

**IMPACT OF INTERNAL CONTROLS ON EXECUTION OF
PAYROLL SYSTEM
A CASE STUDY OF MINISTRY OF FINANCE AND ECONOMIC
AFFAIRS – ZANZIBAR (MoFEA)**

BY

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

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled “**The impact of internal controls on execution of payroll system: The Case of Ministry of finance and economics affairs – Zanzibar**”, in partial/fulfillment of the requirements for award of the degree of Masters of Science in Accounting and Finance (MSc A&F) of Mzumbe University.

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DEDICATION

This work is dedicated to my beloved wife; Mrs Khadija J. Ramadhan, our beloved daughter Farhat Ridhwan, and the family of Mr Issa Ahmada Hija for their moral support, partience and encouragement for the whole period of my study.

LIST OF ACRONYMS

AICPA	American Institute of Certified Public Accountants
DAO	Director of administration and operation
IFMS	Integrated Financial Management System
IT	Information Technology
NBAA	National Board of Accountants and Auditors
MoFEA	Ministry of Finance and Economic Affairs
MS	Microsoft
PO	President Office
RGoZ	Revolutionary Government of Zanzibar
SPSS	Statistical Package for Social Sciences

ABSTRACT

Many of the organizations' activities are not attained due to poor or ineffective of internal controls system; with proper internal controls however guarantee the efficiency of a particular system (activities). Therefore, this study aimed at assessing the impact of internal controls on execution of payroll system to the Ministry of finance and economics affairs Zanzibar (MoFEA).

The research methodology used case study research approach. A sample size of 60 respondents who comprised of MoFEA's employees and other staffs working with the government of Zanzibar was involved. The methods of data collection involved both primary and secondary sources. Primary data were collected by using questionnaires and interview guide whereas documentary review was used in secondary method. The Statistical Package for Social Sciences (SPSS) software, and simple calculations by calculator were used to analyze the data where simple frequencies and percentages were created.

The study findings observed that, internal controls were available on the payroll system of the organization; these were 78.3% of the respondents. Specifically 83.3% said that pay slips are issued, 65% segregation of duties is available, 95% block of salaries is exercised and 80% government payroll review is too exercised. Also the study revealed that some payroll activities were good enough for the efficiency of payroll system. In addition to that, it was found that there was compliance of internal controls in relation to the payroll system through punishments and having responsible parties to monitor the compliance. The study however portrayed that, almost 31.7% of the total respondents said that there were some weaknesses in relation to internal controls over payroll system.

Following these results the researcher therefore calls for the Ministry to analyze and take the corrective measures with those weaknesses of internal controls over payroll system. The ministry also should pay salaries based on time (attendance) as this will discourage employees being absent from their work, independent check by the auditor and governments' payroll review should be carried on in a scheduled manner. i.e. at a regular interval.

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CHAPTER ONE

PROBLEM SETTING

1.0 Introduction

The study was about assessing the impact of internal controls over payroll system. The establishment of strong internal controls over payroll ensures that employees are paid the correct salary and wages, and opportunities for payroll errors and fraud are controlled. Some examples of those payroll errors and fraud which can be prevented and detected by internal control include ghost employees (someone receiving a paycheck who does not actually work for that particular organization), overstating regular or overtime hours worked, increasing rates of pay without board approval; and continuing employees on the payroll after termination, death or block of salary. Internal controls also provide assurance that the large volume of information required for every payroll is processed quickly and accurately.

The Chapter introduces the back ground information to the research problem, statement of the problem, research objectives, research questions, significance of the study and scope of the study.

1.1 Background of the study

One of the important questions in business has been why some organizations succeeded while others failed. Organizational performance has been the most important issue for every organization be it profit or non-profit one. It has been very important for managers to know which factors influence an organization's performance in order for them to take appropriate steps to initiate them. However, defining, conceptualizing, and measuring performance have not been an easy task. Researchers among themselves have different opinions and definitions of performance, which remains to be a contentious issue among organizational researchers (Barney, 1997).

According to Javier (2002), performance is equivalent to the famous 3Es (economy, efficiency, and effectiveness) of a certain program or activity. However, according to Daft (2000), organizational performance is the organization's ability to attain its goals by using resources in an efficient and effective manner. Quite similar to Daft (2000), Richardo (2001) defined organizational performance as the ability of the organization to achieve its goals and objectives.

Internal control systems however can help an organization to achieve its desired performance and profitability targets, better service delivery, evaluation of the particular system and also prevent loss of resources. In sum, it can help an organization prosper in order to achieve its objectives and also avoid pitfalls and surprises along the way. The need of internal control continued to be existing despite the fact that no emphasis and basic measures are taken to make sure that the system is carried on efficiently and effectively.

According to the Sarbanes-Oxley Act 2002 (SOX) it showed that those charged with governance were not acting in the interest of share holders and were neither identifying, evaluating, and respond to the company's risk nor in another way incentive the set up internal control system. However following the in response to a number of major corporate and accounting scandals including those affecting Enron Corporation, Tyco International, WorldCom and others, is an evidence of major steps taken by governments to revise company regulations (Coates, 2002). These scandals and control weaknesses are spreading around the globe and Norway has also experienced its fair share of the financial scandal, for example the Finance Credit scandal (Berghlund, 2002), the Statoil corruption case uncovered by the Norwegian paper, Aftenposten (Tisdall, 2003) and the Terra Securities scandal (Bjørndal, 2007).

In the developed countries like United State the response to financial scandals such as Enron or World com, has resulted in bringing into the “Public Company Accounting Reform and investor Protecting Act 2002”, commonly known as the “Sarbaneys – Oxley Act”. Sarbaneys – Oxley act requires management to take full responsibility for internal control system over financial reporting within the company and provide assessment of its effectiveness. It also requires auditors to provide independent attestation regarding the assessment by management. In Europe, no regulation can be considered equivalent to Surbaneys – Oxley. In the EU, the European Commission is proposing new requirements for listed companies and other public interest entities, active discussion over the necessity and forms of regulating the management’s responsibility to maintain and report on the effectiveness of internal control system are ongoing. (Coates, 2002)

In Zanzibar no such regulations concerning the reporting and exercising of internal control system had been established but following the scandals of ghost employees faced the Revolutionary Government of Zanzibar during the year of 2006 – 2007 the government saw the importance of establishing and emphasizing the compliance of internal controls to attain better execution toward the use of public sources and the use of systems in general. For example in July 2007 the government of Zanzibar introduced the system known as Integrated Financial Management System (IFMS) as a way of implementing Economic and Financial reforms; which however officially launched by the Honorable President of Zanzibar on January 2008.

The emphasis is also always put by the government of Zanzibar through The Office of Controller and Auditor General on the importance of maintaining effective internal control. The effective internal control system will help in achieving the efficiency on payroll system. The study aimed to enquiry the impact internal control on the execution of payroll system.

1.2 Statement of the problem

The payroll activities of an organization / ministry are usually subjected to errors and fraud. Fraud through payroll has got many forms depending on the size of the organization. It is therefore needs a strong system of internal control to curb the problem. For the case of small organizations usually an individual may be responsible for collection of cash and cheques as well as recording and preparation of the accounts. In such a situation errors and frauds are likely to arise. Therefore strict measures have to be taken on the internal control of such organizations to tackle the problem that may arise. It means therefore the internal control has to be effective and efficient.

In large organizations however errors and fraud may be done through duplication of cheques, payment of non-existent employee (ghost workers) and excessive deductions among others. For this case appropriate measures of internal control have to be applied to overcome the problem.

As far as Tanzania is concerned major problems facing payroll system include underpaying of employees, paying of non existing workers (ghost workers) and excessive deductions from workers salaries. For example on Saturday 27th October 2007, the workers of Zanzibar Safari Club Hotel situated at Uroa Village in Zanzibar marched to strike for the pay roll misappropriations which include underpayment, excessive deduction and delaying of salaries payments.

In Zanzibar the first process of identifying employees in the government was done in 2006-2007 followed by the last one in 2011-2012 in which each employee was supposed to be present to receive his/her payment at the particular days. The process was aimed to find dummy wages or ghost employees, forged or fake certificates etc.

Apart from the introduction of computer and an increase in technology in the ministry / organization, the internal control has still failed to some extent to ensure that things such as overpaying employees, payment for forged or fake certificates, placing names of non

existing employees after their separation from the organization or company, listing fictitious person on the payroll are in non existence. Therefore it is believed that there is still a need for ministry to make sure that they build strong, effective and efficient internal controls, which will have better knowledge on how to arrest the problem and knowledge on management and accounting.

So the establishment of strong internal controls over payroll remains to be of vital importance to a given ministry / organization as it is there to ensure that, salaries and wages are paid only for service rendered, data are processed quickly and that salaries and wages can be paid on time and comply with all government regulations.

1.3 Objectives of the study

The objectives of the study were identified in two categories; these were general objective of the study and the specific objectives of the study. They were explained as follows;

1.3.1 General objective of the study

The study was conducted with an objective of assessing the Impact of internal controls on execution of payroll system.

1.3.2 Specific objectives of the study

The specific objectives of the study were:

- a) To identify the available control systems over payroll system at MoFEA.
- b) To examine the efficiency of the available internal controls over payroll system at MoFEA.
- c) To examine the compliance of the available internal controls over payroll system at MoFEA.

1.4 Research questions

The researcher based his research on four basic questions as follows:

- (a) What are the applicable internal controls over payroll systems?
- (b) How efficiency is in the applicable internal controls over payroll system?
- (c) How does the compliance of the available internal controls over payroll system exercised?

1.5 Significance of the study

The study is of major importance to both parties, that is, the MoFEA as the case study as well as the researcher in the following ways:-

The findings and interpretations may become the starting point for other academicians and researchers who want to write about the subject or related topic. The study could be also expected to bring new information which might be of interest to various stakeholders such as government agency, higher learning institutions, non – government organizations, and donors who are in a position to help the governments in fulfilling its various activities. They would know well in advance how to curb such the problem of payroll manipulation in case it arises.

Since the research design applied is case study, then, the findings or results of research would be also have benefit to the named ministry (that is MoFEA) itself, as well as other organizations.

Apart from that significance to the donors and ministry itself the research activity would also generate new knowledge to the researcher in the field of payroll and internal control that may be used in various ways. The researcher would be able to apply the knowledge obtained from the theoretical perspective in the University to be applied in real practical world.

1.6 Scope of the study

The study was conducted in Ministry of finance and economics affairs (MoFEA) Zanzibar as a result of centralization of payroll system in government's ministries.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter discussed the impacts of internal control over payroll system. The chapter included the operational definition specifically for the study, internal control system and the payroll system. Also the chapter reviewed the practical experience of different internal controls on payroll system. Lastly the chapter provided the conceptual framework for the study and stated the hypothesis to be tested.

2.1 Definition of Key Terms

Internal Control System

Internal control system refers to the whole system of controls financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguarded assets and as far as possible the completeness and accuracy of the records the individual components of an internal control system are known as controls or internal controls (Millichamp, 1992).

Dauderis (1987) quotes internal control definition from the CICA handbook as:

“...The plan of organization and all the co-ordinate systems established by management of an enterprise to assist in achieving management of ensuring, as far as practical, the orderly and efficient conduct of its business, including the safeguarding of assets, the reliability of accounting records, and the timely preparation of financial information’

Aldridge & Colbert, (1994) defined internal control as a process affected by an entity’s board of directors, management and other personnel designed to provide a reasonable assurance regarding the achievement of objectives in the categories of effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable

laws and regulations. Fundamentally, internal control deals with the safeguarding of assets, both physical and monetary.

Payroll System

Niswonger and Fess (1965), defined payroll as a term used to refer to the total wages and salaries for a specified period, it is also applied to the form on which details of employee's earnings and other relevant information is assembled. In this study Payroll system refers to the whole activities involved in bringing the financial data of an employee together, it includes hiring employees, timekeeping, preparing the payroll and paying the payroll.

2.2 Overview of Internal Control System

The concept of internal control is still being viewed by many people from a narrow perspective as being the steps taken by a business to prevent employee's fraud. Actually such measures are rather a small part of internal control systems. In its broader perspective, Internal control systems is a fundamental aspect of management's responsibility to provide interest parties with reasonable assurance that their organization is effectively controlled and that the accounting data is received on a timely basis in accuracy and reliable. Its process is affected by an organization's structure, work and authority flows, people and management information systems designed to help the organization accomplish specific goals or objectives. It is a means by which an organizations resource are directed, monitored and measured and plays an important role in preventing and detecting fraud and protecting the organizations resource both physical and intangible.

