THE ROLE OF INTERNAL AUDIT IN IMPROVING THE PERFORMANCE OF LOCAL GOVERNMENT AUTHORITIES: THE CASE OF MOROGORO MUNICIPAL COUNCIL

By

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A Dissertation Submitted to School of Business in the Partial Fulfillment of the Requirement for Award of the Degree of Master in Accounting and finance of Mzumbe University

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CERTIFICATION

We, the undersigned, certify that we have red and hereby recommend for acceptance by the Mzumbe University, a dissertation titled "**The role of Internal Audit in improving the performance of Local Government Authorities" the case of Morogoro Municipal council** in Accounting and Finance of Mzumbe University.

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Internal Examiner

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DEAN, SCHOOL OF BUSINESS

DECLARATION

I, Denis Masui, do hereby declare that, this dissertation is my original work and it has not been presented and will not be presented to any other University or an Institution of higher learning for a similar or any other degree award.

Signature………………………………

Date……………………………………

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To my lord, who has blessed me with the opportunity and will to pursue my studies, thank you lord.

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DEDICATION

To the cherish and everlasting love of my family including my wife Caroline mhina, my son and daughter Clifford Denis and Dora Denis respectively**.**

LIST OF ABBREVIATIONS

ALAT	Association of Local Authorities Tanzania
BLMD	By – Law Making Database
CAG	Controller and Auditor General
CC	City Council
CIPFA	The Charted Institute of Public Finance and Accountancy Council Management Team
CMT	Council Management Team
DC	District Council
DED	District Executive Director (Accounting Officer)
DIA	District Internal Auditor
GAAP	Generally Accepted Accounting Principles
IA	Internal Audit
IFMS	Integrated Financial Management System
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting standards
ISA	International Standard on Auditing
IT	Information Technology
MMC	Morogoro Municipal Council
LATF	Local Authority Transfer Fund
LGAS	Local Government Audit Service
LGCDG	Local Government Contoring Database
LGFA	Local Government Finances Act, 1982
LGMD	Local Government Monitoring Database
LGRP	Local Government Reform Programme
MC	Municipal Council
MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umasikini Tanzania (Stands for the national strategy for economic reform and poverty reduction)
MSc. A&F	Master of Science in Accounting & Finance
MTEF	Medium Term Expenditure Framework

NAO	National Audit Office
O& OD	Opportunities and Obstacles for Development
Plan – Rep	Planning and Reporting
PEDP	Primary Education Development Programme
PE	Procuring Entry
PAA	Public Audit Act No. 11 of 2008
PMO -RALG	Prime Minister's Office – Regional Administration and Local Government.
PMU	Public Management Unit
RAS	Regional Administrative Secretary
TC	Town Council

ABSTRACT

Local Governments in Tanzania have been featured with gross financial mismanagement to the extent that the government had decides to institute periodical restricting and reform programmers. In the existence of integrity, effectiveness and efficiency in utilization of resources, the council can easily obtain unqualified audit opinion from CAG. Failure to obtain unqualified audit reports may take the council into – access to LGCDG and therefore gives a negative impact to the authority in terms of service provision.

It was that reason therefore, that prompted to carry about a study to assess whether local authorities effectively implement financial management systems by conducting a study at Morogoro Municipal Council. The research methods employed were: - questionnaires observation, and interviews. The researcher employed simple selection techniques. A sample of 45 respondents was selected from a total population of units of inquiry. The study findings reveled that; still there some weakness in terms of enforcing procedures and principles guiding the authorization and access of organization’s assets and documents. Also the study found an increasing rate of improperly vouched expenditure year after year and improper approvals, improper documentation and attachment. The study also found existence of over expenditure on some common items like fuels and allowances, caused by insistence of a reliable computerized system for budgeting and accounting activities. On the part of the functioning of the internal audit unit, the findings revealed a weakness on reporting channel.

The study finally found that, the financial management systems in local government Authorities are slightly effective, so for improvement, the study recommends:- the immediate computerization of the accounting and budgeting systems, that performance. Finally; the council internal auditor should report direct to councilors and to ministry responsible. The researcher really hopes that the output of this research study shall be of practical use to other individual scholars, Institutions of higher learning and Local Government Authorities of Tanzania.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter presents the research findings on the role of Internal Audit in improving Local Government Authority. Though there are several aspects of management control systems in organizations, the researcher focused only on the financial aspect. The study therefore, explored the status of local government authorities (LGAs) Internal Audit roles in achieving the council's predetermined goals and objectives.

The study was conducted in Morogoro Municipal Council (MMC) in the period of December 2011 to June 2012. The chapter also deals with giving the background of the Local Government Council (LGAs), background of the problem, statement of the problem, objective s of the study, research questions, significance of the study, scope, limitation of the study that the researcher will face and delimitation which in turn will help in investigating this topic of the study coming to the good conclusion and recommendations. From this subject a number of areas will be covered in detail, which includes the theory behind audits and other control bodies which promotes public sector accountability through good corporate governance, effective risk management and transparency in government operations in fulfilling the pre-set objectives.

1.2 Background to Local Government Authorities in Tanzania

1.2.1 Local Government system in Tanzania

The United Republic of Tanzania is made up two formerly independent countries Tanganyika and Zanzibar, which united in 1964 to form a new nation of Tanzania. The two halves of Republic have somewhat different evolution and system of local government. The mainland Tanzania has a long history of functioning local governments, starting with the Native Authorities Ordinance in 1926.

There was a ten year break, as in 1972 the Local Government system was abolished and replaced with a direct central government rule. The reintroduction of the Local Government system occurred in the beginning of the 1980s, when the rural councils and rural authorities were reestablished. Local Government Elections took place in 1983 and the established of functioning councils in 1984.In the one party political system was abolished and replaced with a multiparty system of government, the first multiparty elections taking place in 1995. The liberalization of the political field was followed by a major public sector reform, which included a Local Government Reform Program (LGRP). The LGRP covered four areas: political decentralization, financial decentralization, and administrative decentralization and change central local relations, with the mainland government having overriding powers within the framework of the Constitution. This process of local government reform is still ongoing. It aims to promote democratic, accountable and autonomous local government authorities, with wide discretionary powers and a strong financial base by 2011.

In the case of Zanzibar, the 1964 revolution not only abolished the Monarchy but also did Away with the separation of the legislature, the executive and the judiciary, fusing all their functions into a revolutionary council.6 since the promulgation of Zanzibar's first post revolution constitution in 1979, Zanzibar has, however, passed various pieces of legislation on local government. At the moment, Zanzibar is developing a program for local government with the assistance of the United Nations. The basis of this research is on the premise that internal auditors have an important role to play in today's complex world and the consequent increasing need for accountability demanded of governments and Local Authorities. These demands are forcing public sector auditors to continuously adapt to new situations for their survival and prosperity. For practical reasons of time and cost, the population for this research will be limited to one municipal council of Morogoro, and the sample to be selected will be District treasurers, finance committee members, accounts staffs, executive directors, heads of departments, and internal auditor in Morogoro municipality**.** This is the subject area, which is open for other researchers to go further on researching

1.2.2 Staff in Local Government

The head of the paid service is the District Executive Director in the district authorities and the Town/ Municipal/City Director in the urban authorities. Typically, below the director three are a number of Heads of Department. The Departments are many and may include the following: personnel and administration; planning and finance; engineering or work; education and culture trade and economic affairs; urban planning; health and social welfare; cooperative and livestock development; and community development.

Central government appoints the chief officers through the process of open bidding. City Council directors are appointed by president while directors of town, municipal district council are appointed by the Minister. The Minister also appoints the heads of departments after a recruitment process.

1.2.3 Independent scrutiny

In Tanzania there now exists a code conduct for the officials and councilors, also procedures are in place to sanction against any offenders. In terms of financial matters, the controller and Auditor General is responsible for the external audit of the local government accounts, under the controller and Auditor General Act. 28.

1.2.4 Finance

Revenue

Most of the local government income comes from government allocations, which amount for 72% of the entire local authority budget .38 In 2001/2002 the aggregate revenue for local government was Tshs 252.8 billion (US$ 282m).

Local authorities can also raise revenue locally. The main sources of local income come from fees, licences, property taxes, rents, fines and others including sale of recovery of Public fund.

Expenditure

The contribution of the local government of the mainland Tanzania to the GDP of the mainland was about 3% in 2002. The aggregate expenditure of local government in 2001/2002 was about Tshs 251.8 billion (US$ 282m) No breakdown of this expenditure is available at this point.

1.3 Background Information to the Research Problem

In local government authorities, management system refers to organizational policies and procedures used to ensure that programs achieve their intended goals, resources are used consistently with agency mission; laws and regulations are followed consistently and reliable and timely information is obtained, maintained and reported for decision making purposes.

The local Government Financial management systems in Tanzania are regulated by the Local Government Finance ACT, 1982 which applies in respect of all local government authorities. An Act gives authority to make provision for sources of revenue and the management of funds and resources of Local Government Authorities and for matters connected or incidental to securing the proper collection and sound management of Finances in the local government system In the Background paper on local Government Finances; the framework for the financing of local Government Authorities in Tanzania, presented by the Prime minister's office-Regional Administration and Local Government in April 24, 2006, it was argued that, no system of local government finance can function properly unless. LGAs have proper system in place for planning, budgeting and managing their finances.

Since 1998, PMO-RALG has driven or sum reported the substantial development of a number of planning, budgeting and financial management and according tools, including the local planning approach know as “Opportunities and Obstacles to Development (O&OD); the local integrated financial management system (EPicor) the LGA planning and reporting system (PlanRep) and the emerging reporting and monitoring system for local government finance.

1.4 Statement of the Research Problem

Regulation 33 of the Public Finance Regulation defines Internal audit as “an independent appraisal activity established within a Ministry, department or Agency or any other reporting unit which operates as a service to the Head of the unit involved, of which it controls activity functions by examining and evaluating the adequacy of effectiveness of internal controls in the unit reviewed and for conducting value for money audits throughout the unit in order to ensure that proper systems of internal controls and accounting systems exist throughout the unit” It is the responsibility of internal auditor to review, appraise and report upon LGA’s assets and interests are accounted for and safeguarded from losses of all kinds arising there from (fraud and other offences, waste, extravagance and inefficient administration, poor value for money or other causes. The public expects financial discipline of the local authorities through auditing so as to evaluate the efficient, effective and economic use of public funds. This can be evidenced in the BOT saga, where the public expected auditors could perform their duties diligently so as to reveal the funds which were squandered through External Public Account (EPA). Failure of that brought in the expectation gap between auditors and the public at large. Auditors may have made appropriate advices to the appropriate authorities, but again the public would want to have answers to these queries.

The aim of this study is to evaluate the role of Internal audit in improving the performance of LGAs by eliminating the mismanagement of financial resources entrusted to them and hence eliminate expectation gap.

