties in public sector? Please tick the appropriate response

S/NO		Strong agree	Agree	Undecided	Disagree	Strong disagree
19.0	Lack of knowledge and inadequate numbers of staff may lead the poor performance of internal audit					
20.0	Lack of communication between management and internal audit may influence poor performance to the organisation					
21.0	Delaying responsiveness of					

	audit finding and recommendation by management					
22.0	Inadequate resource may cause the challenges of internal audit during the exercise of their duties					

APPENDIX D

INTEVIEW GUIDE FOR THE GOVERNMENT OFFICIAL

Dear Sir/Madam,

This study is part of my requirement to the award of Master of Science Account and Finance at Mzumbe University. Its major objective is to assess on the “*Factors contributing to poor performance of internal audit in Public Sectors in Zanzibar*” This study is done by taking Zanzibar Electricity Corporation as a case study . Based on that, it focuses at the Ministry of Finance, Office of Controller and Auditor General. Zanzibar Insurance Corporation. Therefore, you are kindly requested to participate in this study by filling in this short questionnaire.

QUESTIONS;

- (1) Do you think the role of internal auditors improve the performance of the organization as the result of reducing of their risk?
- (2) Pleases elaborate.
- (3) Reliance of External Auditor on Internal Auditors work will indicate good performance. Explain how
- (4) Mention four challenges that hinder performance of Internal Auditor in Public Sector

Thank You Very Much for your Co-operation