An internal control system consist of all measures employed by an organization to; Safeguard assets from waste fraud and inefficient use; Promote accuracy and reliability in accounting records; Encourage and measure compliance with company policies and evaluate the efficiency of operation (Meighs et al 1982). Internal controls enhance an organization in achieving the effectiveness and efficiency of operations, reliability of

financial reporting, compliance with applicable laws and regulations. It must consist of specific policies and procedures so that the designed goals and objectives of an entity be met (Mwambu 2009).

2.2.1 Importance and functions of internal controls to an organization in general.

Under the current operations of business in general, the importance of internal control can be divided into the following (Liu 2005: 93, Rittenberg *et al.* 2005: 149):

Detecting error and fraudulence: Through the enhanced structure of internal control, which includes the establishments and improvements of control environment, accounting system and control program, the possibility of errors and fraudulence can be diminished to the minimum level.

Decreasing illegal conduct: the regulations a business entity needs to comply with can be subtle and complicated. If a reckless conduct leads to the results of law breakings, it might not only damage the public image of the entity (reputation risk), but also carries the risk of difficulties of operation due to time-consuming law suits and indemnities. The establishment and enhancement of internal control helps in decreasing illegal conducts.

Improving the competitiveness of the business entity. A well built-in and efficient internal control system contributes to the success of a business entity. In the highly competitive market a well-managed internal control system guards the business entity from the failure. The small scale of internal control inside the business entity improves employee's understanding of company goals and objectives and builds up the concepts of internal control; employees tend to carry out more exactly on the company policies and programs thus the operating efficiency can be improved as a whole. Good control means that risks are identified and dealt with effectively.

Improving the quality of data. Strong internal control processes should lead to more efficient operation and improve the quality of data that management, directors and shareholders can rely on to make decisions.

Helping to create the business infrastructure. Many new businesses fail because they do not build a control infrastructure to match the business visions of their founders.

Decreasing auditors' fees. Effective internal control system allows auditors to rely on it and by reducing the auditing time and efforts, the fees can be decreased.

2.3 Relationship between Internal Control over Payroll

There exists a very important relationship between internal control and payroll system. Dupree and Marder (1984) argued that wages and salaries are paid with cash and because of the sheer size of most payrolls, internal control over wages and salaries are very important. For example when the payroll procedures involves the pay cheques prepared by the payroll division being signed by the treasurer, reviewed and co-signed by the internal auditor. The cheques are then distributed to various departments to be given to the employees. The internal auditor must be constantly on guard against errors both unintentional and intentional. Some of the payroll schemes that have been attempted by unscrupulous employees defraud the company money include listing of fictitious employees to the payroll list, listing of forms of employees who are no longer at work, increasing certain employees pay rates, listing incorrect totals on the payroll register, not deducting employees absent time, preparing payroll cash account deposit greater than payroll and making duplicate cheques.

2.4 Efficiency and Effective Internal Control Systems over Payroll

If strict measures are adopted by internal control system of an organization the payroll frauds can be reduced significantly. Payroll expenses of wages, salaries and fringe benefits constitute a major operating item for most businesses and for this reason the internal control consideration warrant close attention. (Smith et al (1978) shows that there must be a very strong internal control over payroll expenses to ensure that

There should be a separated and independent department for engagement, determination of pay rates and determination of employee's services.

There are frequently surprise checks on the distribution of salaries and wages, the payday to prevent possible payment to fictitious employees and other frauds or manipulation that could not be detected during the payroll preparation.

Imprest, loans and mid-advances recoveries should be prepared by an independent person who maintains the relevant ledger (other than the salaries accountant) and submits the lists to the payroll section in time for deductions.

There is a separate and independent department/Section charged with the duties of compiling payroll.

There are laid down policies and procedures for the handling unclaimed salaries and wages.

The staff in the payroll section should rotate to other sections within the accounts departments to perform other duties at least after every financial year.

A register is maintained for those who work over and above the normal working hours (overtime) and they must register at the time of arrival and departure.

The last one is that there exists a budget for the salaries and wages and that the correct amounts are paid to the employees.

2.5 Empirical Studies

Here the researcher will review the work done by other researchers on the similar topic in previous years to be able to know what they found out.

Fauzia (1999/2000) who did a research on ‘Effectiveness of Internal control over payroll’ gave some points which guides towards effectiveness of internal control over payroll. In summary the points included, training, establishing an account for unclaimed wages and salaries, issuing of pay slips, staff rotation, putting security over the cashier and the accountant and use of passwords (in case of computers).

According to Tuluhungwa (2002/3) his points that are noted include time keeping and attendance reporting, preparation and distribution of salary steps, time keeping and attendance reporting, pre-review and post review to be conducted to ensure validity and correctness of information.

Ofozie (2010) who did a research on “Impact of Internal control system on Revenue generation” concluded that internal control system plays a major role in prudently managing the resources and funds entrusted to public sector managers. He went further by concluded that the internal control system in operation has some impact on service delivery and revenue generation. He noted that internal audit system at the company ensures that operations complies with set policies and promotes accuracy and reliability of transactions recorded. According to him periodic evaluation of the internal control system by an external auditor is also used to effectively access the control activities and detect fraudulent practices.

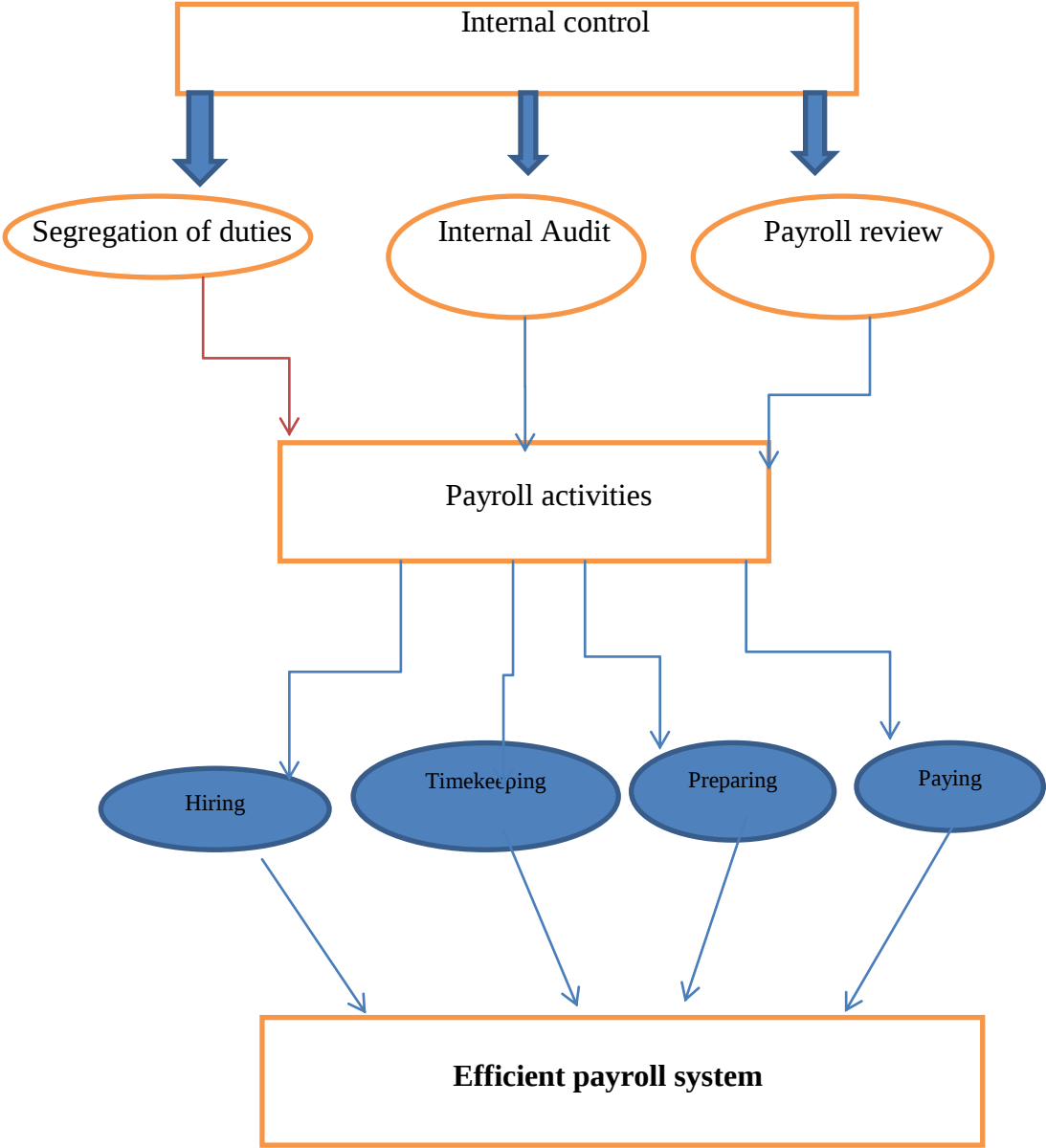
Edward (2011) who wrote about “internal controls and the quality of financial statements in local government” concluded that an internal audit committee should be put in place to carry out periodic and continuous audits so as to observe early the loopholes that exist in the organization internal control system and take corrective action where necessary. This committee will also ensure that transactions are carried out in accordance with the International Accounting Standards which are guidelines for bring out quality of financial statements. Edward went further and said that in order to overcome malpractices such as embezzlement of funds and frauds, officials implicated in the embezzlement of funds should be prosecuted and made to pay back the lost funds since this will discourage other individuals from doing the same act.

2.6 Conceptual framework

The dependent and independent variables of the study were defined in the conceptual frame work of the study. The conceptual framework was used in research to outline possible course of action or to represent a preferred approach to an idea or thought. In short the conceptual framework was about of cause and/or effects.

Dependent variable of the study was efficient payroll system which would be measured by four activities of the payroll system which are hiring employees, time keeping, preparing the payroll and paying the payroll while independent variables are the controls which always involve in the four activities of payroll system these are segregation of duties, internal audit on payroll and payroll review.

Figure 2.1 Conceptual Framework



Source: created by author of this study

2.7 Hypothesis

In the conduct of the study, the following hypotheses were tested.

H0: There positive relationship between internal controls and efficient payroll system

H1: There no relationship between internal controls and efficient payroll system

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This is the way of systematically solving the research problem. The research studied various steps that generally adapted in studying the research problem along with the logic behind them. This chapter presents research procedure and methodology; it includes some explanation about the research design, unit of inquiry, research instrument, methods of data collection, data processing and analysis.

3.1 Research Design

This is the way of investigating an empirical topic by following a set of pre-specified procedures. For this case the researcher used the Case Study research approach. According to Punch (2005), the case study is good for a thorough study of the problem and hence provides comprehensive and in-depth information of it. Therefore, the case study is adopted in order to get in-depth and contextual analysis of the impact of internal controls on execution of payroll system.

3.2 Study area

The area in which the study was conducted was Ministry of Finance and Economic Affairs Zanzibar (MoFEA). The study was being carried there following the centralization of payroll system in Zanzibar government's ministries. It was also because of budgeted constraints that made the study to be conducted there. The study used to cover a collection of data for a period of eight years started from 2006 to 2013.

3.3 Study Population

The targeted population was the staffs working with the government of Zanzibar particularly MoFEA as they are the effected. The number of the study population is

explained table 3.1 on sampling size distribution and the categories of it are explained in the unit analysis and on the sampling size distribution.

3.4 Units analysis

The units of inquiry chosen were from the following sections below; and the summary of sample size that was included in this study has been summarized in table 3.1.

- The accounts section,
- Audit section
- Human resource section,
- Payroll section
- Other staffs working in different government's ministries which have close relationships with MoFEA in dealing with payroll activities following the centralization of payroll system in the government and others

3.5 Sample size and sampling Techniques

The targeted sample size was 50 people including those who had been expected to be interviewed however due to the limitation of obtaining the top officials for interview the researcher was obliged to increase the number of sample size by 10 people and form the total of 60 respondents including the only one who had been interviewed.

3.5.1 Sampling techniques

The researcher used judgmental sampling technique as an approach in selecting his sample units. This technique falls under the category of non-probabilistic sampling techniques. Non-probability sampling represents a valuable group of sampling techniques that help researcher to select units from a population that they are interested in studying. A core characteristic of non probability sampling techniques is that samples are selected based on the subjective judgment of the researcher, rather than random selection (i.e. probabilistic methods) which is the cornerstone of probability sampling

technique. Therefore in this type of sampling items were selected depending on the suitability in relation to the study.