1.5 Study objective

1.5.1 General research objective

The general objective of the research aims to assess the role of internal audit in improving financial management systems in MMC. The study will also suggest some possible ways to improve financial management as well as measures to be adopted in rectifying the shortfalls and as well as suggesting solutions to the problems.

1.5.2 Specific objectives

The study specifically intended to achieve the following objectives

i. Identify whether there is a sound internal control system in MMC.
ii. Determine whether expenditures in the council done as per rules and guidelines in MMC
iii. Determine whether the internal audit is independent and functions properly and in MM
iv. To recommend measures that need to be introduced in order to enhance the performance of the Internal Audit Unit in MMC

1.6. Research Questions

Bearing in mind, the financial rules and regulations that leads all local authority in performing financial operations, the general question was, Why gross financial mismanagement is still being reported in local Authority?

1.6.1 Specific research questions

(i) What is the role of internal audit in MMC?

(ii) Is the Internal audit in MMC performs its duties as per rules and guidelines?

(iii) What are factors affecting the role of internal audit in MMC?

(iv) What should be introduced in order to enhance the performance of the Internal Audit Unit in MMC?

1.7. Rationale and significance of the study

This study is of paramount importance due to the fact that it was conducted having expected to bear practical and strategic recommendations on how to improve the identified shortcomings.

1.8. Scope of the study

The study will be conducted at MMC and will intend to explore the factors for the effectiveness of internal audit in the council .The resources like human, time, money available will be used and ignoring other information otherwise irrelevant with respect to the requirements of the topic. This will enable the researcher to make a thorough analysis and draw good conclusion.

1.9 Tentative Limitations of the Study

This part of the proposal examines issues that in one way or another researcher were anticipated to affect the research methods and the research findings. These are tentative limitations of the study. These limitations are mainly mechanical and methodological Limitations:

1.9.1 Respondents

Based on experiences from other students doing researches, some of the respondents are reluctant to give their responses to the research questions or to fill and return the filled questionnaires. Some of the respondents show negative attitude different from their normal behaviors once they learn that are supposed to provide information to the researcher. All the issues might create biased and consequently affect the entire research findings.

1.10 Delimitations of the study

This study was undertaken for a dissertation is submitted in partial fulfillment of the requirements for the award of a Master degree in Accounting and Finance at Mzumbe University. The researcher will be working closely and honestly with the management to convince and make them be identified with the purpose of the data and research to be accomplished by the researcher and no respondent name would be reported to the management.

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1.10.1 Respondents

Respondents were one of the limitations that the researcher encountered, and to the certain extent was obstructing the smooth and efficient execution of the study, this is basing on the fact that their information could reach higher levels of administration. But they come to respond on different questions after being assured that their information could be not being disclosed. Through this they were free to respond on the researcher questions and return the filled questionnaires.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is about concepts and theories from other researchers and authors on the role of internal audit in improving the performance of LGA. The researcher will be using various literature works by consulting documents, books and other discussed the problem which in turn will help investigating this topic of the study.

A precise definition of the term 'Auditing' is difficult to give. Some of the definitions given by different authors are as follows:

According to Montgomery (1983)[1], a well known author, "auditing is a systematic examination of the books and records of a business or the organization in order to ascertain or verify and to report upon the facts regarding the financial operation and the result thereof." Spicer and Pegler expanded the above definition as follows: "An audit may be said to be such an examination of the books, accounts and vouchers of a business as well enable the auditor to satisfy that the Balance Sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and whether the Profit or Loss for the financial period according to the best of his information and the explanations given to him and as shown by the books, and if not, in what respect he is not satisfied."

According to Dicksee, (1982)[2], "an audit is an examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transactions to which they relate. In some instances, it may be necessary to ascertain whether the transactions themselves are supported by authority." His chapter is about concepts and theories from other researchers and authors on the role of internal audit in improving the LGA performance. The researcher will be using

[1] Montgomery, (1983): ***Internal Audit,*** London.
[2] Lawrence R. Dicksee, (1982):***Internal Audit,*** London.

various literature works by consulting documents, books and other discussed the problem which in turn will help investigating this topic of the study.

Mautz (1980)[3] defines auditing as being "concerned with the verification of accounting data, with determining the accuracy and reliability accounting statement and reports."

It is clear from the above definitions that auditing is the systematic and scientific examination of the books of a accounts and records of a business so as to enable the auditor to satisfy himself that the Balance Sheet and the Profit and Loss Account are properly drawn up so as to exhibit a true and fair view of the financial state of affairs of the business and profit or loss for the financial period. The Auditor will have to go through various books and accounts and related evidence to business and profit or loss for the financial period. The Auditor will have to go through various books and accounts and related evidence to satisfy himself about the accuracy and authenticity to report the financial health of the business.

2.2 Theoretical literature review

2.2.1 Internal Auditing

Internal audit is defined in Millchamp (1983: 445)[4] as an independent appraisal function established by the management of an organization for the review of the internal control system as a service to the organization. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economics, efficient and effective use of resources, Internal audit means audit work carried out by the organization and by its own employees. Internal audit is therefore an element of internal control system set up by the management; among the essential elements of internal audit are planning and control.

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[3] R. K.Mautz, (1980): ***Auditing,*** London.
[4] Millchamp A.H (1983), **Auditing**, 6th Edition, London W, and 28W.

The term Independent characterizes the audit work as being free of restriction that could significantly limit the scope and effectiveness of the review or the later reporting of findings and conclusion. And the term appraisal means to evaluate the activity of orders, not to perform a specific part of the processing,

The term established confirms the fact of definitive creation by organization of the internal audit role.

The term to examine and evaluate describes the effective action of internal auditors first as first findings inquiry and second as judgmental evaluation. The term service identifies help and assist as the end product off all internal auditing process.

Furthermore according to Mahushi (1985)[5] defines internal auditing as the continuous and systematic process of examining and reporting on the administrative systems and accounting methods of the company or group of companies, It generally carried out by employees of the company with the review to confirm that policies of management are being properly executed and drawing attention to those areas where policies appears to be inadequate, and to verify that the information used by management to control the undertaking is both adequate and accurate.

There are several definitions of internal auditing some of which include: Internal auditing can be defined as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and 526 governance processes (IIA, 2004). The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud (Millichamp and Taylor, 2008)[6].

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[5] Mahushi, P.H, (1985**), Basic Internal control**, Peramiho Printing Press, Songea, Tanzania.

[6] Millichamp and Taylor, (2008): ***Internal Audit,*** UK.

According to Manasseh (2007)[7], Internal Auditing is a constant independent appraisal of the Company's/Organization's activities in a bid to ensure that the company runs in an orderly manner and is managed better so as to ensure strong controls in such organizations.

According to Maheshwari (2004)[8], internal auditing is a review of various operations of the company and of its records by the staff specially appointed for this purpose. The elements of effective Internal Audit comprises; auditor independence, good working relationship, proper staffing and training, exercising due care, evaluation of internal control systems, proper reporting and follow-ups, among others. The main aim of internal audit is to provide independent and objective assurance to the accounting officer or equivalent officer, and the council, on the effectiveness of the risk management programs in the local authority. In respect of risk management, internal audit can either undertake assurance activities or consulting activities. An effective internal auditing activity should be able to provide independent and objective assurance on the effectiveness of risk management activities that help to ensure that key business risks are being managed appropriately. Internal Audit should: give assurance that risks are correctly identified, analyzed and evaluated; and, give assurance that risks are being managed and maintained within the council's and government guidelines. Internal audit may provide the following consulting services, provided that appropriate safeguards are in place: facilitating the identification and evaluation of risks by making available to the relevant officers the tools and techniques used by internal audit to analyze risks and controls, using internal audit's expertise in risk management and control, and overall knowledge of the local authority's operations and objectives to champion the established of a risk management framework, providing advice, facilitating workshops, and coaching accounting officers and other relevant officers on risk and control, and supporting the officers in identifying the best way to mitigate risk. The appropriate safeguards include: ensuring that it confirmed in writing that the accounting officers retain overall responsibility for risk management, ensuring that

7 Manasseh, (2007): ***Internal Audit Control,*** UK.
8 Maheshwari, (2004): ***Internal Audit,*** London.

accounting officers decide the most appropriate responses to risk; internal audit should provide advice and offer critique without assuming responsibility and ensuring that internal audit does not perform any roles that constitute risk management.(KLGRP, 2008).

2.2.2 Internal Auditing Theories

Internal auditing theories can be borrowed from the theories for auditing. One of these theories is the agency theory. Agency is the name given to the practice by which productive resources owned by one person or group are managed by another person or group of persons. At its simplest agency theory is the recognition that the inclination of agents, in this cases the directors or managers of the business, is to act rather more in their own interest than those of their employers and shareholders. The institute of chartered Accountant in England and Wales, in November 2006, put it this way: - In principle, the agency model assumes that no agents are trustworthy and if they can make themselves richer at the expense of their principals they will. The poor principal, so the argument goes, has no alternative but to compensate the agent well for their endeavors so that they will not be tempted to go into business for them using the principal's assets to do so. The origin of auditing goes back to times scarcely less remote than that of accounting. Whenever the advance of civilization brought about the necessity of one man being entrusted to some extent with the property of another the advisability of some kind of check upon the fidelity of the former would become apparent. The extent to which principals don't trust their agents will tend to determine the level of the monitoring mechanism created for the overview of agents' activities and the extent to which agents' compensation levels are determined to be acceptable. Upon this principle rests the foundation of auditing profession (Millichamp and Taylor, 2008)[9]. As mentioned in the agency theory, the problem which has always existed when manager's report to owners is – can the owners believe the report?

[9] Millichamp and Taylor, (2008): ***Internal Audit,*** UK.

The report may;- contain errors, not disclose fraud, be inadvertently misleading, be deliberately misleading, fail to disclose relevant information and fail to conform to regulations. The solution to this problem of credibility in reports and accounts lies in appointing independent professionals called auditors to investigate the report and report their findings (Millichamp and Taylor, 2008)[10].

2.2.3 Empirical Literature

Haylas and Ashton (1982)[11] in their efforts to provide evidence on the effectiveness of the particular audit techniques in detecting errors that affect the financial statements and on the causes of such errors conducted a study of 281 errors requiring financial statements adjustments. The results of the study suggested that all of the intentional errors are concentrated in relatively few audit areas majority of such errors affect income but the direction of the effect may either be an understatement or 528 overstatements. Regarding signaling off an error, they found that a large portion of financial statement errors are initially signaled by less vigorous audit procedures such as analytical review and discussion with clients. Client personal problems such as inexperience, incompetence and insufficient knowledge and inadequate control, follow up or review were found instrumental in causing more errors. Lawrence (1982)[12] evaluated the internal controls of Ethiopian Airlines, Nairobi branch office and concluded that lack of segregation of accounting and custodian functions was the greatest weakness of the Branch office. He argued that there is need to centralize cash receipts, establish an internal audit, separate duties of purchase activities, establish perpetually inventory system for tickets. In an attempt to define a client's control environment from the auditor's perception, Chamber (1987)[13] identified 48 client control attributes and their perceived levels of importance in adequately describing a client's control environment thus serving to define more clearly audit planning concepts. Audit firms, firms' specialization and audit rank were found to be significant mediating contextual variables and that

[10] Millichamp and Taylor, (2008): ***Internal Audit,*** UK
[11] Haylas and Ashton, (1982): ***Internal Audit Control,*** Washington.
[12] Lawrence R,Dicksee (1982): Internal Audit function, UK
[13] Chambers, A.D *et al*, (1987), **Internal Auditing**, 2nd Edition, Pritman Publishers, London

seniors had the largest share of the evaluation of internal control attributes responsibility.