Table 3.1 Sampling size distributions

S/N	Categories	Number of respondents	Percentage (%)
01	Account sections	9	15
02	Audit section	7	11.66
03	Human resource	9	15
04	Payroll section	20	33.33
05	Other government staffs	15	25
	TOTAL	60	100

Source: Research data, 2013

3.6 Types and source of data

This study was designed to use both primary and secondary data.

3.6.1 Primary data

Kothari (1996) defines primary data as the researcher collected data a fresh to use in solving a specific problem under study. They are original and used to describe directly an occurrence by person who actually observed or witnessed the occurrence.

In this study, primary data were collected through personal interviews and questionnaire in various sections as explained in unit analysis which is related in one way or another with payroll.

3.6.2 Secondary Data

Secondary data involves data that have already been collected by someone else, and have already been processed (Kothari, 1996). These were extracted through reviewing

various documents e.g. donors audited accounts, textbooks, journals, organizational structure and other published information that were available at the ministry.

3.7 Data Collection Methods

The researcher, in conducting the research work used data collection techniques named as interviews, questionnaire, and documentary sources.

3.7.1 Interview

This was intended to be used on those top officials from unit of enquirer. The researcher intended to use this technique because it could enabled him to obtain detailed information through instructed interview; and also due to its flexibility, better response rate as well as the advantage of control over environment. The intended top officials were Commissioner of budget, director of administration and operation, head of account section, head of payroll section, and head of audit section. The researcher however used interview to the only one top official known as head of payroll section. The reasons for such a limitation were explained in the limitation of the study.

3.7.2 Questionnaires

Under this method of data collection, the researcher used it to different people having the knowledge and experience concerning internal controls and payroll (particularly ordinary employees) and related deductions in general. Both open ended and close-ended questions were able to be asked to collect primary data. Thus, the researcher used questionnaires as the data collection instrument, so as to allow respondents to express their ideas / knowledge independently.

Before the questionnaires being supplied and administered, they were piloted (tested) to the respondents to ensure clarity as to remove sensitive and non response questions and redrafting ambiguous questions.

The study used self administered questionnaire where respondents were requested to fill in the questionnaires. Questionnaires were used to obtain information from all respondents as shown in table 3.1.

3.7.3 Documentary source

The researcher used this technique so as to review the payroll accounting records and procedures followed when preparing payrolls and if the controls were strictly followed by the concerns. The researcher was able to review organizational structure of the ministry, public services act no.2 of 2011, donors audited accounts, textbooks, journals and other published information that were available such as auditing and accounting manual.

3.8 Validity and reliability issues

Sound measurement must meet the tests of validity, reliability and practicality. In fact, these are the three major considerations one should use in evaluating a measurement tool. "Validity refers to the extent to which a test measures what we actually wish to measure. Reliability has to do with the accuracy and precision of a measurement procedure ... Practicality is concerned with a wide range of factors of economy, convenience, and interpretability ..." (Kothari 2004).

Validity may also refer to the instrument's ability to measure exactly what concepts, it is supposed to measure for the particular study. The following procedures below used to indicate the validity of the instruments in this study. The researcher was able to ask an expert and group of experts among the respondents to comment on the representativeness and suitability of the questionnaires and the interview guide for data collection.

Besides, the researcher allowed suggestions to be made to the structure and ability of the questionnaires. That would help the researcher to establish content validity (Mitchell, 1996) of the tools for the data collection in the study. Validity was also concerned with the questionnaires' consistency of responses to the questions asked in repeated measurements (Carmines & Zeller, 1979). The instruments were also being further expected to be presented to the researchers' supervisor for intellectual comments and suggestions so as to obtain accurate, correct and meaningful data.

As *reliability* is the accuracy or precision logging in data without making errors, then reliability was concerned with data collected from the selected sample of MoFEA employees which was careful logged in the computer by the researcher himself to avoid any possibility of coding wrong information. After that, the so collected data were verified and recorded precisely for a reliable analysis. For such a case triangulation of instruments were used to obtain reliable data. The reliability was rested by using factors analysis. i.e. by ensuring that situational factors are not interfering. This was enabled by using two aspects known as stability and equivalence in which the former was concerned with securing consistent results with repeated measurements of the same person and with the same instrument. The latter was about considering how much errors were got introduced by different investigators or different samples of the items being studied.

3.9 Data analysis

Once the questionnaires or other measuring instruments have been administered, the mass of raw data collected must be systematically organised in a manner that facilitates analysis (Mugenda and Mugenda, 1999).

Quantitative data were descriptively analyzed using Statistical Package for Social Science (SPSS) software to compute percentages, tabulation and cross-tabulation of responses. Variables were therefore being defined in the SPSS variable view window, and thereafter data were entered and analyzed descriptively in the SPSS data view window. MSexcel was also used to analyze the obtained data from the respondents by drawing figures. These were either processed by editing, classifying and entering them into a computer to draw meaningful conclusions.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.0 Introduction

This chapter presents and analyses the research findings of the study on the impact of internal controls on execution of payroll system, case of study MoFEA. The study findings address the following issues: the identification of the available internal controls over payroll system, the efficiency of the available controls over payroll system and lastly the compliance of the available internal controls over payroll system that can lead to the efficiency of payroll system.

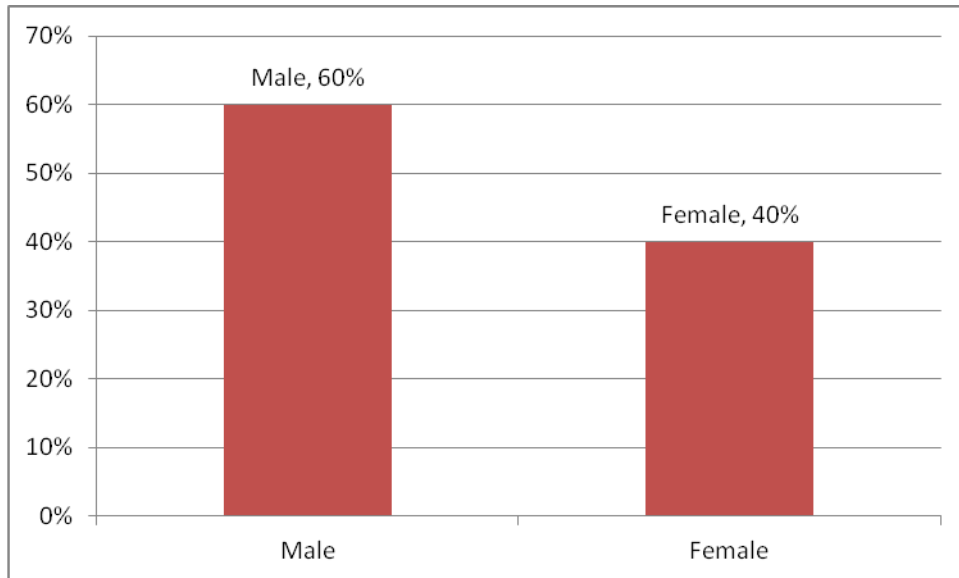
4.1 The Profile of the Respondents of the study

The demographic and social characteristics of the respondents include age, gender, education and profession, and working experience. The presentation of those attributes is presented in the appropriate tables and figures accordingly.

4.1.1 Gender distribution of respondents

As figure 4.1 below show gender distribution of the respondents. About 36 respondents (60%) were male compared with 24 (40%) female. Overall, the findings indicated that like other development sectors, males still dominate employment on financial and social science matters particularly in government organizations. The situation makes it difficult in reducing poverty in family level hence the result explains most women having no official position in formal organization.

Figure 4.1 Gender distributions of respondents



Source: Primary data collected through questionnaires (2013)

4.1.2 Respondents' age

Age structure of the respondents was analyzed into five categories covering the age groups of below 18 years and the fifth category included respondents of above 50 years. The findings in table 4.1 portray that most of the respondents involved in the sample were in the 19-30 age group (43.3%) with 26 people. The second most popular age group was 31-39 years with 15 people (25%). The 40-49 age groups consisted 10 people (16.7%), the age groups below 18 comprised 5 people with (8.3%) and above those 50 years age consisted four respondents. Generally, the organizations covered in this study have middle age group of 19-30 reflecting very promising to the involvement in fighting against poverty.

Table 4.1: Distribution of Respondents by Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0-18	5	8.3	8.3	8.3
19-30	26	43.3	43.3	51.7
31-39	15	25.0	25.0	76.7
40-49	10	16.7	16.7	93.3
Above 50	4	6.7	6.7	100.0
Total	60	100.0	100.0	

Source: Field data, 2013

4.1.3 Academic qualification of respondents

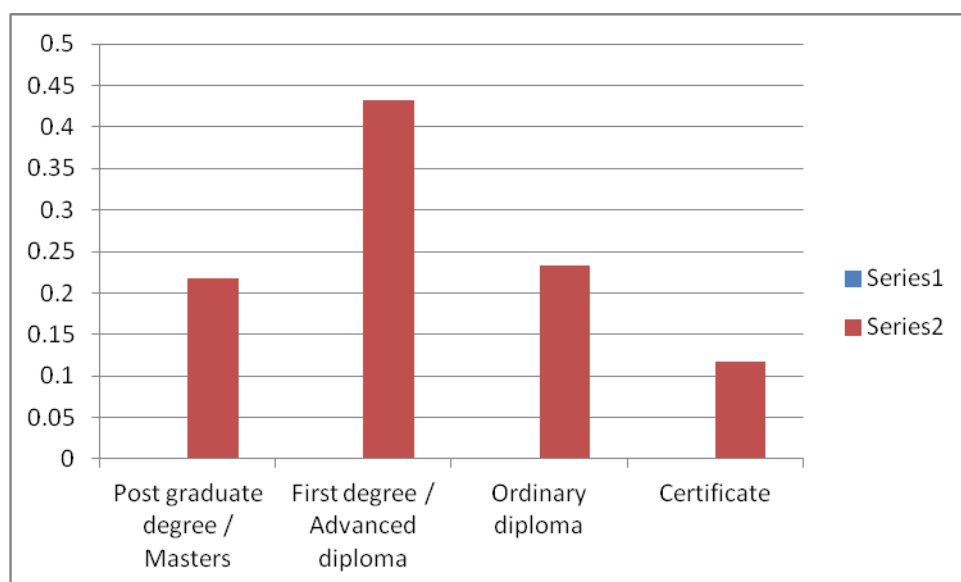
The level of education of these respondents as demonstrated in table and figure 4.2 bellow shows that about 26 people (43.3%) had First degree/advanced diploma compared with 14 (23.3%) who have Ordinary diploma, 13 people (21.7%) with Post graduate/Master degree and the rest 7 (11.7%) had the level of certificate. The data shows that the majority of the respondents (43.3%) had first degree/advanced level of education which is important to the development of any organization and society as a whole, this will either enable (help) organization to have capacity to mobilize resources and run their projects and activities efficiently

Table 4.2: Distribution of Respondents by Academic Qualification

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Post graduate degree / Masters	13	21.7	21.7	21.7
First degree / Advanced diploma	26	43.3	43.3	65.0
Ordinary diploma	14	23.3	23.3	88.3
Certificate	7	11.7	11.7	100.0
Total	60	100.0	100.0	

Source: Field data, 2013

Figure 4.2 Education / academic qualification of respondents



Source: Primary data collected through questionnaires (2013)

4.1.4 Field of Study

The findings reveal that large number of respondents (35%) took Accounting and Finance, 18.3% on Social Science and other fields, while 13.3% respondents learned IT and Computer Science, A very small proportion 6.7%, 3.3%, 3.3% and 1.7% specialized in Education, Audit, Business management and Law respectively. This implies that most of the organization staffs were qualified enough and competent for performing their jobs concerning internal controls and payroll activities adequately and efficiently. The data are shown in a table No. 4.3

Table 4.3: Distribution of Respondents by Field of Study

	Frequency	Percent
Social science	11	18.3
Education	4	6.7
Other	11	18.3
Law	1	1.7
IT & computer science	8	13.3
Audit	2	3.3
Business management	2	3.3
Accounting & Finance	21	35.0
Total	60	100.0

Source: Field data, 2013

4.1.5 Number of Years in Position

The interest of the study is to identify the experiences of the respondents in the study area. The study found out that the modal age experience group of the respondents was 2-5 years category which had the total of 26 people (43.3%) out of 60 respondents, while the second most experienced age group was 10-20 years category consisting of twelve respondents equal to 20%. Likewise, 1-2 years category had eleven (11) respondents which constitute 18.3% and only eight respondents were in the 5-10 years category which is 13.3%. The data are presented according to the findings shown in table 4.4 below.

Table 4.4: Distribution of Respondents by Experience

	Frequency	Percent
1-2 yrs	11	18.3
2-5 yrs	26	43.3
5-10 yrs	8	13.3
10-20 yrs	12	20.0
Above 20 yrs	3	5.0
Total	60	100.0

Source: Field data, 2013

By interpretation, the data portrayed indicated that majority of respondents have good working experience that might edge confidence adequately and effectively on undertaking their tasks concerning internal controls and payroll activities.

4.2 Specific objective one

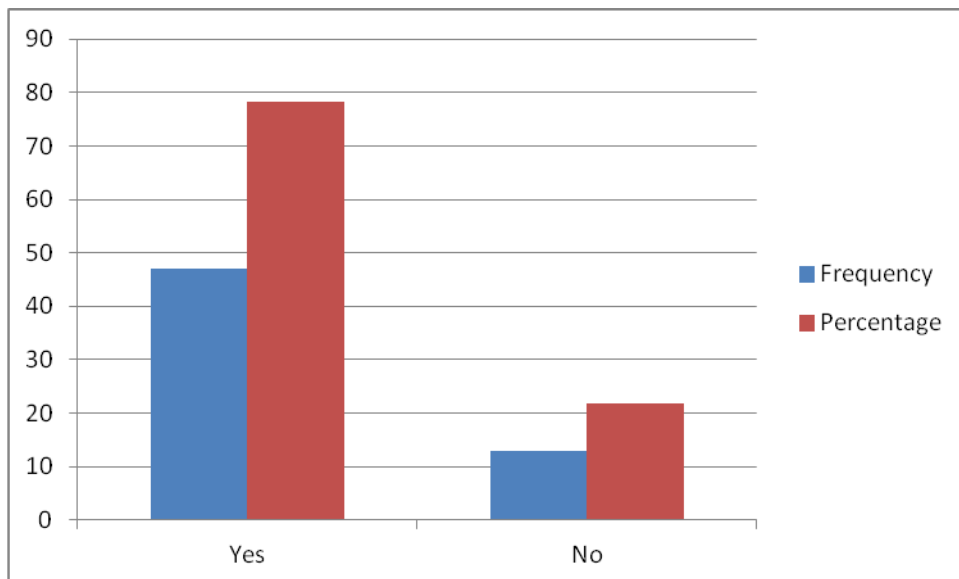
The first objective of this study was to identify the available control systems over payroll system at MoFEA. The available controls were expected to bring better

execution to the payroll system. To be able to show that, the researcher of this study focused on the following variables as shown below.

4.2.1 Availability of internal controls over payroll system

The respondents were asked to state whether or not there are internal controls over payroll system at MoFEA. The findings showed in figure 4.3 below illustrates that 47 (78.3%) of the respondents indicated that to a very large extent there are internal controls on payroll system at the Ministry, and a small number of respondents (13 people) responded that there is no internal controls on payroll system, this is equal to 21.7% of the total respondents.

Figure 4.3 Availability of internal control over payroll



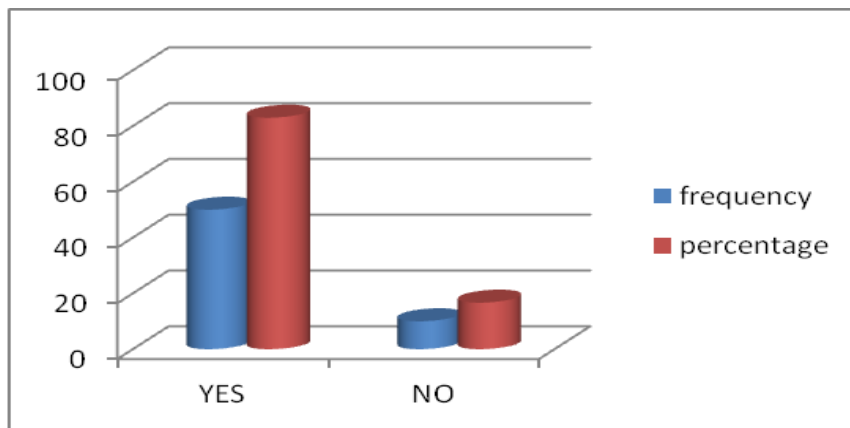
Source: Primary data collected through questionnaires (2013)

The results imply that the majority of respondents (78.3%) showed that there are available internal controls on payroll system at MoFEA which resulted in bringing the efficiency in executing payroll activities.

4.2.2 Pay (Salary) Slips Status

On this particular area the findings revealed that 50 (83.3%) out of 60 respondents put their concerns that to a large extent employees get pay slips for their salaries and only a small part of the respondents 16.7% argued that the employees are not getting pay slips for their salaries. The very large extent emphasizes the existence of internal controls on pay slips matters which is very important to the execution of payroll activities simple because any changes effecting salaries issues will be well known by the parties concerned. The data are shown in figure 4.4 below.

Figure 4.4 Salary Slips status



Source: Primary data collected through questionnaires (2013)

4.2.3 Segregation of duties

The question was asked in a positive (direct) language that the respondents were required to state whether yes or no that all activities concerning payroll administration done by the same people. The findings as explained in figure and table 4.5 show that 21 (35%) of respondents stated that all activities concerning payroll administration done by the same people and the majority of them i.e. 39 (65%) stated that there is segregation of duties in the organization and that all the activities concerning payroll administration are not done by the same people. Having depicted that there is possibility of effective internal control in the Ministry as no employees or group of employees will be in a

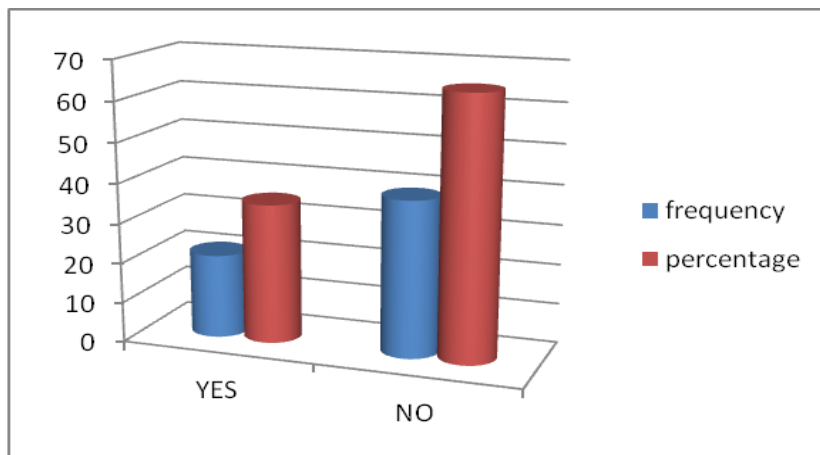
position both to perpetrate and to conceal errors or fraud in the normal course of their duties particularly in duties concerning payroll activities.

Table 4.5: Segregation of duties

	Frequency	Percent
Yes	21	35.0
No	39	65.0
Total	60	100.0

Source: Analyzed from general staff's questionnaires (2013)

Figure 4.5 Segregation of duties

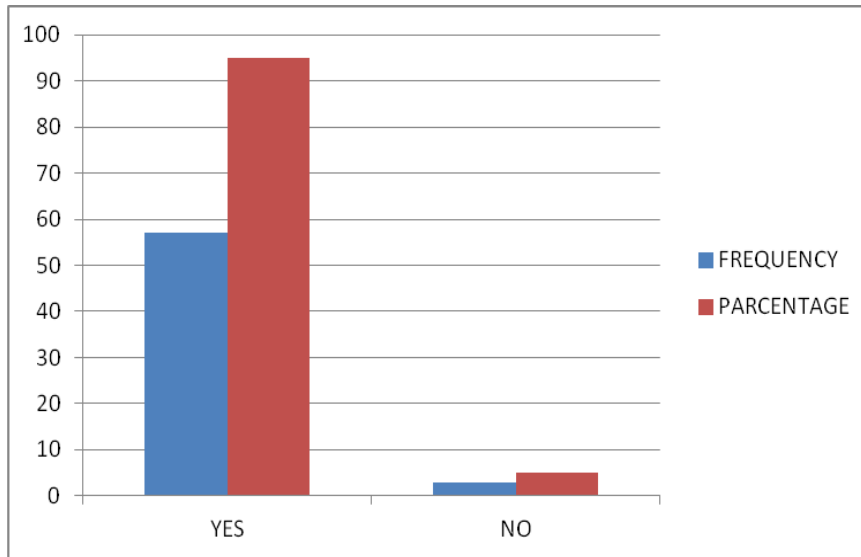


Source: Analyzed from general staff's questionnaires (2013)

4.2.4 Block of salaries

The study results portrayed that, 57 (95%) of the respondents indicated that there is a block of salary in the presence of termination, death or retirement of employees in the organization and 3 (5%) of the respondents argued that there is no block of salary for those cases, the results are shown in figure 4.6.

Figure 4.6 Block of salaries



Source: Analyzed from general staff's questionnaires (2013)

The above results indicating that the payroll of the government (Ministry) is free from fraud resulting from ghost workers, double payments or payments of non provided services. Therefore the process of blocking the salaries due to the mentioned reasons or scenarios will enhance the efficiency of payroll system (activities) in the government.

4.2.5 Payroll review

Another area of interest relates to whether the government conducts payroll review to check the efficiency of payroll system. The findings as shown in table 4.6 showed that 80% of the respondents agreed that the government conducts payroll review and the remaining 20% of the total respondents stated that the government doesn't conduct payroll review to check whether the payroll is efficient or not.

Table 4.6 Governments' payroll review

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	48	80.0	80.0	80.0
No	12	20.0	20.0	100.0
Total	60	100.0	100.0	

Source: Analyzed from general staff's questionnaire (2013)

The large percentage of the respondents confirmed the government conducting payroll review to check how efficient payroll system is. Payroll review brings many impacts to the payroll system or payroll activities of the government as the government will be in a better position to evaluate the system and be able to find out any errors, frauds and weakness resulting from executing payroll activities (system).

4.2.6 Expense trend lines

On this particular area the respondents were asked to indicate the applicability of the expense trends lines i.e. applicability of the payroll related expenses in the financial statements. Findings revealed that 40 (66.66%) out of 60 respondents put their concerns that to a large extent that there are fluctuations in payroll – related expenses in the financial statements. The reasons behind that fluctuations according to the respondents are due to frequently changes in salaries payments which are caused by changes in employee's level of education and changes of salaries' payments due to the salaries' incremental which is caused by increase in experiences. The only a small part of the respondents 33.33% however argued that there is no fluctuations in payroll – related expenses in the financial statements. The data are shown in table 4.7 below.

Table 4.7 Expense trend lines

	Frequency	Percent	Valid Percent	Cumulative Percent
Applicable	40	66.66	66.66	66.66
Not applicable	20	33.33	33.33	100.00
Total	60	100.0	100.0	

Source: Analyzed from general staff's questionnaire (2013)

4.2.7 Restrict access to records

The study results portrayed that, 57 (95%) of the respondents indicated that there is applicability of restrict access to records in the organization i.e. employees files and payroll records are locked up at all times when they are not in use to prevent unauthorized access and only 3 (5%) of the respondents argued that the control is not applicable in the organization and that giving room to the unauthorized persons to access employees files and payroll records, the results are shown in table 4.8.

Table 4.8 Restrict access to records

	Frequency	Percent	Valid Percent	Cumulative Percent
Applicable	57	95.0	95.0	95.00
Not applicable	03	05.0	05.0	100.00
Total	60	100.0	100.0	

Source: Analyzed from general staff's questionnaire (2013)

Having a large percentage said that restrict access to record is available, this will ensure the efficiently execution of payroll activities since no one among the unauthorized people will be able to access and manipulate the employee's files and records.