Schneider and Glein (1991)[14], in their study examined the effectiveness of internal audit and external audit in determining financial reporting irregularities. They conducted an experimental study that examined the effects of manager's perception of internal and external auditing on the potential of financial irregularities. A total of 264 subjects, the majority of who were experienced managers were required to make decisions on three cases involving materiality type of irregularity, perceived extent of Generally Accepted Accounting Standards (GAAP) violation and incentives for misstating income. The decisions were made in a situation where there was no auditing at all, only internal auditing or external auditing. The results clearly supported internal and external auditing as deterrents to financial reporting irregularities when all of the four factors were present. It was also found that internal auditing effects were similar to those of external auditing. The study, however, suffered from the inability to explain why the existence of audits was perceived as having deterrent effects (Schneider and Wilners, 1990).

Ismailjee (1993)[15] evaluated the internal controls of the Nyayo Bus Service Corporation, Nairobi and concluded that the analysis conducted on the cash receipts as well as the cash disbursements and the purchase cycle areas bore fairly strong controls. He attributed this largely to the fact that the government accounting system was still in operation in those areas. He however found weakness in the organization chart, payroll and the stores accounting system.

Oyugi (2005)[16], in her study on fiscal decentralization in Kenya (a case of Local Authority Transfer Fund) analyzed the administration of LATF and its performance. She identified various challenges constraining the implementation of the programme. The findings of the study revealed that: LATF has not met its objectives

[14] Glein I. and Delaney R, (1991), **CPA Examination Review**, Gleim Publications, Ltd.
[15] Ismailjee (1990): Internal audit, London
[16] Oyugi (1990): Corporate Governance, Ohio University

of improving service delivery, financial management and debt reduction; and that the performance of the programme has been constrained by a number of factors such as flawed regulations, politicizing of the programme, and lack of coherent monitoring and evaluation framework. The study recommended for the amendment of LATF regulations, and putting in place a coherent monitoring and evaluation framework among others. One of the monitoring units organizations have is the Internal Audit Department. This study therefore focused on the effectiveness role of Internal Audit as one of the monitoring units, in the management of LATF.

Rono (2006)[17] studied on the role of Internal Audit in improving LGA performance in Kenya. The study sought to determine whether there was a significant difference in the evaluation of the effectiveness of the internal control system in the financial management 529 between the academic and non-academic departments in Egerton University. It concluded that the evaluation of the effectiveness of the internal control systems in the university depended on the category of the departments. The research revealed that the internal control systems in Egerton University were effective due to the well established departments charged with the responsibility of implementing the internal controls as they carry out the financial processes for example, finance, supplies and personnel departments with their various sections like cash office, salaries, computer, debtors and creditors.

From the above, it is evident that a lot of research has been done on the evaluation and effectiveness of internal control systems in various organizations like Ethiopian Airlines and Nyayo Bus services; and institutions like public universities (a case of Egerton University). However, little research has been done on the role of internal audit systems in the management of finances in institutions and organizations.

[17] Rono (2006): Iffectveness of Internal Control, Egerton University, Kenya

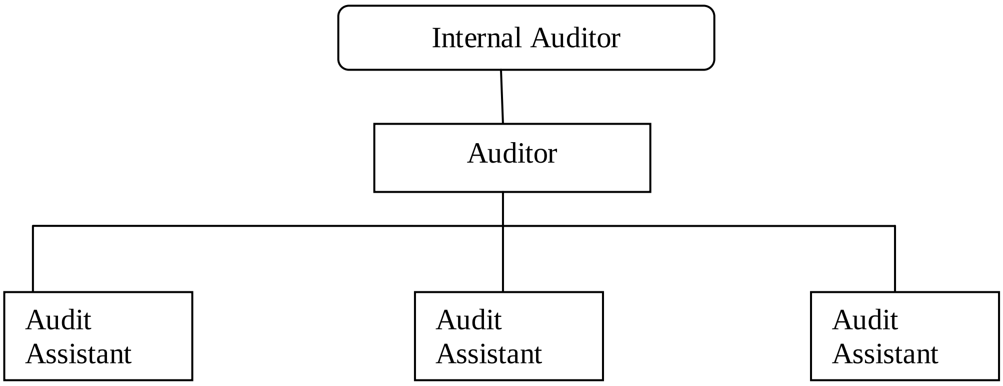
2.2.4 Internal Auditor

According to Chamber *et al* (1987)[18]define internal auditor as:

An employee of the organization who is conducting an internal audit. The internal auditor works independently of the accounting and other departments and is concerned with financial and/or operational activities of the organization. The internal auditor attempts to assure the accuracy of business records, uncover internal control problems, and identify operational difficulties.

Therefore he/she is an individual who takes responsibility for carrying out an internal audit work within the organization whether as an employee or as an external agency. According to Arora (2000)[19] an internal auditor as an independent person, professionally competent and eligible and processes high degree of integrity.

The following chart sets out a likely structure in a large well



Contract audit
Recreation and
Amenities audits

All other regularity
audit work

Special investigation
Computer audit
Value for money
Projects

In a less well resourced council the numbers may be smaller but the minimum establishment should be two – The Internal Auditor and an Assistant.

[18] Chambers, A.D *et al*, (1987), **Internal Auditing**, 2nd Edition, Pritman Publishers, London.

[19] Arora, M.L. Phd (2000), Bookkeeping, Principles of Accounting and Auditing,

2.2.5 Advantages of Internal Auditors

According to Arora (2010)[20] some of the advantages of internal auditors are:
Internal auditors help in saving large amount of money because they dispense the need to employ external consultants to act as internal auditors. This is even especially true when an internal audit department is properly run with well trained and experienced internal auditors,

The internal auditors are intimately acquainted with the business as they are continuously employed in some concern and access to much confidential information and all levels of management.

Internal auditors are beneficial as they help in identifying risks which may lead an entity to fail in achieving its performance and profitability.

Internal auditors help in preventing loss of assets and resources in ensuring reliable financial reporting and regulation.

2. 2.6 Internal audit functions

According to Chambers *et al* (987)[21] the following are the functions of the internal audit;
Reviewing accounting system and related internal controls, Examination of financial and operating information for management including detailed testing of transactions and balances.

Reviewing the reliability and integrity of financial and operating and means used to identify measures, classify and report such information, For the appraisal of the economy and efficient with which resources are employed.

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[20] Arora, M.L. Phd (2000), **Bookkeeping, Principles of Accounting and Auditing,**

[21] Chambers, A.D *et al*, (1987), **Internal Auditing**, 2nd Edition, Pritman Publishers, London.

Reviewing operations or programs to ascertain whether results are consistence with established objectives and goals and whether the operations or programs are being carried out as planned,

Reviewing the system established to ensure compliance with those policies, plans, procedures and regulations which could have significant importance on operation and report to determine whether the organization is compliant. According to Millichamp (1986)[22], internal auditors provide management with valuable information for decision making and effective operation of its business. The scope and objectives of the internal auditor may vary depending on assigned responsibilities, size and structure of an entity and the skills and experience of the internal auditor.

2.2.7 Roles of Internal Audit

Supporting the senior management's governance responsibility, Internal audit provides independent and objective assessments of the information used for decision making and on the relationship between risk, control and the achievement of the organization objectives,

Reporting on the internal control system. The head of internal is required to give an opinion to the company through audit committee on the adequacy and effectiveness of the whole internal control system within the company and the extent to which can rely on it. The auditor ha stockmen on other activities for which the company is responsible and to which the internal audit service has to assess. The head of internal audit unit gives opinions on whether the control arrangements including those for economy, effectiveness are adequate and properly applied (Delaney and Gleim 1991; 74)[23].

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[22] Millchamp, A.H (1986**), Auditing**, 4th Edition, Published by D.P Publications, Florida.

[23] Glein I. and Delaney R, (1991), **CPA Examination Review**, Gleim Publications, Ltd.

Providing assurance on risk management to provide the required assurances the internal audit will undertake the program of work based on a strategy authorized by the governing on the advice of the audit committee. The program will evaluate the arrangements in place as to their completeness and adequacy.

Recommendation on decision making. Whittington (1992: 778)[24] focus in his study that internal audit plays its role by assisting member of an organization in effective discharge of their responsibilities by furnishing analyses, appraisals, recommendation and counsel.

Internal auditing, when effectively implemented, can arguably be considered the most important tool in the quality system tool box. It's the primary method for continuously improving the Local Government Authority. In fact, the feedback from internal auditing is critical to the growth of the LGA.

Through an audit, an organization can identify a system's ineffectiveness, take corrective action, and ultimately support continuous improvement. Unfortunately, a poorly deployed internal auditing system can lead to increased, nonvalue-added costs, many hours of wasted resources, and an eventual, inevitable LGA breakdown.

Management must buy into the fact that the internal audit process is just as critical and important an activity as any other process within the LGA. An internal auditing system must have the commitment of senior management. Without their approval, support, and encouragement, the internal audit process is doomed for failure and worse–time and money wasted.

When scheduled audits are routinely postponed, management is sending a clear message, Public Audit Act. (2008)[25] "Auditing is a low priority, and we only perform them because it's a necessary evil." It's remarkable to me that some

[24] Whittington R, (1992), **Internal Auditing**, 10th Edition, R.R Dennelley and Son Company, U. S.A.

[25] Public Audit Act No. 11 of 2008, Government, Dar es salaam

companies that have been ISO-registered for 10 years or more still fail to demonstrate the LGA maturity one would expect. In these cases, it always comes back to management understanding and supporting the internal audit process and its powerful value. Ironically, these same organizations can't understand why, over time, their Quality Management System (QMS) fails.

Consequently, companies that understand and support their internal audit systems sharpen their financial management system edge. Their internal auditors have acquired the skill to identify a system's effectiveness as well as ensure compliance. These companies have progressed and understand the subtlety of continuous improvement.

How? It's simple. The more committed senior management is to the success of its financial management system, the better and more effective that system is likely to be. But, this is only the first block of the quality system foundation.

What happens, for instance, when senior management demonstrates or even encourages QMS participation and continual improvement while customer feedback paints a contrary, unfavorable picture? In other words, what must be done if customer concerns climb while internal audits aren't recognizing and defining the cause(s)? What are the grounds for this disconnect?

There could be many possible reasons, however, in almost all cases, the root cause of constantly failing to identify and eliminate nonconformance that can be found in an underdeveloped internal audit process.

2.2.8 Essential elements of internal audit

The essential elements of internal audit according to Local Government Finance Act (1982)[26] are:

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[26] Local Government Finance Act No. 9 of 1982, Government, Dar es salaam

Independence: Internal auditor should be independent and be seen to be independent towards the objectives function.

Staffing: The internal audit unit should be adequately staffed in terms of numbers, grades and experience.

Training: All internal auditors should be fully trained.

Relationships: Internal auditors should foster constructive working relationships and mutual understanding with management, with external auditors with any review agencies (e.g. management consultants) and where appropriate with an audit committee. Mutual understanding is the goal.

Due care: An internal auditor should behave much as an external auditor in terms of skill, care and judgement. He should be up to date technically and have personal standards of knowledge, honesty, probity and integrity much as an external auditor. It is desirable that an internal auditor is qualified, because of ethical considerations as much as technical standards implied by membership of a professional body.

Planning: Controlling and recording, fundamentally the internal auditors should behave much as external auditors in this respect. The plan should identify audit areas which may be:

(i) Activity (e.g. payroll, income, stores, purchasing etc.)

(ii) Nature of the audit (e.g. protective, systems audit, value for money)

(iii) Level of audit required (e.g. degree of risk, frequency and extent of audit).

Internal auditors plan their work strategically (two to five years for all areas to be covered), periodically (typically one year when the strategic plan is translated into a schedule of work) and operationally (each piece of work, in detail).

Controlling includes supervision and review of internal audit work.

Working papers should be of a similar detail and standard as those of external auditors.

Systems control: The internal auditor must verify the operations of the system in much the same way as an external auditor i.e. by investigation, recording, identification of controls and compliance testing of the controls. However, the internal auditor is also concerned with:

The organisation's business being conducted in an orderly and efficient manner

Adherence to management policies and directives

Promoting the most economic, efficient and effective use of resources and achieving the management's policies.

Ensuring compliance with statutory requirements

a) Ensuring compliance with statutory requirements

b) Securing as far as possible the completeness and accuracy of the records

c) Safeguarding the assets

d) Evidence: The internal auditor has similar standards for evidence as an external auditor, he will evaluate audit evidence in terms of sufficiency, relevance and reliability.

e) Reporting; The internal auditor must produce timely, accurate and comprehensive reports to management on a regular basis. These should report on the matters outline in g. above and with the accuracy of information given to management and give recommendations for change.

i. Principles of audit reporting

It is the responsibility of the Internal Auditor to determine the type of an internal audit report to be issued,provided that such a report meets the intende objectives of reporting.Such reports will inevitably cover a variety of subjects reflecting the many activities and the ever incereasing ramifacations of the internal audit department. The reports will generally fall under the following broad categories.

Periodic reports prepared to cover a summary of the perfomance of the internal audit department or to summarise the audit findings and recommendations for the period under view. Reports on the results of individual audits, special investigations or enquiries; and annual reports assessing the effectiveness of internal controls in the Council throughout the year of operation.

ii. Objectives of Audit Reporting

The primary purposes of internal audit reports are to provide management with an opinion on the adequacy of the internal control system and to inform management of significant audit findings, conclusions and recommendations. The aim of every internal audit report should be:

a) To prompt management action to implement recommendations for change leading to improvement in perfomance and control;and

b) To provide a formal record of points arising from the internal audit assisgnement and;agreements reached with management.

The ‘Statements of Internal Audit Practice – Public Sector’ define the principle objectives of reporting as:

a) To alert management as soon as possible to matters of significance arising from the audit;

b) To persuade management to implement recommendation for changes leading to improvements in the system and its perfomance; and

c) To provide a formal record of points raised by the audit and, where appropriate, agreements reached with management.'

iii. Attainement of Objectives

I order to achiave these objectives the report must:-

a) Be written in a language that is easily understood by the recipient;

b) State the scope, purpose and areas of audit undertaken;

c) Maintanance of the standard of due professional care in the internal audit department's work is the responsibility of the head of the intenal audit unit. In order to ensure a high level of achievement, he/she must be assisted by sufficient staff both in quality and number.

iv. Independence:

Usually internal auditors are employee of LGA's and thus independence of an internal auditor is not always easy to achieve, however, it can be assisted by;

a) Having the scope to plan its own activities.
b) Having unrestricted access to records, assets and personnel.
c) Having internal audit personnel with an objective frame of mind,
d) Having internal audit staffs that have no conflict of interest (Millchamp 1986)[27]
e) Also internal audit should be independent and objective in the performance of its work. Internal auditors should be free from interference in determining the scope of an audit, performing work, and communicating results. FHFB (2007)[28]

According to Atanasiu (2007)[29] the outsourcing of internal audit has been a solution and is increasing the independence and quality of internal auditing activities than using the organization's employees as auditors. The independence of the internal

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[27] Millchamp, A.H (1986**), Auditing**, 4th Edition, Published by D.P Publications, Florida.

[28] Federal Housing Financing Agency (FHFB) office of supervision (2007), **Examination Manual Handbook,** Washington.

[29] Atanasiu P, (2007) **The Outstanding of Internal Audit**, Babes-bolyai University, St. Teodor Mihali.

auditors is sustained for eliminating the practical very often founded, and that is the supraconcentrate activity of the internal auditors with different duties which don't have to be in the area of activity of the internal auditor as defining of the procedures and methods of work, evaluating and supervising the employees of the company, administrative activities, effective financial control or different activities of inspecting.

The result of supraconcentrate activity for the internal auditor is the losing the independence and the objectivity of the internal audit. It is obviously that the internal auditor can't evaluate objective procedure defined by him.

To remove those problem there were developed new approaching for the internal audit function on the outsourcing partially or totally on the internal audit functions. The outsourcing assures the immediate access to the best practices, cost efficiency and assures level of risks with the same expenses or less.

Due care: Internal auditors should be to date technically and have personal standards of knowledge, honest, probity and integrity in Millchamp (1986)[30]

According to Lee (1993)[31] Auditors are not only to act competently and responsibly as professional but also to be able to justify their audit actions according to adequate standards of competence and care. Thus they must be aware of relevant standards and apply them appropriately in their work. They must also be sensitive to changing societal expectations which require their audit standards to vary over time. This is primarily what distinguishes professional from other organized activities.

Competence: According to Millchamp (1986)[32] internal auditing should be performed by person having adequate technical training and proficiency as an

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[30] Millchamp, A.H (1986**), Auditing**, 4th Edition, D.P Publications, Florida.

[31] Lee Tom, (1993**), Corporate Audit Theory**, Chapman & Hall, London.

[32] Millchamp, A.H (1986**), Auditing**, 4th Edition, Published by D.P Publications, Florida.

internal auditors. An audit must cover every element of the audit subject. For example, the IS auditor should ensure that all applications currently in use by end users are examined during the audit. All elements of the audit must be precise and error-free. The auditor must verify that all procedures and computerized processes produce correct results and that the measures used to evaluate these processes are error-free. When developing computer-assisted audit routines, for example, the auditor must test and validate all program code and algorithms before the routine is used.

Staffing: internal audit department within the organization must be adequately staffed in terms of number of workers, qualifications and experience.

Training: All internal audit staff should be fully trained so that Auditors become trained with current issues in the profession and finally become confident on their day to day activities.

Relationship: internal auditors should foster constructive working relationships and mutual understanding with the management, external auditors and an audit committee.

2.2.9 Planning of Internal Auditing

Planning is the process of determining in advance what to do, who to do, and how to do. It is formulation of the general strategy for the audit which set direction for the audit and describes the expected scope and conduct of the audit. Controlling involves monitoring of the effect of action against standard plans.

2.2.10 Planning, controlling and recording

TAS No. 1 on Auditor's Operational Standard requires that the auditor's work should be planned, controlled and recorded. Internal audit work should be planned, controlled and recorded in order to determine priorities, establish and achieve objectives and ensure the effective and efficient use of audit resources.

2.2.11 Audit planning

In ISA 300 (2009:259)[33], planning an audit of financial statements states that planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan.

i. The main purposes of internal audit planning are:-

a) To determine priorities and to establish the most cost effective means of achieving the audit objectives;

b) To assist in the direction and control of audit work;

c) To help ensure that attention is devoted to critical aspects of audit work; and

d) To help ensure that work is completed in accordance with predetermined targets. The Internal Audit Department should prepare strategic, periodic and operational work plans. The strategic plan should usually cover a period of between two to five years during which major systems and areas of activity will be audited. It should set out the audit objectives, audit areas, type of activity for a financial or calendar year translates the strategic plan into a schedule of audit assignment and allocates staff and other resources accordingly and should be formally approved by the Council Director.

ii. Factors affecting the Planning Process

The internal audit plan should be based on the knowledge of the entity's business. While developing the internal audit plan, the internal auditor should have regard to the objectives of the internal audit engagement as well as the time and resources

[33] ISA 300 (2009,259), International Standards of Auditing

required for conducting the engagement. In addition, the internal audit plan should also reflect the risk management strategy of the entity.

Planning an internal audit involves establishing the overall strategy for the engagement so as to keep the risks associated with the assignment at the acceptable level. Therefore, the planning process is also influenced by the internal auditor's understanding and assessment of:

a) The objectives of the activity being subjected to internal audit.

b) The significant risks associated with the above activity.

c) The risk management and internal control system instituted in the organisation to reduce the above risks to an acceptable level.

d) The possible areas in which the internal audit can suggest improvement to the risk management and/ or internal control system associated with the concerned activity

   The selection of engagement team (including, where necessary, the engagement team quality control reviewer) and the assignment of audit work to the team members, including the assignment of appropriately experienced team members.

e) Business developments affecting the entity, including changes in information technology and business processes, changes in key management, and acquisitions, mergers and divestments.

f) Industry developments such as changes in industry regulations and new reporting requirements.

g) Changes in the financial reporting framework, such as changes in accounting standards.

h) Other significant relevant developments, such as changes in the legal environment affecting the entity.

iii. Scope of Planning

a) Obtaining the knowledge of the legal and regulatory framework within which the entity operates.

b) Obtaining the knowledge of the entity's accounting and internal control systems and policies.

c) Determining the effectiveness of the internal control procedures adopted by the entity.

d) Determining the nature, timing and extent of procedures to be performed.

e) Identifying the activities warranting special focus based on the materiality and criticality of such activities, and their overall effect on operations of the entity.

f) Identifying and allocating staff to the different activities to be undertaken.

g) Setting the time budget for each of the activities.

h) Identifying the reporting responsibilities

2.2.12 The Strategic Plan

A Strategic plan is a framework for the of the audit unit for a term covering the planned services and allocation of resources matching planned work with available resources.