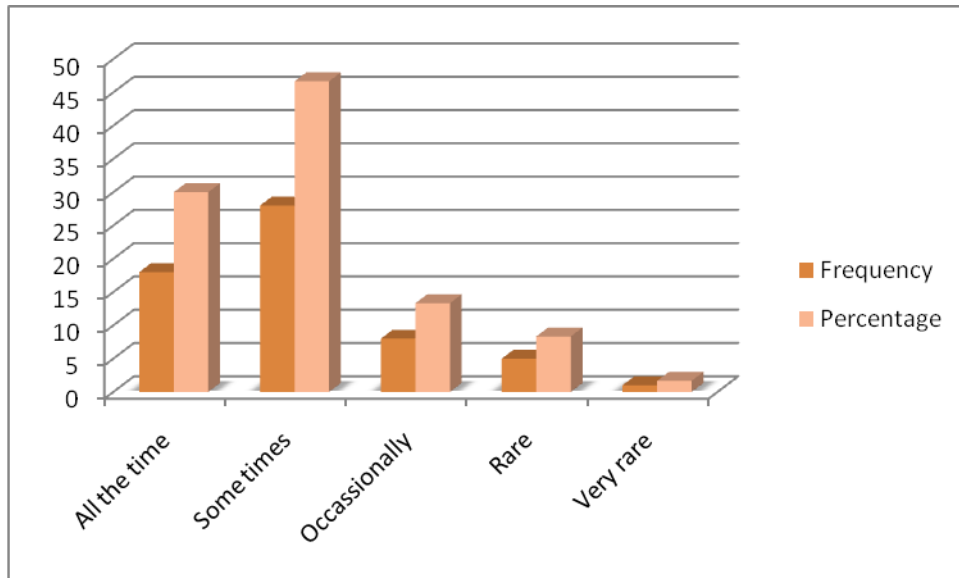
4.2.8 Frequency of internal control's applicability

The question was asked to show the frequency of internal control's applicability at MoFEA. The respondents were asked to rank the frequency of its applicability from all the time, some times, occasionally, rare to very rare. The following internal controls below were required to be ranked.

4.2.8.1 Internal audit over payroll

The study found out that 18 (30%) of the respondents stated that internal audit over payroll is applicable at all the times, 46.66% of the respondents showed that the internal audit over payroll is applicable at some times within the organization, while the applicability of the control in occasionally was supported by 13.33% of the total respondents. The rests of the respondents 5 (8.33%) and 1 (1.66%) showed that the applicability of the internal audit over payroll is rarely and very rarely applicable in the organization respectively. These data have been obtained through the figure 4.7 shown below.

Figure 4.7 Internal audit over payroll



Source: Analyzed from general staff's questionnaires (2013)

On average the internal audit over payroll is frequently applicable within the organization; this gives the chance of enhancing efficiency of payroll system.

4.2.8.2 Payroll review

The results in Table 4.9 indicate that 21.7% of the respondents showed that at all the times payroll review by the government is applicable within the organization; the other group of 53.3% of the respondents stated that payroll review does applicable some times in the organization. A middle group of 20% of the respondents showed that payroll review does applicable occasionally. The other group which is formed by 3.3% stated that it is rarely applicable, and the last group 1.7% which is the smallest group said that the payroll review is very rarely applicable within the organization.

Table 4.9 Payroll review

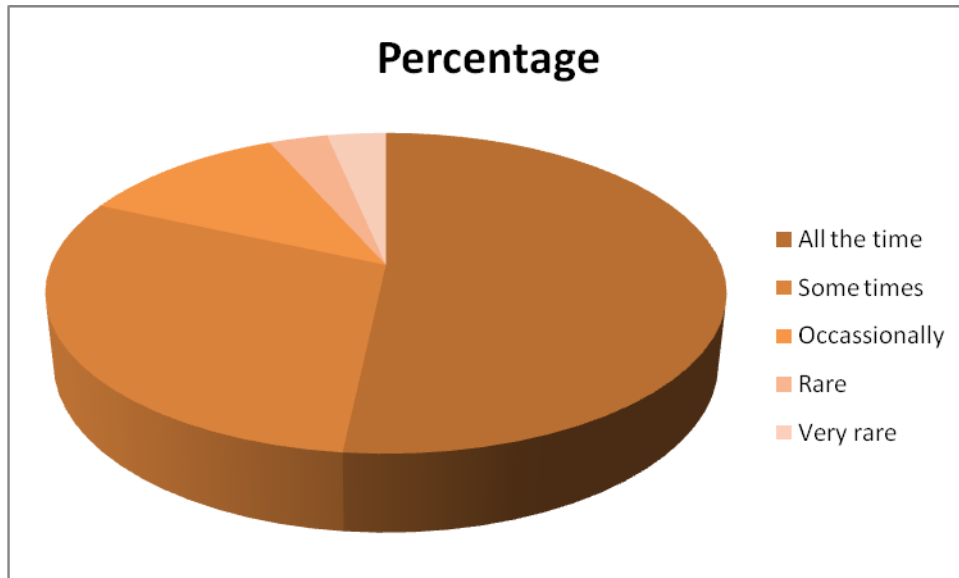
	Frequency	Percent	Valid Percent	Cumulative Percent
All the time	13	21.7	21.7	21.7
Some times	32	53.3	53.3	75.0
Occasionally	12	20.0	20.0	95.0
Rare	2	3.3	3.3	98.3
Very rare	1	1.7	1.7	100.0
Total	60	100.0	100.0	

Source: Analyzed from general staff's questionnaire (2013)

4.2.8.3 Segregation of duties

The results from the study indicate that 51.7% (31) of respondents stated that segregation of duties relating to payroll activities is applicable all the time within the organization, 30% (18) of the respondents showed that the applicability of segregation of duties does occur at some times within the organization while 11.7% (7) argued that it occurs occasionally within the organization. Another part 3.3% of the interviewed stated that the segregation of duties in the organization seemed to be applicable rarely. The last part of the respondents said that segregation of duties within the organization does occur very rarely. This represents 3.3% of the total respondents. Figure 4.8 supports the above sayings.

Figure 4.8 Internal audit over payroll



Source: Analyzed from general staff's questionnaires (2013)

4.2.8.4 Restrict access to records

Restrict access to records was analyzed also into five categories as I had mentioned namely all the time, some times, occasionally, rare and very rare. The respondents 37 (61.7%) stated that restrict access to record is applicable all the time within the organization and that it gives no room for the unauthorized people to access employees files and payroll records especially when they are not in use. A smallest extent 1.7% showed that restriction to access the files and records of employees is applicable very rarely in the organization while 15 (25%) said that applicability of that control is only sometimes seemed to be exercised in the organization. Another group 6.7% (4) of the total respondents stated that very occasionally the organization restricts access to record and the last category of 5% (3) argued that restrict access to records is rarely applicable within the organization. The data are witnessed from the table 4.10 below.

Table 4.10 Restrict access to records

	Frequency	Percent	Valid Percent	Cumulative Percent
All the time	37	61.7	61.7	61.7
Some times	15	25	25	86.7
Occasionally	4	6.7	6.7	93.4
Rare	3	5	5	98.4
Very rare	1	1.7	1.7	100.0
Total	60	100.0	100.0	

Source: Analyzed from general staff's questionnaire (2013)

4.3 Specific objective two

The second objective of this study was to examine the efficiency of the available internal controls over payroll system. When the available controls are efficient they also cause the execution of payroll activities to be more efficient. To enable the examination of the efficiency of the controls the below important issues (variables) were discussed.

4.3.1 Weakness in relation to controls over payroll system

The results in Table 4.11 indicate that 11.7% of the respondents showed that there is no weakness at all; the other group of 28.3% of the respondents stated that weakness of controls over payroll system occurs once in a while. A large group of 31.7% of the respondents showed that weakness does occur often. The other group which is formed by 16.7% stated that it is fairly often weakness occurs, and the last group which is the same as the first group said that the chance of weakness is frequently but not always.

Table 4.11 Weakness in relation to controls over payroll system

	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	7	11.7	11.7	11.7
Once in awhile	17	28.3	28.3	40.0
Often	19	31.7	31.7	71.7
Fairly often	10	16.7	16.7	88.3
Frequently but not always	7	11.7	11.7	100.0
Total	60	100.0	100.0	

Source: Analyzed from general staff's questionnaires (2013)

From the findings above it shows that a large number of respondents said that weakness of controls over payroll system/activities does occur often. i.e. weakness occurs many times in the Ministry, this group is however nearly with those who said that weakness does occurs once in a while.

In general it may be concluded that there exist weakness in relation to controls over payroll system (activities), however according to some interviewed respondents the existing weakness are very minor that aren't bring danger to the payroll system. One of them said that;

"In the Ministry, there exist some weaknesses in relation to controls over payroll system such as lack of papers to issue pay slips, system break down which is not so common and the like in which all of them bring no more harm to the whole system at all".

4.3.2 Procedures followed to block salaries

Under this question the respondents were required to outline the procedures which are followed or undertaken to block the salaries of the death, terminated or retired employees. Most of the respondents whom had been presented as documented procedures mentioned the similar procedures which are expected to be the procedures to block the salaries and which are viewed to bring efficiency in payroll system, the

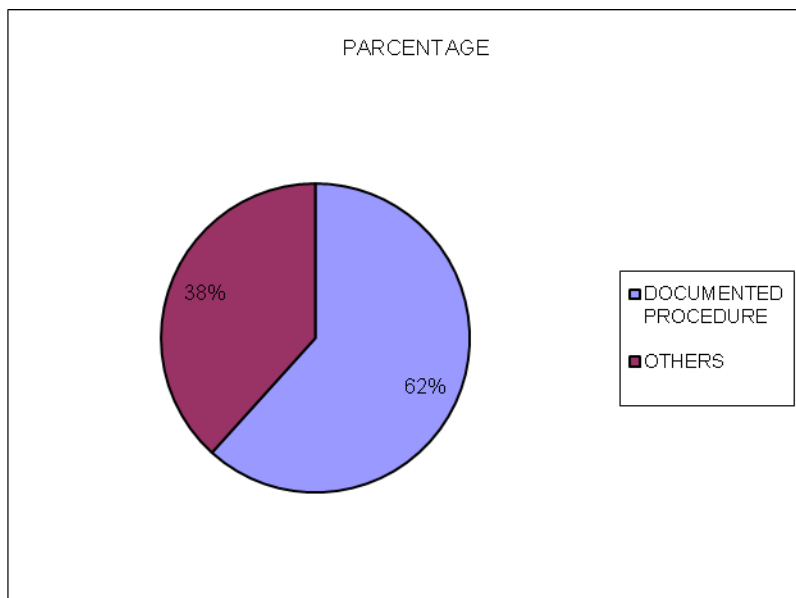
procedures being outlined are such as obtaining certificate of death from office of register, obtaining letter of termination from principle secretary before blocking the salary, obtaining letter or notification of retirement from principle secretary and the likes, all of these thereafter are sent to the payroll department for processing.

The group presented those procedures is equal to 37 (61.7%) of the total respondents.

The other group outlined neither the above and other even didn't fill the gap provided, all of them had been presented as "others" and represent 23 (38.3%) of the total respondents as are shown in figure 4.9 below.

The above data portray that there exist some followed procedures to block the salaries of the death, terminated and retired employees, having these procedures will enhance the efficiency of payroll system/activities.

Figure 4.9 Procedures followed to block salaries



Source: Field data, 2013

4.3.3 Time to carry out employee's rotation

The study found out that 35 (58.3%) of the respondents stated that rotation of the payrolls' employees is carried out once in a year, 6.7% of the respondents showed that the rotation is undertaken after every 2 years, while the rotation of employees after every 5 years was supported by 5% of the total respondents. The rest of the respondents 18 (30%) showed that the employee's rotation is never carried out in the organization. These data have been obtained through the table 4.12 shown below.

Table 4.12 Time to carry out employee's rotation

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Once in a year	35	58.3	58.3	58.3
After 2 years	4	6.7	6.7	65.0
After 5 years	3	5.0	5.0	70.0
Never	18	30.0	30.0	100.0
Total	60	100.0	100.0	

Source: Analyzed from general staff's questionnaires (2013)

In general the results presented above indicate that there exist rotations concerning payrolls' employees in the Ministry. The large percent of the respondents said that the task is carried out once in a year and the followed group argued that it is never carried out. The practiced of employee's rotation in at least once a year evidencing the efficiency of internal controls system which in turn causes efficient payroll system.