The Internal Auditor is responsible for the preparation of the strategic plan which contains the following information:

i. All departments which are subject to audit.

ii. The types, volumes and total values of transactions of audit interest at each department.

iii. The required frequency of visits to each department analyzed over the types of audit to be undertaken.

iv. The estimated person days per visit analyzed over the types of audit and the areas of activity to be examined.

v. Total estimated person days required to achieve full control, coverage and the period over which the Council Directors has approved its achievement.

vi. The actual person days spent in total and on each items in the strategic plan.

vii. The expired period of the current strategic plan cycle and the estimated period required to achieve full coverage.

2.2.13 The Tactical Plan

At least 14 days before the commencement of an audit on the approved tactical plan, the relevant senior auditor will prepare an operational plan showing:

(a) The type of audit and the audit tasks to be carried out.

(b) The types and levels of tests required for each task and the acceptable levels of error.

(c) Detailed instructions upon tasks assigned to staff with little experience of the area in question.

(d) Any unusual features or special aspects to be reviewed during the audit.

(e) Sources of information held on files other than the working paper file.

Operational work plans should be prepared for each audit assignment as it arranged, covering the following:

(a) Objectives and scope of audit;

(b) Time budget and staff allocation;

(c) Methods, procedures and reporting arrangements including supervision and allocation of responsibilities.

In ISA 300 (2009:259)[34], planning an audit of financial statements states that planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan.

2.2.14 Importance of planning an audit

According to Millchamp (1986)[35] planning in another way is important in auditing if the audit objectives are to be met economically, efficiently, to right time and cost constraints.

Initial audit planning takes place before the detailed audit work begins, and in planning for a specific audit assignment an auditor must adopt a strategy with regard to the nature, timing and extent of the audit work to be carried out. The objectives of the plan are to ensure that:

i. appropriate attention is devoted to the different areas of the audit;
ii. potential problems are identified;
iii. Audit review is facilitated.

The above points may seem obvious, however, without a structured and developed audit plan it is probable that (although the objectives may be met) audit resources

[34] ISA 300 (2009,259), International Standards of Auditing

[35] Millchamp, A.H (1986**), Auditing**, 4th Edition, Published by D.P Publications, Florida.

will not be used efficiently. For example, the adoption of an audit approach where equal prominence is placed on all areas of the accounts of an entity, would almost certainly not be as efficient as a risk based approach.

The detailed audit work is commonly carried out by a team of audit staff with varying degrees of skill and experience. It is therefore imperative at the planning stage that careful consideration is given to the assignment of work to the members of the team so that individuals are not required to carry out audit tasks which are beyond their level of competence. Similarly, at the planning stage, due consideration should be given to the co-ordination of work to be carried out by experts or other auditors if appropriate.

Whilst the plan for each audit assignment is unique most audit firms adopt a common method of approach on each assignment with standard documentation and check lists to ensure a comprehensive audit plan. In formulating a documented plan the following matters need to be considered:

i. Knowledge of the entity's business;
ii. Risk and materiality;
iii. Nature, timing and extent of audit procedures;
iv. Co-ordination, direction, supervision and review of the audit.

Detailed notes on each of the above matters are outside the scope of this article, but I would recommend that students should carry out further reading to ensure that they have an understanding of them.

An audit plan should be viewed as a structured plan of action mapping out the audit procedures to be carried out with the aim of reporting on whether a specified set of accounts show a true and fair view. However, the fact that the audit assignment is the commercial activity of the audit firm should be recognised, and if the costs of carrying out the planned procedures are likely to exceed the client entity's budgeted fee then this imbalance should be addressed at the planning stage by consultation with the management of the entity.

By its very nature the plan must be flexible and subject to change, dependent on the findings and events occurring during the audit process. Examples of findings or events which might lead to a revision to an audit plan include:

(i) Significant errors found in the processing of invoices through a sales accounting system. This could lead to a revision of the extent of testing and audit resources to be applied to the sales area of the accounts.

(ii) Notification from the management of an entity that audited accounts are required at a date earlier than previously notified. This could lead to revision of the timing of audit procedures with a consequent increase in audit resources being allocated to the assignment.

(iii) The revelation during the audit of the bank and cash area, of the existence of an additional bank account held by the entity but not previously notified to the auditor. This would lead to additional audit procedures being carried out in this area.

In summary, planning is an integral part of the audit process. Whilst the audit procedures carried out on specified audits will vary depending on the nature, size and complexity of an entity's operations, good audit planning is crucial if an auditor wishes to ensure that an audit is carried out in an effective, efficient and timely manner.

According to the author the following are the reason why planning is important, the intended objectives of achieving the audit objectives will be established, the audit can be controlled and directed. Attention can be controlled to critical and high risk areas, the work can be completed economically and to time scale requirement.

2.2.15 Limitations of the internal auditing function

According to Spencer (2003)[36], the following is the major limitation;

Independence

Internal auditor should be independent and be seen to be independent towards the objectives function. However this independence can be compromised particularly where reporting lines are through to operate areas which they are required to review and report on factors affecting Independence

Where internal auditing is too closely involved in the design of systems, It becomes difficult to stand back at a later stage and audit the same system. Where internal audit is over familiar with client may view its work as potentially based by the relationship.

2.2.16 Conflict of Interest

Can arise when the auditor can't stand back from the system. This can happen when the auditor has developed close relationship with the manager of operation under review. The practicability of the situation may make it difficult to preserve independence especially where internal audit report to finance directors. Careful approach has to be negotiated to secure the degree of independence that promote good audit work and rotational of auditors between assignments and gifts.

2.2.17 Relationship between internal auditor and external auditor

These two need to work closely together with reliance by external audit on the work of the internal audit. This depends on the two functions having a common understanding of the organization's needs and not always effective.

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[36] Spencer K.H, (2005), **The Essential Handbook of Internal Auditing**, Wiley Publishing, Indianapolis.

2.2.18 Understanding of internal audit

There is a general understanding of the function of the internal audit. It is still seen as a negative policing activity checking for compliance.

There is therefore a significant education exercise for internal auditors with an organization to aid understanding of risks, control and internal auditing. To achieve effectiveness and efficiency the scope of internal audit function should provide an unrestricted range if coverage of the organization’s operation and the internal audit should have sufficient authority to allow his access to such records, assets and personal as are necessary for proper fulfillment of this responsibilities.

2.2.19 Audit reports

From Federal Housing Board (FHFB)[37] examination manual April 2007. Audit report is a culmination of the work that was performed. The audit report should be accurate, objective, clear, concise, constructive and timely.

If appropriate, satisfactory performance should be acknowledged. The report should include the engagement’s objectives and scope as well as applicable conclusions, recommendations, action plan and where appropriate contains the internal auditor’s overall opinion.

According to Carmichael (1996)[38] audit reports are essentially a good communication device within the organization. In summary in conveys clearly and concisely a highly technical subject to a variety of interested readers and users.

2.2.20 Types of reports prepared by internal auditors

According to Gupta (1976)[39], some types of the reports which are prepared by internal auditors are:-

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[37] Federal Housing Financing Agency (FHFB) office of supervision (2007), **Examination Manual Handbook,** Washington.

[38] Carmichael D.R (1996), **Auditing Concepts and Methods**, Mc Graw- Hill Co, London.

Project report

These are reports prepared by the auditors which involve a comprehensive thorough fact on all aspects of the project carried out within the organization. The report include the quality of the project's work, whether or not the project meets the organization's needs which is project closure, resources expected and required, the suitability schedule of the work done, comments and recommendations. Relevant answers. Tell project stakeholders what has been accomplished and what else needs to be accomplished to finish a project. Also alert leaders and executives, especially project sponsors, to project needs and issues

Memorandum reports

These are reports which are prepared by the auditor in charge of the follow up review to the management that notifies that the audit activities are underway and describes the follow up process. The memorandum includes framework for the work, copy of the outstanding findings or observations and notification that the results will be reported to the senior management.

Follow up reports.

These are reports prepared by the auditor which list all actions taken by the management to solve the original report findings. The unresolved findings will also appear in the follow up report and will include a brief description of the findings, the original audit recommendation, management response and the current condition. The audit methodology, supervisory review and working papers are critical to the audit process. Working with evidence that is in transparent form (e.g., CDs, magnetic tapes, magnetic disks and optical disks) requires complete, pertinent and accurate reports. The audit and working papers should be evaluated on the basis of the following criteria:

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[39] Gupta K, (1976), **Contemporary Auditing**, 1st Edition, Mc Graw- Hill Publishing Co. New Delhi.

Compliance reports

These are reports that the auditor prepares for checking and ascertaining the compliance with the laws, range of regulations and other requirements of the relevant government programs, agencies or GAAP. Another important component of an effective compliance program is a formal documented system for reporting material compliance matters to the top management, so they can effectively perform their oversight and policy-making functions. And, of course, the top management should permit and encourage appropriate access to compliance personnel to perform the reporting function.

There should be a process to identify applicable laws and compliance risks. An effective documented compliance program, based on evaluation of risks and controls, should be established and communicated throughout the firm. The priorities and processes of the compliance function should be consistent with this assessment and the firm’s business and risk management strategy and structure. For example, a firm need not build a strong compliance system to cover variable annuities or hedge funds if it does not offer these products. And a one-person firm that executes a few transactions each day does not need sophisticated technology to ensure compliance, while manual monitoring and surveillance at a large firm with hundreds of branches would hardly seem adequate.

Risk reports

These are reports which are prepared by the auditors giving details of the strategy set across the enterprise designed to identify potential events that may affect the entity and how to manage them so as to provide reasonable assurance the achievement of entity’s objectives. Risks are assessed on an inherent and residual basis. Risk management is important because every project of any size is risky no matter how much planning you do. However if you don't at the very least think of the risks and then try to mitigate them, then your project has a great chance of failing. It is for this reason that you will need to fill in and update your highest project risks each week in your weekly project report and be ready to escalate them if required. Further managing risks allow you to highlight them to your project stakeholders so managing their expectations. You will quickly find in the real world that being able to manage expectations is one of the most important traits a project manager needs to have.

Monthly and annual reports

These are reports for mainly two purposes: Communicative outcomes of internal audit activities. The reports conveys significant issues identified and addressed, progress toward ongoing improvement and corrective actions, and continuing addressed facing the organization and compliance efforts. Also demonstrate the accountability of the Internal audit program. The reports address utilization of the resources, performance metrics and benchmarks and adherence to professional standards and Internal Audit Charter.

2.2.21 Reliance on internal audit

ISA 610 considering the work of internal auditor's states:

The external auditors must consider the activities of internal auditing and their effect if any, on external audit procedures. An external auditor may be able to place reliance on the internal audit function as a means of reducing the work he / she performs in such areas as; evidence collection on accounting systems and internal controls and compliance and substantive testing. Before placing reliance on internal audit work the external auditor should assess the effectiveness of internal audit. We find that external auditors are more likely to use internal audit to evaluate internal financial controls than for substantive testing of account balances. Further, there are no significant differences between external auditors' use of work already undertaken by internal auditors and their use of internal auditors as assistants. Internal audit involvement in systems consultancy activities impacts the extent of external audit reliance on the work of internal audit. However, whether the function is outsourced or provided in-house does not generally impact their reliance decisions. An exception is that, even though external auditors' use of internal auditors for substantive testing is not great, they are more likely to use in-house internal auditors to assist with these tasks.

Any control system intends to ensure that the intended objectives or targets of an activity are fulfilled. This implies that financial management control system should target to achieve the financial goals of an organization. The tools for financial management control include planning and budgeting, proper record keeping, good information system, quality staff, as well as reporting and accountability mechanism.

2.3 Financial operations in MMC

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

Expenditure responsibilities of Local government are assigned to local government. According to the According to Act No. 7 (1982) (as amended in 1999), the objective of the local government in performing their functions is to give effect to the meaningful decentralization; to promote participatory and democratic decision making; and to provide local government services in an efficient cost-effective manner . Local Government revenue sources are specified in the Act**.** According to the Act Local Government essential depends on four key sources for financial resources: own revenues, shared revenues, inter governmental grants from the central government, and donor assistance. Moreover, the local Government Act specifically authorizes local governments to receive gifts, including resources donated by donor agencies and non-government organization.

2.4 Financial control organs

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

(a) **The council**

The council is responsible for all decisions of the authority. According to Act No. 7 (1982)[40] one of the functions of the council is to establish and maintain a reliable sources of revenue and others in order to enable LGAs perform their functions effectively and to enhance financial accountability. The council is also required to formulate, coordinate and supervise the implementation of all plans for the economic, commercial, industrial and social development of its areas of jurisdiction .The council is responsible for making standing orders and financial regulations that guide the administration of its finances.

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

(b) **The finance committee**

The process of a committee meeting can seem rather perfunctory. In all councils, there is a procedure whereby the meeting proper is preceded by a call-over, which allows councilors to ask officers detailed questions about the reports (Cook 1993)[41]
The law enquires the establishment by each council of a finance, administration and planning committee, generally known as finance committee. The finance committee is entrusted with the general duty of regulating and controlling the finances of the LGAs.

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[40] Local Government Act. No.7 (1982), Dar es Salaam Government Printers, Tanzania.
[41] Cook P. (1993) **Local Authority Financial Management and Accounting**, Longman Group UK

Looking at the powers vested in the Council finance committee, the expectation is to have proper and effective financial controls over the council fiancés. Studies conducted in various councils indicate that, these council organs cannot exercise the duties as required due to low education of the councilors**.** In the cited studies, the conclusion is that poor financial management is partly due to the poor education of the councilors on the most cases accounts reports are so detailed and confuse councilors.

(c) **Control by the Director**

The director is the Accounting Officer of the Council. According to section 33(4) of the Local Government Finances Act no. 9 of 1982 and Local Government Finance Memorandum order 4 of 1997. Thus the director is responsible for accounting for any service in respect of which monies have been appropriated by the authority and for issues made to the authority from the exchequer account. He is also responsible to make certain that the councilors are regularly kept informed of the financial affairs of the council.

(d) **The Treasurer and Heads of Departments**

In the local authorities, the treasurer is the principal advisor to the council on all financial matters. He is also responsible for the preparation of the annual estimates, maintaining sound accounting system and safekeeping of all supporting documents.

(e) **Control through the Budget**

Local authorities are by law required to prepare annual budgets and supplementary budgets and these must either have the consent of the Minister or approved by the council. LGAs have two types of budgets, one which developed and approved by the authority concerned and two that which comes from Central Government in form of grants. The first budget is passed by the Council as per Act no, 9 Section 43(1).

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

a. Expected to be received, and
b. Expected to be disbursed by the authority during the financial year.

The authority is there required to confine the disbursement within the items and amounts contained in the applicable estimates approved.

As a tool of financial control, the budget is expected to fulfill the rule of rendering accountability to the legislature and also to serve as a tool of management within the LGA.

(f) **Internal checks and Balances**

The director and Treasurer of local authority are required by financial regulations to apply a system of checks and balances for internal control. Creating checks and balances is one of the best ways to help a business thrive. In a business system that uses checks and balances, roles are more clearly defined. Creating checks and balances allows you to implement an accounting system that promotes separation of duties. Implementing checks and balances in your business is instrumental in helping you identify internal and external theft.

(g) **Internal Audit**

The Act stipulates that each local authority is required to employ its own internal Auditor. The auditor shall work closely with the treasurer but reports directly to the Director. The Internal auditor is responsible for carrying out a review of financial and related systems of the council to ensure that the interests of the council are protected hence he/she is part of the internal control of the Council. This is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called internal auditors are employed by organizations to perform the internal auditing activity.

The scope of internal auditing within an organization is broad and may involve topics such as the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with laws and regulations.

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

2.5 Research gap

On review of literatures of the essential handbook of internal auditing, Spencer K,H and others suggested that , the performance in the Local Authorities to be more effective, concerns on budget, staffing, job description and strong internal audit unit needs much more emphasis. The research still had a puzzle as to why the above suggested procedures have not worked out to curb down frequently unfavourable financial management reports against LGA’s.

2.6 Summary

In this chapter I have reviewed the theory of Internal audit and literature related to improving the performance of Local Government authorities in Tanzania. Useful points that seem to be beneficial to the study is the argument that success of council services and efficient implementation of its development projects depends on strong and sound internal audit in managing its finance.

Understanding of the principles of finance and adherence to them is of utmost importance entailing that all concerned with council finance should understand them as the council would have strong internal audit, better planning and budget processes and better project implementation practices achieve better performance in day to day activities.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodological framework of the study. The research methods employed for the purpose of this study included the review of documents related to the study area of local government financial management systems. This method has been very resourceful to the research in obtaining relevant information for the study.

This part of the proposal provides the research methodologies, ethical issues related to the study, validity and reliability of the data that was collected, procedures and techniques, which was adopted during the execution of this study. It describes the methods and tools that used in data collecting, and it further describes the area of the study, as well as its characteristics, study population, samples and sampling techniques to be used. Finally, this part describes how the gathered data presented, and it provided the techniques and procedures for data analysis, as well as the tentative limitations anticipated to affect the study.

3.2 Study area

This study has been conducted in Morogoro Municipal Councils. In studying the role of internal Audit in MMC I will be able to examine the performance of Internal Audit Unit, to find the factors affecting the role of Internal Audit in MMC. Finally to give recommend measures that needs to be introduced in order to enhance the performance of the Internal Audit Unit in MMC.

The reason behind the selection of this case study was that MMC is one among LGAs of Tanzania it is also is easily accessible therefore easy in collection of data.

3.3 Unit of Inquiry/analysis

In this study unit of inquiry were individuals from among council staff and officials from NAO Morogoro.

3.4 Samples and sampling method

Since the study required responses from a wide range of respondents, the researcher employed simple selection techniques in order to select a representative sample of all different categories needed to meet the demand of the research questions, The categories of respondents represented in the sample included- council staff and officials from the National Audit Office (Morogoro resident Auditor's office) A sample of 43 respondents was selected from the population. It consisted of 13 respondents from the council working in the finance section.

3.5 Data collection Methods and Techniques

The methods employed to collect data were questionnaires, interview and review of documents. Both qualitative and quantitative data were collected from primary and secondary sources.

3.5.1 Questionnaires administration

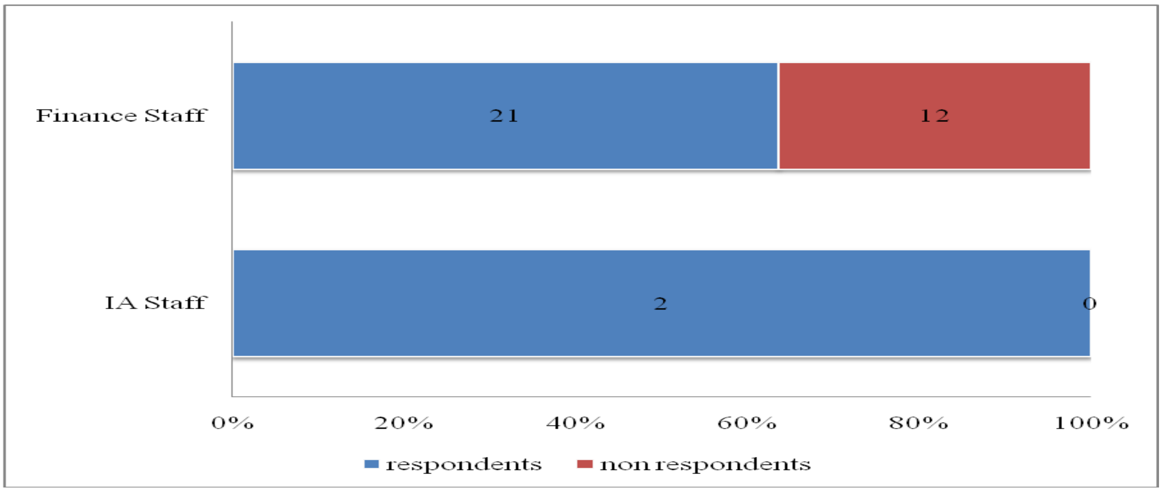
This method was used to collect data from staff in the Internal Audit Unit and the Finance Department duty to the fact that these two department are highly involved in financial affairs of the council and thus in the researchers perception they were in the form of multiple choices where the respondents were required to put a tick against the answer of his/her choice. For open ended questions respondents were required to filling the blank spaces by giving their opinions. Questionnaires in English (Ref. Appendices B and C)

Table 3.1: Describes the composition and number of respondents given questionnaires.

Table 3.1; Composition and number of respondents given questionnaires

Designation	Sample Size	Respondents	Percentage (%)
IA Staff	2	2	100
Finance staff	33	21	64
Grand Total	**35**	**23**	**66**

Source: Research findings MMC



Source: Research findings MMC

3.6.2 Interview

Interview techniques were used for obtaining information directly from respondents the technique was more resourceful because it provided for opportunity to ask follow up questions where the first response seemed insufficient. Also, it gave the respondent a chance to ask questions as well making the communication process between the researcher and the respondent more meaningful.