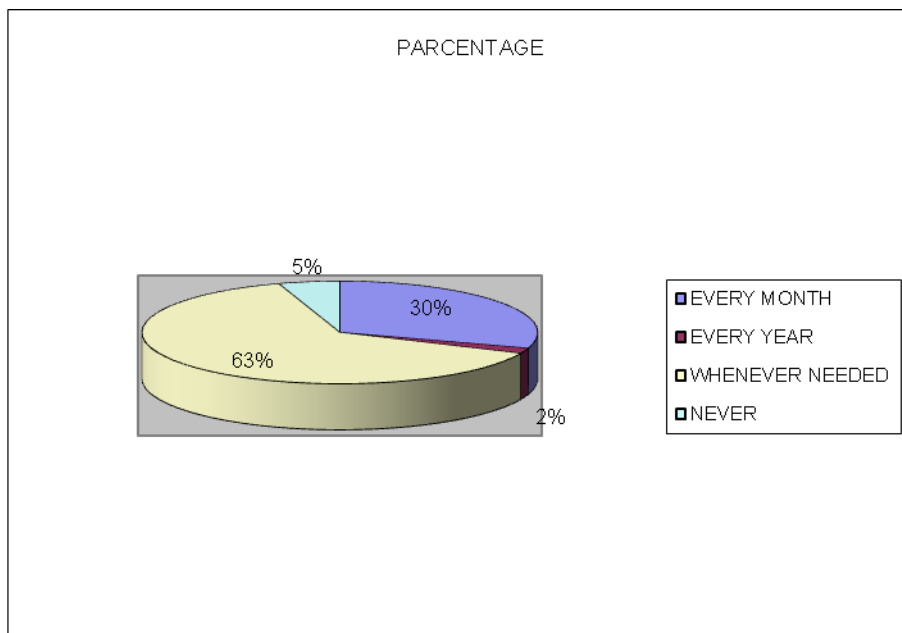
4.3.4 Times to issue pay slips

Times to issue pay slips was analyzed into four categories namely every month, every year, whenever needed and never. The respondents 18 (30%) stated that pay slips are issued in every month, a smallest extent 1.7% showed that employees get pay slip every year and a very large proportion 38 (63.3%) said that pay slips are issued whenever needed by the employees. The last category of 5% argued that pay slips are never issued

to the employees in either every month or every year as well as whenever needed. The data are witnessed from the figure 4.10 below.

Since the large group said that salary slips are issued whenever they are needed it gives the picture that internal controls are efficient. This will enable the employees to know at any time any changes which give affects to their salaries; they will also be able to communicate to the authority any new change which seemed to be unfamiliar to them.

Figure 4.10 Times to issue pay slips



Source: Field data, 2013

4.3.5 Independent check by Internal Auditors

In this case, the study aimed to find out the number of times in which internal auditors conduct independent check. The findings as explained in table 4.13 show that 40 (66.7%) of respondents gave their opinion that independent check by the internal auditor is carried out (conducted) whenever the needs arise. Also, 7 (11.7%) said independent audit is conducted monthly and the same percentage said it is conducted quarterly, a very small extent 2 (3.3%) said it is carried half yearly and the rest 4 (6.7%) indicated that independent audit is done annually.

The large number of respondents responded that the independent check is conducted when the need arise; this implies that the auditor will be in a position to examining and verifying an organization's financial records and supporting documents at any time required, the auditors will also get a chance to verify any changes related to payroll activities and administration in general.

For example the auditor will verify changes relating to incremental, verifying salaries of the death, terminated or retired employees to avoid ghost workers, changes of salaries due to changes in educational level and etc. The practiced of all of these will enhance the efficiency of payroll system.

Table 4.13 Independent check by Internal Auditors

	Frequency	Percent	Valid Percent	Cumulative Percent
Monthly	7	11.7	11.7	11.7
Quarterly	7	11.7	11.7	23.3
Half yearly	2	3.3	3.3	26.7
Annually	4	6.7	6.7	33.3
When need arise	40	66.7	66.7	100.0
Total	60	100.0	100.0	

Source: Analyzed from general staff's questionnaires (2013)

4.3.6 Ranking the output of internal controls over payroll system

The question was asked to show how the output of internal controls over payroll could be ranked from strong disagree, disagree, agree, definitely agree to the strong agree. These outputs were as a result of having internal controls over payroll system at MoFEA. The following outputs below were required to be ranked.

4.3.6.1 Requesting an advances

The explanation was that when an employee requests an advance on his/her payroll then never pays it back. According to the research findings it was illustrated that 31 (51.7%) of the respondents strongly disagreed with the statement, 17 (28.3%) of the total respondents disagreed with the statement that when an employee requests an advance on his/her payroll then never pays it back. Another group of 8 (13.3%) of the total respondent do agree with the statement that an advance is never paid back. The last groups of 5% and 1.7% respectively definitely and strongly agree that when an employee request an advance salary then never pays it back.

4.3.6.2 Creation of fake employees

The researcher put his concern that the payroll staffs create a fake employee in the payroll records and alter the payment records so that the direct deposit or check is made out to them. The research findings showed that 45% of the total respondents strongly disagreed with the researchers' concern, 28.3% of the total population disagreed while 16.6% Agreed with the researchers' concern and 6.7% definitely agreed with the statement. The only 3.3% of the total population strongly agreed that payroll staffs create a fake employee in the payroll records and alter the payment records so that the direct deposit or check is made out to them.

4.3.6.3 Prolongation of payments to the died or left employees

Under this output the test was that the payroll staffs prolong the pay of an employee who has just left the organization, or died but the direct deposit or check is made out to them. The analysis portrayed that 15% of the total respondents strongly disagreed with the above statement, 16.7% out of total population disagreed with the concern put by the researcher. The large groups of 30% do agree with the researchers' statement that the payroll staffs prolong the pay of an employee who has just left the organization, or died but the direct deposit or check is made out to them. Another category of 25% definitely

agreed with the researchers' concern and the rest i.e. 15% strongly agreed that the concern is being exercised within the organization.

4.3.6.4 Employee's collusion with the payroll clerks

The statement put by the researcher was that employees collude with the payroll clerk to increase the amount of their pay in the payroll system. According to the research findings it was depicted that 36 (60%) of the respondents strongly disagreed with the statement, 16 (26.7%) of the total respondents disagreed with the statement that employees collude with the payroll clerk to increase the amount of their pay in the payroll system. Another group of 3 (5%) of the total respondent agreed with the statement that employee's collude with the payroll clerks. Other groups of 3.3% definitely agreed with the researchers' statement and the last group of 5% strongly agreed with the above statement.

In general, the outputs of internal controls were enough good since most of the respondents disagreed with those output which give an indicator of better system of payroll and its execution. This means that when employees request advance salary they pay back, no creation of fake employees and that no payments are made them and no collusion between employees and payroll clerk to increase the amount of the payments. Having said that the researcher may conclude that those internal controls assure the efficiency of payroll system and its activities within the organization.

4.3.7 Ranking the efficiency of the available internal control

Here by comparing the inputs incurred (e.g. staffs, time, computers etc) and the output of these internal controls, the researcher intended to rank the efficiency of each available internal control starting from very efficiency, efficiency, fairly efficiency, inefficiency to very inefficiency. The analysis of those available internal controls was as follows.

4.3.7.1 Internal audit over payroll

The study found out that 10 (16.7%) of the respondents stated that internal audit over payroll is very efficiency, 27 (45%) of the respondents showed that the internal audit over payroll is efficiently undertaken within the organization, while those who said that it is fairly efficient was equal to 15 (25%) of the total respondents. The rests of the respondents 5 (8.33%) and 3 (5%) showed that the internal audit over payroll is inefficient and very inefficient respectively.

4.3.7.2 Payroll review

The results indicate that 18.3% of the respondents showed that due to the inputs incurred payroll review is very efficient, the other group of 36.7% of the respondents stated that according to the staffs allocated and time consumed to conduct payroll review the act is efficient. Another group of 26.7% of the respondents showed that payroll review is fairly efficient. The other group which is formed by 11.7% stated that payroll review is inefficient as a result of the inputs incurred, and the last group 6.7% which is the smallest group said that the payroll review is very inefficient.

4.3.7.3 Segregation of duties

The results from the study portray that 35% of the respondents stated that segregation of duties is very efficient taking consideration of the staffs and time used, 33.3% of the respondents showed that the act is efficient to the point of view while 25% argued that by comparing the inputs incurred and the output achieved segregation of duties is fairly efficient. Another part 5% of the interviewed stated that segregation of duties in the organization seemed to be inefficient due to what it is achieving. The last part of the respondents said that segregation of duties is very inefficient. This was equal to 1.7% of the total respondents.

4.3.7.4 Restrict access to records

According to the analysis it was reported that 48.3% stated that restrict access to record is very efficient comparing to what is being used to lock up employees file and payroll records this is because the process gives no room to the unauthorized people to access employees files and payroll records especially when they are not in use. Those who said that the process has a rank of being efficient were equal to 41.7%. Another group 8.3% of the total respondents stated that the internal control has a rank of being inefficient. The findings revealed no one who said that the act is very inefficient.

From the findings portrayed on those variables above it can be concluded that by comparing the inputs incurred and the output achieved the available/applicable internal controls are efficient enough and that they can bring efficiency to the payroll system/activities and its execution.

4.4 Specific objective three

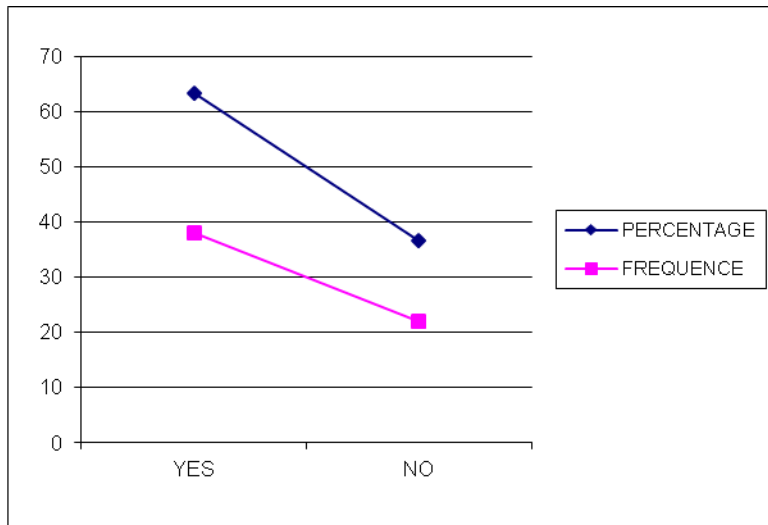
The third objective of this study was to examine the compliance of the available internal controls over payroll system. To enable the examination of the compliance of the controls six important variables were discussed and are presented as follows.

4.4.1 Existence of punishment

The respondents were asked to state whether or not there are punishments for non compliance of the available internal controls over payroll system at the Ministry. The findings shown in figure 4.11 bellow illustrates that 38 (63.3%) of the respondents indicated that in extent there exist punishment for non compliance of the available internal controls on payroll system at the Ministry, and another number of respondents (22 people) responded that there exist no punishment for non compliance of the available internal controls on payroll system, this is equal to 36.7% of the total respondents. The data tell us that, with the existence of punishment employees are

expected to comply and adhere to the particular laws, rules, set of instructions, etc that will contribute to the attainment of efficient payroll system.

Figure 4.11 Existence of punishment



Source: Analyzed from general staff's questionnaires (2013)

4.4.2 Types of punishment

The respondents were required to mention types (kinds) of punishment which are available at the Ministry whenever there is non compliance of the available controls. According to the studies the punishments mentioned were such as transfer, demotion and suspension. One among the respondents affirmed the following.

“Yes, there exist some punishments for non compliance of internal control or rules and regulation concerning payroll activities. For example the commissioner of budget told us that anyone found with negligence will be transferred, demoted or suspended depending on the types and nature of the negligence.”