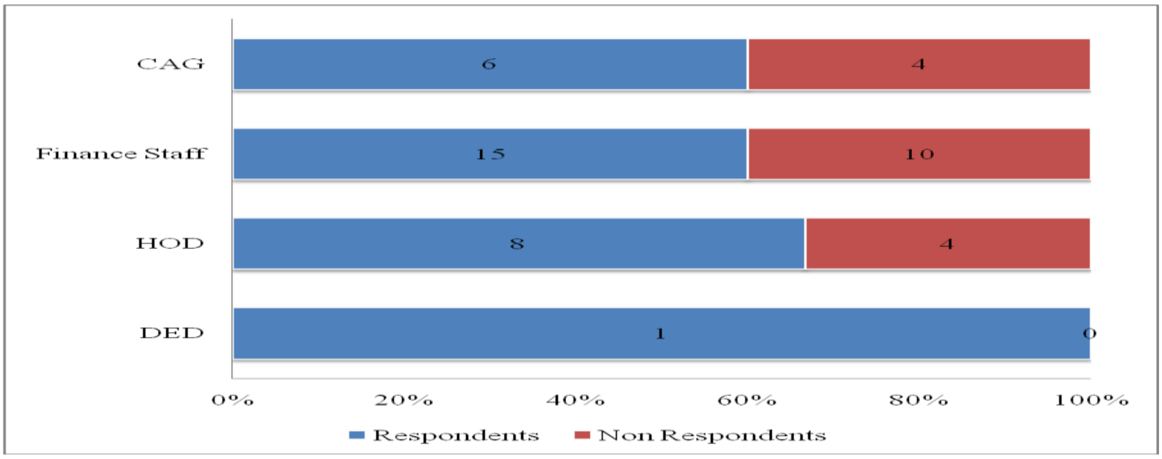
Interviews were necessary for drawing detailed information from key respondents like DED heads of department and staff of the finance section of MMC. Also the researcher interviewed respondents from CAG at Lindi at resident auditor's office.
In this study interviewed were used as a means for obtaining additional data beyond that which was expected to be collected through questionnaires. This method created a dialogue between interviewees and interviewer. It led to smooth flow of Data from the respondents to the interviewer.

Table 3.2: gives details of the composition of the sample of interviewees.

Table 3.2: Composition and number of interviewees

Designation	Sample Size	Respondents	Percentages
DED	1	1	100
HOD	12	8	67
Finance staff	25	15	60
CAG Officials	10	6	60
Grand Total	**48**	**30**	**63**

Source: Researcher Finding



Source: researchers' analysis

3.6.3 Review of Documents

This was another method used to obtain secondary data for the study. The researcher accessed the MMC documents produced internally and other instructive documents and manuals received from different authorities. The documents consulted from MMC were; the Annual final financial statements, CAG reports on audited financial statements for financial with their respective management responses. In addition; the Local Government Finance Act 1982, the local Authorities Financial memorandum of 1997, the above mentioned three years quarterly internal audit Reports and management responses thereof.

3.6.4 Observation

This was the method to obtain primary data for the study. The researcher was some time involved in the processing of office transactions in MMC. Thus he was able to observe the procedures and all applicable documents that generalize the finance system of MMC.

3.7 Data Processing and Analysis

Data collected had to be processed and analyzed descriptively using simple comparison approaches such as percentages. The data were summarized and presents, some in narrative from and others in tabulated from. efore you decide what to wear in the morning, you collect a variety of data: the season of the year, what the forecast says the weather is going to be like, which clothes are clean and which are dirty, and what you will be doing during the day. You then analyze that data. Perhaps you think, “It’s summer, so it’s usually warm.” That analysis helps you determine the best course of action, and you base your apparel decision on your interpretation of the information. You might choose a t-shirt and shorts on a summer day when you know you’ll be outside, but bring a sweater with you if you know you’ll be in an air-conditioned building.

Though this example may seem simplistic, it reflects the way scientists pursue data collection, analysis, and interpretation. Data (the plural form of the word datum) are scientific observations and measurements that, once analyzed and interpreted, can be developed into evidence to address a question. Data lie at the heart of all scientific investigations, and all scientists collect data in one form or another. The weather forecast that helped you decide what to wear, for example, was an interpretation made by a meteorologist who analyzed data collected by satellites. But collecting data is only one step in a scientific investigation, and scientific knowledge is much more than a simple compilation of data points. The world is full of observations that can be made, but not every observation constitutes a useful piece of data. For example, your meteorologist could record the outside air temperature every second of the day, but would that make the forecast any more accurate than recording it once an hour? Probably not. All scientists make choices about which data are most relevant to their research and what to do with that data: how to turn a collection of measurements into a useful dataset through processing and analysis, and how to interpret those analyzed data in the context of what they already know. The thoughtful and systematic collection, analysis, and interpretation of data allow it to be developed into evidence that supports scientific ideas, arguments, and hypotheses

Most of the findings have been analyzed. Descriptively because that was the most appropriate approach for analyzing the types of responses obtained in this study.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDING AND DISCUSSION

4. 1 Introduction

This chapter presents and analysis of the assessment of the role Internal Audit in improving the LGAs in Tanzania. Particular focus of the findings is on the case of Morogoro Municipal Council. Morogoro Municipality is the Regional Headquarters of Morogoro. It is one of the oldest towns in the history of Tanzania by then Tanganyika in the 18th century. Arabs used Morogoro as a stop over and route for slave caravans from the hinterland to the coast before shipping them to the far-east through the Indian Ocean.

Its inception as a township is said to have come at the end of the 19th century when it has a population of about 3,000 people. At that time the missionaries developed interest in this little settlement with the aim of getting control of the already spreading slave trade. They built a church and few buildings at Kigurunyembe, only four kilometers from the present town centre. The place later was established to be Teachers' Training College we have today known as Morogoro Teachers' College

As a settlement, by then, the indigenous name of Morogoro town was "Bungo Dimwe". It was during this period of 19th century that the name Morogoro was invented. Also at that time there were Germans who were busy converting Morogoro into a provincial headquarters of the Eastern province of German East Africa later Tanganyika. the majority of the indigenous population belonged to Luguru tribe.

Although, initially the inhabitants were mainly of the Luguru tribe, the composition of the current population is getting more cosmopolitan due to the influx of workers, businessmen and fortune seekers from different regions of Tanzania, as well as from outside the country.

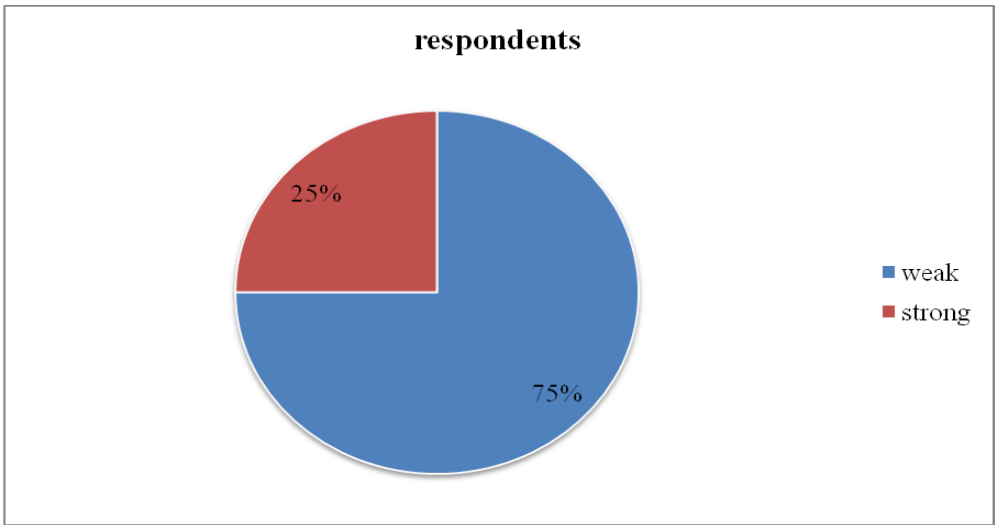
The chapter is organized in four areas that commensurate to the research questions of the study. The areas cover the internal controls, Expenditure by approved budgets, the functioning of internal audit unit, and job description and specification of the staff in the finance section (department) in MMC. The findings presented in this chapter have been analyzed both qualitatively and quantitatively.

4:2 Internal Controls in MMC

Table 4.1: Regarding Internal control Interviewee

Sample size	Respondents	Percentage
12	**9**	**75%**
12	**3**	**25%**

Source: Researcher Finding MMC



Source: researchers' analysis

In this study, the researcher found that; nine (9) respondents out of 12 interviewees (75%) mentioned major weak area of internal control in MMC being ineffective of unauthorized persons entering freely to sensitive areas of the finance department such as the cash office and the treasure's. They also mentioned random access payment vouchers/documents by unauthorized person, irregular movement of files to other places by individual payee and skipping proper payment procedures.

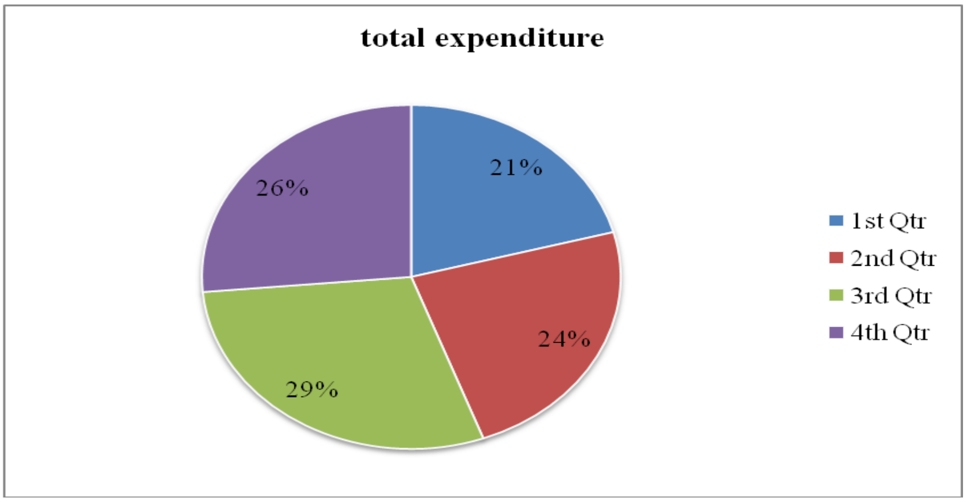
The study also found that, MMC like other councils in the country operates its finances in accordance with the local Authority Financial Memorandum, 1997. Among the requirements for enhancing the sound internal control system is to conduct internal audits quarterly. On reviewing the internal audit reports of MMC for 2006/2007 and 2007/2008 financial years, the study observed increasing rate of improperly vouched expenditure as presented in Table 4.1 and Table 4.2