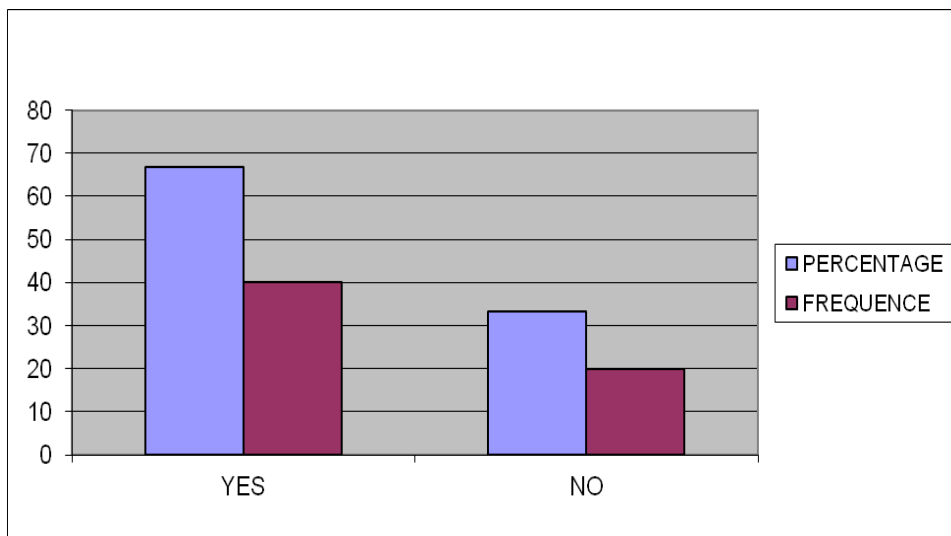
Having the kinds of punishment as outlined above each employee is expected to work with diligence which at last helps to attain the payroll system that is more effective and efficient.

4.4.3 Monitoring the compliance

The question was to state whether or not there is a responsible one to monitor the compliance of the internal control over the payroll execution. The findings shown illustrate that 40 (66.7%) of the respondents confirm the existence of the party(s) responsible in monitoring the compliance of the internal control to the payroll system. The other group 20 (33.3%) didn't agree and said that there is no such a thing in the Ministry. The findings are shown in figure 4.12 below.

The results in this part imply that, there exist responsible parties to monitor the compliance of the internal control over payroll executions, the outcomes hence is the prosperity to payroll system. i.e. the payroll system is going to be successful.

Figure 4.12 Monitoring the compliance



Source: Analyzed from general staff's questionnaire (2013)

4.4.4 Responsible party(s)

The question required respondents to mention (specify) parties who are responsible to monitor the compliance of internal controls over payroll system. The same question was either asked through interviewed conducted with the head of payroll system. The interviewed one confirmed with the existence of the responsible parties to monitor the

compliance and mentioned the parties as Commissioner of Budget, PO-Public Services and Good Governance, Principle Secretary, Head of Payroll Section and Accountant General. While she was interviewed the respondent said that.

“In the Ministry, how can we fail to have leaders responsible to monitor the compliance of internal controls? We have! We have Principle Secretary himself, Commissioner of Budget, PO-Public Services and Good Governance, sometimes Accountant General and even myself as a head of payroll section I am responsible with that that”.

Having these parties will enhance the efficiency of payroll system in the Ministry.

4.4.5 Rating the compliance of internal controls over payroll activities

The researcher wanted to know how the respondents could rate the compliance of internal controls over the payroll activities namely hiring new employees, timekeeping, preparing payroll and paying process. The rate supposed to start from very good, good, fairly good, poor to very poor.

According to the research findings it show the followings; there are some steps followed to hiring new employees in the Ministry, the general conclusion from the respondents showed that the general procedures to hiring new employees are good enough and this was stated by almost 60% of the total respondents. The findings also showed that there is attendance book (sheets) but payments aren't done according to the time of attendance, they generally concluded that the procedures for time keeping i.e. in and out of staffs are poor. This was argued by almost 58% (35) of the total respondents.

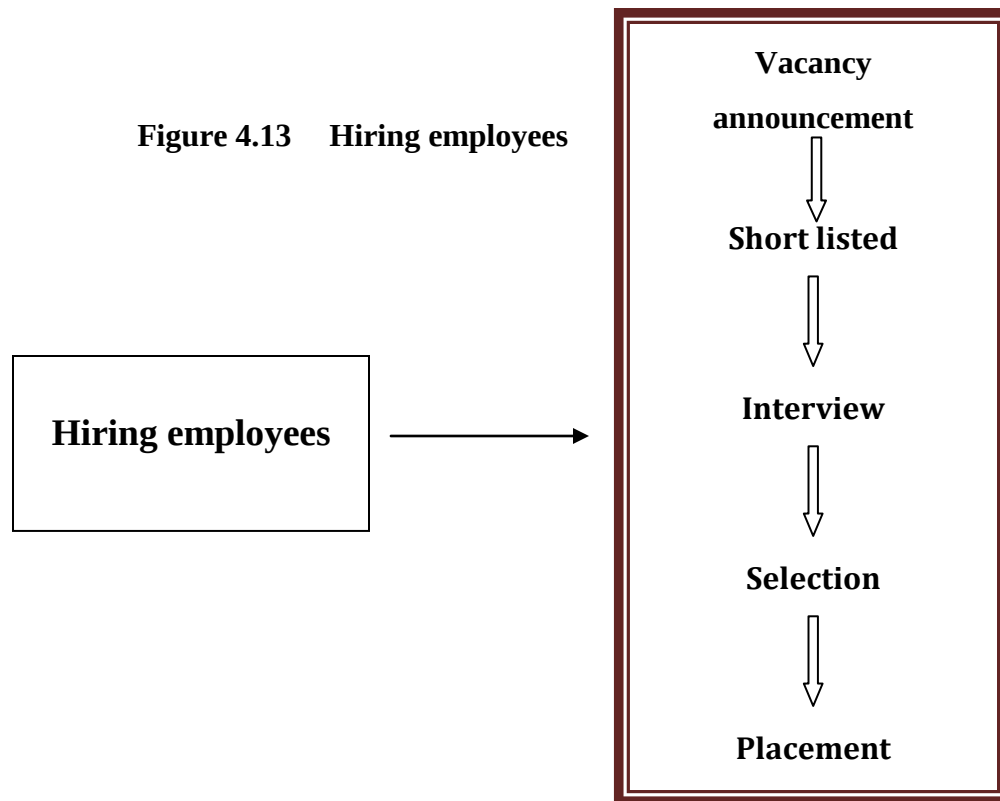
Further analysis revealed that payrolls are prepared at every month in a timely and accurate manner, the respondents said that the organization implement an efficient system to process the payrolls and the so far process implemented are both manual and computerized system. They went further by saying that during preparing payroll staffs check for payroll adjustments that affect the current pay period. This includes new hires, terminations, pay raises/deductions, and statutory and voluntary deduction changes, such

as retirement and health benefits adjustments. Generally the rate was very good and was witnessed by 33 respondents out of 60.

The last payroll activity was paying process. According to the respondents employees are paid their salaries through their bank accounts. In the analysis 65% (39) of the total respondents said that the process of paying salaries is much convenient and has to be rated as a very good, 23.3% (14) of the total respondents said that the process is good while 8.33% which is equivalent to 5 respondents marked that the process is only fairly good. The smallest party of 3.3% criticized the paying process and said that the process is poor. No one said that the process is very poor.

Having steps to hiring employees is seemed to eliminate nepotism or biasness in the works' area. Monthly payroll preparation in a timely, efficient and accurate manner on the other hand facilitate the incorporation of any changes relating to employee's salaries such as changes in educational level, incremental, dead, retired or terminated employees etc. In addition to that payments through banks accounts reduce risk of errors and fraud, disturbance during receiving of payments, saving of time etc. Failure to pay salaries based on time however may reduce the quality of payroll efficient.

In general the attributes seemed to be very good except for timekeeping; hence these will at least assure the efficient of payroll system in the Ministry. The following figure 4.13 below will illustrates the procedures followed by the Ministry to hiring employees.



Source: Public Service Act No.2 of 2011

4.4.6 Ranking the statements concerning employee's salary.

Under this variable the researcher wanted to know how the respondents could rank the various statements concerning employee's salary. The ranks was supposed to start from strong agree, definitely agree, agree, disagree to strong disagree. Those various statements were analyzed as follows.

The first statement was that "I always receive my salary in time". The findings showed that 65% of the total respondents clearly affirmed with the statement by strongly agreed that employees receive their salary in time. 25% out of 60 respondents definitely agreed with the statement while 13.3% from the total population did agree with the statement.

The only 3.3% out of total respondents disagreed with the statement. No one among the total respondents strongly disagreed with the above statement.

The second statement was that “I always being informed in any change of my salary”. Under this statement only 3.3% of the total population strongly agreed with the statement, 11.7% out of 60 respondents just definitely agreed that employees are always being informed in any changes of their salaries. 21.7% were ranked as those who agreed with the information given while the majority of them i.e. 46.7% disagreed with the statement and said that employees are not always informed in any changes of their salaries. The rest of them which is 16.7% strongly disagreed with the statement.

Another statement was that all deductions apart from statutory one, management requires employees’ approval. Those who strongly agreed according to the research findings were equal to 11.7% out of 60 respondents and those who definitely agreed were equal to 21.7%. A group of 33.3% out of total population agreed with the statement. The rests of the groups which formed by 20% and 13.3% of the total respondents disagreed and strong disagreed with the statement respectively.

CHAPTER FIVE

DISCUSSION OF RESEARCH FINDINGS

5.0 Introduction

This chapter covers a discussion of research findings of the study. The discussion is based on the available internal controls over payroll system, the efficiency of the available controls over payroll system and lastly the compliance of the available internal controls over payroll system in which all of them expected to lead efficiency to the payroll system and its execution

5.1 Available internal controls over payroll system at MoFEA.

There were positive responses from respondents on the availability of internal controls over payroll system at the MoFEA. In general under this category the results showed that large respondents affirmed with the existence of internal controls over payroll system. As the researcher showed in chapter four, it was reported that 78.3% of the total respondents agreed that the general internal controls are available at the Ministry.

Apart from that general explanation above, the individuals' variables were also confirmed in a great extent. For example as it has been found in this study in table 4.6 that almost 95% of responses confirmed that the Ministry blocks the salaries for the case of termination, death and retirement of the employees. Another example is seen to those who said that the Ministry practices segregation of duties as an internal control within the organization; this took 65% among the sixty respondents as shown in figure 4.5.

The fact also showed the positive response when around 83.3% of the respondents agreed that the Ministry issues salary slips to every employee, the results are shown in figure 4.4. The findings also revealed that those various internal controls are effectively and most of the time applicable within the organization. Such internal controls are payroll review, segregation of duties, restrict access to record and etc, the figure 4.7 and 4.8 and table 4.9 and 4.10 supporting the explanation.

In addition to that is when 80% of the total respondents stated that the government does conduct payroll reviews amongst the government Ministries to check the efficiency of payroll activities (system), this is further witnessed by the head of payroll section when she said that; *“Yes! The Revolutionary Government of Zanzibar does conduct payroll review when it sees the need of so doing, For example the year 2011 to 2012 the government conducted the exercise to find out ghost workers, forged certificates, errors and frauds etc.”*

The discussion of these findings for somehow is seemed to agree with the findings of Fauzia (1999/2000) who did a research on “Effectiveness of internal controls over payroll”. The researcher said that the available internal controls which caused the effects over payroll system were staff rotation and issuing of salary slips to the employees.

5.2 The efficiency of the available controls over payroll system

From some of the variables contained in objective two it shows that the available internal controls are not enough efficient over payrolls system. The data showed that a large group of 31.7% of the respondents showed that weakness does occur often which is not good indicator for the efficiency of payroll system, it further indicated that independent check by internal auditors conducted only when the need of doing so arise, those who said that were equal to 66.7% , though this will help to verify or examining changes and evaluate payroll system, they are not appropriately be conducted only when the need arise, they should be conducted in a scheduled manner.

Apart from that the findings showed that the rotation of payroll employees is carried out once in a year in the Ministry and the pay slips are issued whenever they are needed by the employees, these represent 58.3% and 63.3% of the total respondents respectively; all of these guarantee the efficiency of payroll system in the Ministry. The outputs of internal controls were also good enough as a result of the efficient of internal controls and consequently assure the efficiency of payroll system. Lastly From the findings portrayed in objective number two it can be concluded that by comparing the inputs

incurred and the output achieved the available/applicable internal controls are efficient enough and that they can bring efficiency to the payroll system/activities and its execution.

Generally the discussion seemed to go simultaneously with the findings reported by Ofozie (2010) who concluded that giving the input invested on revenue collection the internal controls were good enough on revenue generation and management of the resources and funds entrusted to public sectors managers (authorities).

According to the general findings therefore it is concluded that the specific objective two accept the hypothesis number one (**H0**) and reject the hypothesis number two (**H1**) of the research study.

5.3 The compliance of the available internal controls over payroll system

The study findings revealed that in order for the payroll system to be efficient there should be strictly compliance of the available internal controls in the organization. While the head of payroll section mentioning the parties responsible to monitor the compliance she stated that.

“In our environments (Environments of Zanzibar) don’t expect to have efficient payroll system without having someone to monitor the compliance of controls; compliance however goes simultaneously with punishments, i.e. in our environments no punishment no compliance, hence there should be punishments to emphasize compliance in order for the Ministry to success.”

The comments spoken by the head of payroll section are seemed to be agreed with those said by other respondents who had been given questionnaires. For example in the analysis the researcher found 63.3% of the respondents agreeing with the existence of punishment so as to emphasize the compliance of controls in order to make the payroll system be more efficient and successive. Another example which gives supports to the

above comments is the evidence obtained in figure 4.12 where about 66.7% of the respondents stated that there exists responsible party(s) to monitoring the compliance of internal controls which in turn results efficient payroll system.

The issue of compliance also addressed the types (kinds) of punishments possibly undertaken within the Ministries as well as the kinds of parties (people) responsible to monitor the compliance. The studies mentioned the types of punishments as demoting the employees to lower position or rank, transferring the employees to the other department or other task or benching them, and the last punishment which is difficult to be exercised but may be possibly undertaken is suspending the employees from their work. The latter was exercised in the year 2006 – 2007 when the Accountants of Ministry of Education and Vocational Training – Pemba included 800 ghost workers in the payroll accounting, those fraudulent employees were suspended and until the month of April, 2013 their case was still carried on in Chake Chake court - Pemba. Turning to the parties addressed, these were Principle Secretary, Commissioner of Budget, PO-Public Services and Good Governance, Accountant General and Head of payroll section.

The last interested part of the objective three was to rate the compliance of internal controls over the payroll activities namely as hiring new employee, timekeeping, preparing payroll and paying process. The general conclusion under these activities is that the compliance of these attributes seemed to be very good except for timekeeping in which payments are not done based on working time.

The compliance of the available controls to bring the quality of payroll system seemed to agree with the findings reported by Edward (2011) who said that in order to overcome malpractices such as errors and frauds of funds should be punished and even pays back the lost or fraudulent funds so as to discourage others from doing the same act.

Generally the compliance of the available controls over payroll systems has got anything to do with the efficiency of payroll system.

CHAPTERS SIX

SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

6.0 Introduction

This chapter presents the summary of the study, conclusion, recommendations, limitation and areas for further research. It commences with the summary, then conclusion, recommendations limitations and finally highlights areas for further research.

6.1 The Summary and Conclusion

The findings from this study showed that there were internal controls over payroll system at MoFEA which are most of the time applicable. The internal controls mentioned were availability of pay slips, segregation of duties, block of salaries for the case of termination, death or retirement of employees in the organization, restrict access to record and governments' payroll review.

On the other hand the study found that the internal controls applicable were efficient enough over the payroll system and its execution. The study however revealed some minor weaknesses in relation to internal controls over payroll system in the Ministry. The Ministry however minimized those weaknesses through independent check by the internal auditors, rotation of payroll employees and issuing of pay slips within the ministry. The findings further showed that the output of internal controls were good enough as there are no fake employees, salary advances are paid back, no collusion, no much prolongation of payments and etc. The internal controls seemed also very efficient by comparing the inputs incurred and the outputs achieved.

Finally, the study showed that it was necessary to have compliance of the available internal controls over payroll system in order to have an efficient payroll system. The study further emphasized that punishment was one among force which derive the

employees to be complied with the available controls. The mentioned examples of such punishments were demotion, transfer and suspension. In addition to that the study found that compliance is highly practiced where there are some responsible parties to monitor the compliance of internal controls over payroll system, and according to the study findings the parties mentioned were Principle Secretary, Commissioner of Budget, PO-Public Services and Good Governance, Accountant General and Head of payroll section. The compliance of internal controls over the payroll activities were also seemed to be very good with the exceptional only to the timekeeping.

6.2 Policy Implications

In light of the above findings, the researcher has proposed the following recommendations;

The organization should investigate the weaknesses of internal controls in relation to the payroll system/activities before those weaknesses bring harm to the organizations' activities.

The internal auditors should be allowed to conduct payrolls' independent check in schedule manner i.e. they should have regular time table and not necessarily when the need arise.

Governments' payroll review is also recommended to be carried out in regular time table to check up the efficiency of the operation and not necessarily be conducted in when need arises.

The Ministry should also pay salaries according to the time attended by the employees; this will help to discourage employees absents from their work.

6.3 Limitation of the study

In the course of undertaking the study the researcher faced the following several limitations;

The first limitation of the study was difficulty in data gathering (Data accessibility); while the researcher was interviewing the head of the payroll section he was told that some of the data are confidential especially those related with salaries of the employees, a fact that it was difficult for the researcher to obtain them.

Another one was time factor; the time set for the study was not enough for the researcher to carry an intensive and extensive study on this topic. This is because some information was not being obtained immediately upon requested and due to the fact that less time was obtained from the researchers' work place.

In addition to that lack of co-operation was also a limiting factor. Some of the employees during data collection didn't be in a position to provide the useful and reliable information when they were requested by the researcher to do so.

The last point was failure of the researcher being able to get the intended top officials (leaders) for interview purpose. The intended top officials were the commissioner of budget, director of administration and operation (related with human resources), head of audit section, head of payroll section and head of accounts section. The researcher was able to get interview with only head of payroll section.

The commissioner of budget, DAS and head of accounts section were busy in budget meetings with the latter having additional task in closing the governments' accounts. Head of audit was not available at all as she was at the studies. This limitation forced the researcher to increase number of respondents from 50 to 60 respondents including the only one being interviewed.

6.4 Areas for Further Research

The findings portrayed the impact of internal controls on execution of payroll system a case of MoFEA being a public organization looking how efficient the payroll is given the available controls system. It is advised that further studies be done on the following issues;

- i) Impact of internal controls on execution of payroll system in the private organizations.
- ii) Impact of internal controls on public fund management.

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APPENDICES

Appendix i

Questionnaires

This Questionnaire is seeking answers and views from you about the Impact of internal controls on execution of payroll system. A case of MoFEA

Dear respondents,

The purpose of this questionnaire is to provide assistance in data collection on the study of Impact of internal controls. The researcher is a student at Mzumbe University taking MSC A&F. In this respect, you are kindly requested to answer the questions in your utmost good faith with the best application of your knowledge. The researcher ensures respondents' confidentiality of information provided and will only be used for the purpose intended.

PART I: Personal Information.

1. **Name of the Department**
2. **Sex :** Male ☐ Female ☐
3. **Working Experience.** Under 1 year ☐ 1 – 5 years ☐ 6 – 10years ☐
11– 15 years ☐ Above 15 years ☐
4. **Highest Academic Qualification.**
Post graduate Degree/ Masters ☐ First Degree/ Advanced Diploma ☐
Ordinary Diploma ☐ Certificate ☐
Others (Specify).....
5. **Number of years in the current position**
1-2 yrs ☐ 3-5 yrs ☐ 6-10 yrs ☐ 11-15yrs ☐
Above 15yrs ☐

PART 2: Internal controls and payroll system.

Objective A: To identify the available controls over payroll system at MoFEA.

6. Are there any internal controls on payroll system at MoFEA?

(a) Yes ☐ (b) No ☐

7. Do employees get pay slips for their salaries every month?

a) Yes ☐ b) No ☐ c) Somehow ☐

7. Is there an independent check to the performance of payroll system?

(1) Yes ☐ (2) No ☐

8. Are all activities concerning payroll administration done by the same people?

(1) Yes ☐ (2) No ☐

9. Is there a block of salary in the presence of termination, death or retirements of employees?

(1) Yes ☐ (2) No ☐

10. The following are the internal controls over payroll in any organization, indicate (by ticking appropriately) if the control is applicable or not applicable at MOFEA.

Internal control	Applicable	Not applicable
Internal audit over payroll		
Payroll review		
Segregation of duties (Have one person prepare the payroll, another authorize it, and another create payments)		
Expense trend lines(Look for fluctuations in payroll-related expenses in the financial statements, and then investigate the reasons for the fluctuations)		
Restrict access to records (Lock up employee files and payroll records at all times when they are not in use, to prevent unauthorized access)		
Change authorization (only allow the changes to marital status, withholding		

allowances and statutory deductions, otherwise even a manager must consult the employee first e.g. change of rates)		
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10. From the following internal controls over payroll, show the frequency of its applicability at MOFEA. Rank from 1(all the time) to 5 (very rare)

Internal control	1	2	3	4	5
Internal audit over payroll					
Payroll review					
Segregation of duties (Have one person prepare the payroll, another authorize it, and another create payments)					
Expense trend lines(Look for fluctuations in payroll-related expenses in the financial statements, and then investigate the reasons for the fluctuations)					
Restrict access to records (Lock up employee files and payroll records at all times when they are not in use, to prevent unauthorized access)					
Change authorization (only allow the changes to marital status, withholding allowances and statutory deductions, otherwise even a manager must consult the employee first e.g. change of rates)					

11. Are there any other internal controls over payroll applied at MOFEA? Please mention them

1.
.....
2.
.....
3.
.....
4.
.....

5.

Objective B: To examine the efficiency of the available controls over payroll system at MoFEA.

12. Is there any weakness in relation to controls of payroll system?

- (1) Not at all ☐ (2) Once in awhile ☐
 (3) Often ☐ (4) Fairly often ☐
 (5) Frequently but not always ☐

13. How many times rotation of payroll employees carried out?

- (1) Once in a year ☐ (2) After 2 years ☐
 (3) After 5 years ☐ (4) Never ☐

14. How many times pay slips are issued to employees at MoFEA?

- (1) Every month ☐ (2) Every year ☐
 (3) Whenever needed ☐ (4) Never ☐

15. How many times independent check by internal auditors is conducted?

- (1) Monthly ☐ (2) Quarterly ☐ (3) Half yearly ☐
 (4) Annually ☐ (5) When need arise ☐

16. How do you rank the following output of internal controls over payroll at MOFEA?

Rank from 1(strong disagree) to 5(strong agree).

output	1	2	3	4	5
When an employee requests an advance on his/her payroll then never pays it back.					
The payroll staff creates a fake employee in the payroll records and alters the payment record so that the direct deposit or check is made out to them.					
The payroll staff prolongs the pay of an employee who has just left the organization, or died but the direct deposit or check is made out to them.					

Employees could take the paycheck of another employee who is absent, and then cash the check for themselves.					
Employees collude with the payroll clerk to increase the amount of their pay in the payroll system					

16. By comparing the inputs incurred(e.g. Staffs, time, computers etc.) and the output of these internal controls, rank the efficiency of each internal control from 1(very efficiency) to 5 (very inefficiency)

Internal control	1	2	3	4	5
Internal audit over payroll					
Payroll review					
Segregation of duties (Have one person prepare the payroll, another authorize it, and another create payments)					
Expense trend lines(Look for fluctuations in payroll-related expenses in the financial statements, and then investigate the reasons for the fluctuations)					
Restrict access to records (Lock up employee files and payroll records at all times when they are not in use, to prevent unauthorized access)					
Change authorization (only allow the changes to marital status, withholding allowances and statutory deductions, otherwise even a manager must consult the employee first e.g. change of rates)					

Objective C: To examine the compliance of the available internal controls over payroll system at MoFEA.

17. Is there any punishment for non compliance of the available internal controls over payroll system?

(1) Yes ☐ (2) No ☐

18. Is there any one responsible to monitor the compliance of the internal control over the payroll execution?

(1) Yes ☐ (2) No ☐

If the answer above is yes mention / specify them.

.....

19. How do you rate the compliance of internal controls over the following payroll activities? Rate 1(very good) 5(very poor)

Payroll activity	1	2	3	4	5
Hiring new employees					
Timekeeping (in and out of staffs)					
Preparing payroll					
Paying process					

20. How do you rank the following statement concerning your salary? Rank 1(strong agree) to 5(strong disagree).

Statement	1	2	3	4	5
I always receive my salary in time					
I always being informed in any change of my salary					
All deductions apart from statutory one, management requires my approval					
I always write a letter when asking for an advance payment					

Guiding interview Questions for the top officials

A: Personal Particulars:

Name of Respondent.....

Age

Education.....

Position.....

Duration.....

B: Interview Questions

- 1) Are there any steps in hiring employees?
- 2) If the above answer is yes what are they?
- 3) Is there a procedure for time keeping?
- 4) Do the employees paid based on time?
- 5) Is there a payroll preparation every month?
- 6) How employees are paid their salaries?
- 7) Is there any punishment for non compliance of the controls?
- 8) Is there any one to monitor the compliance of controls?