TABLE 4.2; Council expenditure against Audit queries for the year 2007/2008

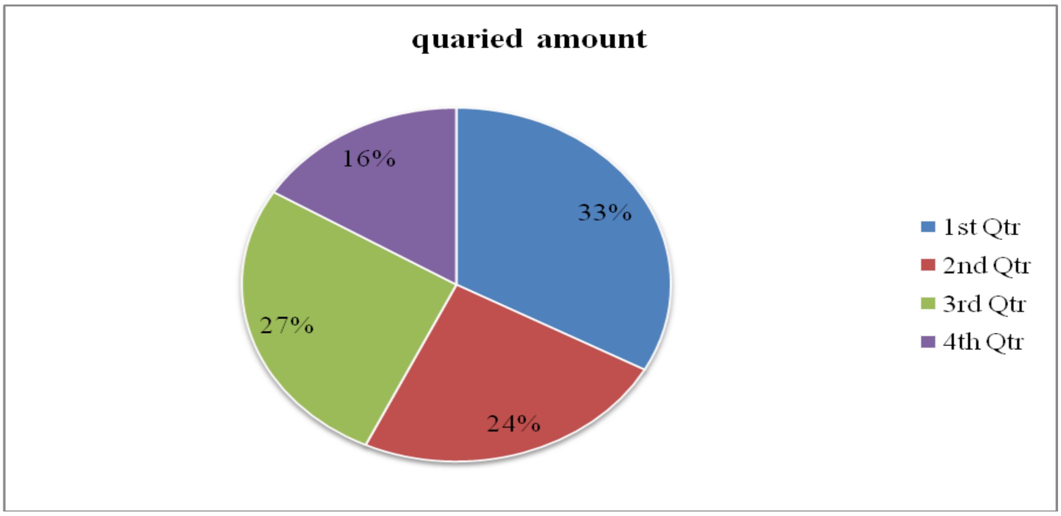
Quarter	Total Expenditure	Queried amount
1	795,204,11.00	55,347,892.00
2	902,345,678.00	40,211,003.00
3	1,116,231,789.00	45,005, 678.00
4	1,009,095,674.00	27,223, 987.00
Total	**3,822,877,253.00**	**167,788,560.00**

Source: Morogoro Municipal council Internal audit reports for 2007/2008

To get a visual sense of the above information, the data was presented in a pie chart as it appears below;



Source: researchers' analysis

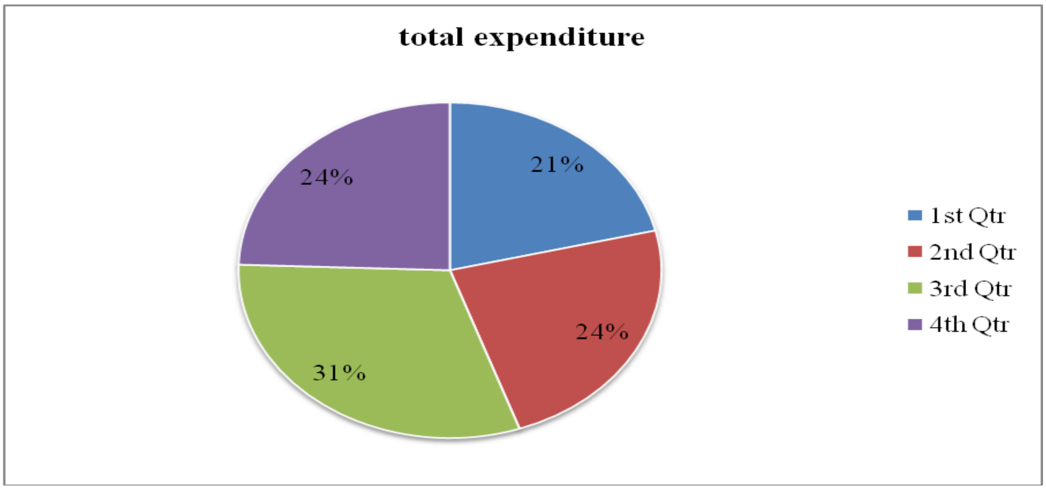


Source: researchers' analysis

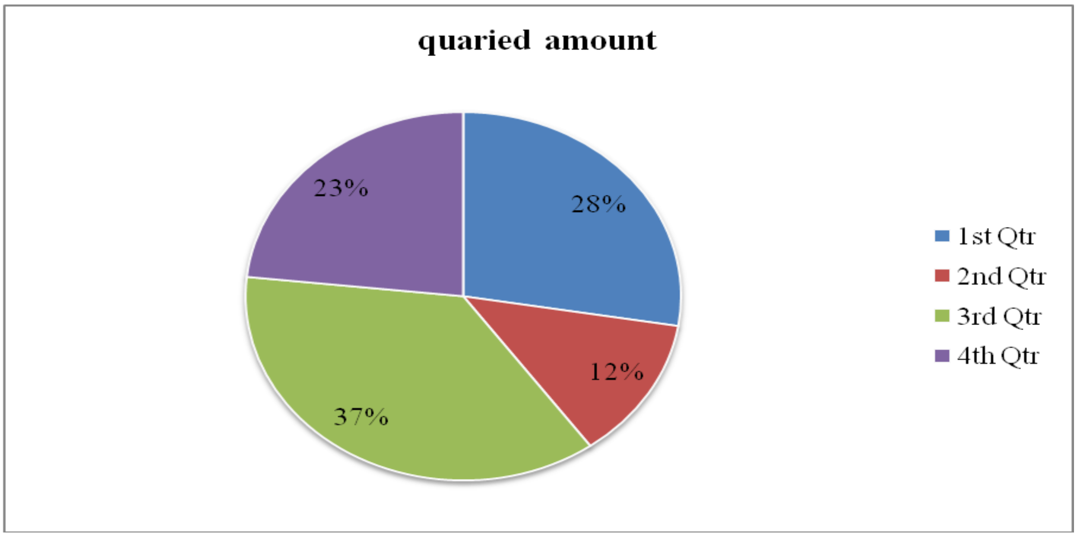
Table 4.3: Council expenditure against Internal Audit for the year 2006/2007

Quarter	Total Expenditure	Queried amount
1	953,401,674.00	67.031,178.00
2	1,056,345,680.00	30,408,320.00
3	1,388,761,212.00	88,895,500.00
4	1,100,655, 380.00	56,674,422.00
Total	**4,499,163,946.00**	**243,009,420.00**

Source: Morogoro Municipal Council audit reports for 2006/2007



Source: researchers' analysis



Source: researchers' analysis

Major parts of the internal audit reports of MMC address irregularities against the adherence to internal control procedures. For the two consecutive financial years as presented above, the council had an increasing rate of improperly vouched expenditure in which the audit reports pointed irregularities on the part of approval, documentation and attachment as the main cause.

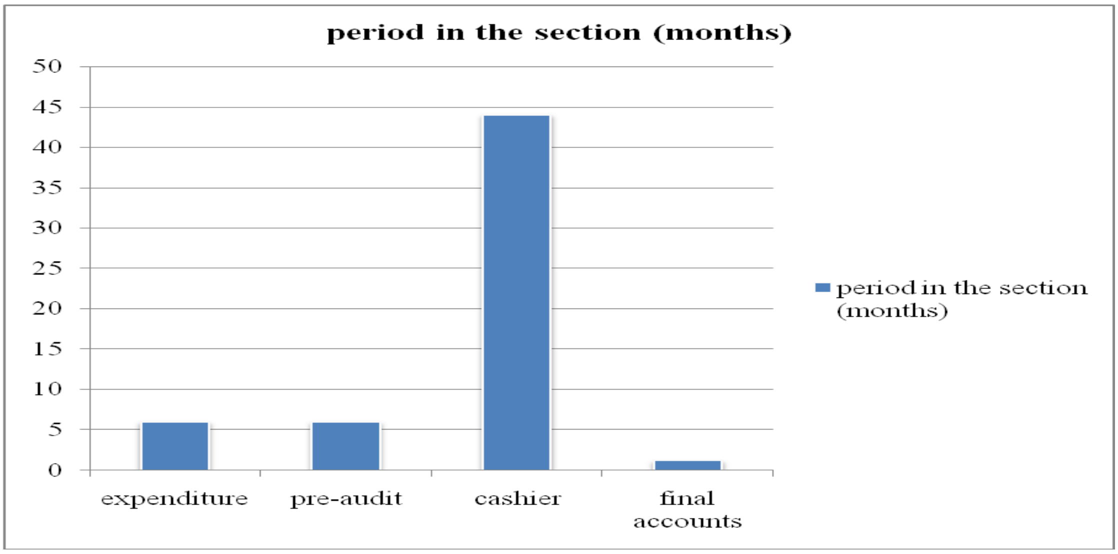
Other matters relating to internal controls which the study observed was the transfer and movement of staff; in this area it was seen that in the finance section the problem of understaffing and insufficient fund in the leave travel code often caused many employee not to be allowed to go for annual leave. But as you can see in the schedule above an expenditure has been increasing from the second quarter to the fourth quarter but an internal control in the council has been effectively undertaken to ensure that irregularities in using the Government fund was minimized as the % of queried expenditure reduced from 6.4 to 5.15 in the fourth quarter.

Regarding Council expenditure against Internal Audit, table 4.3 above the researcher looked at procurement plans and found that the council prepares procurement plans for each department each year for which procuring department has to follow whenever they demand to purchase. Those procurement plans describes each item to be purchased, the date and the procurement method that would be applied i.e. single sourcing, contract biding etc staff appointed to sections and the period they have been in those sections. That is why the percentage (%) of queried amount against the total expenditure for the year has been increased in a decreasing rate as irregularities in using the Government fund were minimized.

Table 4.4; Main sections of the Finance department in MMC and Duration of staff in those sections

Section	Period in the section(month)	Education Level
Expenditure	6	Advanced diploma
Pre – Audit	6	Postgraduate diploma
Cashier	44	Advanced diploma
Final Accounts	16	Form four
		Advance Diploma

Source: MMC



Source: researchers' analysis

In this study through interview regarding to finance department, eight (8) respondents out of twelve (12) interviewees, said they would be happy in the job if they are shifted from their current positions or sections because they wish to master all the sections of the finance department, other staff said they feel bored because the workload in their positions is too heavy and thus they admire the position of others. The researcher looked at procurement plans and found that the council prepares procurement plans for each department each year for which procuring department has to follow whenever they demand to purchase. Those procurement plans describes each item to be purchased, the date and the procurement method that would be applied i.e. single sourcing, contract biding etc.

4.3 Expenditure by Approved Budget

MMC like other councils every year prepares the recurrent and capital expenditure budget under the "Medium Term Expenditure Framework" (MTEF) which is normally a part of the Council's three years strategic plan. The budget control found by the study that is in place for MMC is the planning and reporting database "plan – rep" in which expenditure data are entered into that system after the payment have already been made. Thus the main control tool during expenditure approvals is the manual vote – book, more often enters in the vote – book are made after the transaction has been authorized.

In responding to the question that what are the reasons led the council to obtain a qualified audit opinion, 15 out of 21 respondents (equivalent to 71%) mentioned that " expenditure were not as per approved budget" being the major reason for the failure to obtain an unqualified audit opinion.

In this study analysis were made to cross – check the annual expenditure against the annual approved budget by picking – up a single department among MMC's departments. In this respect therefore, data for the agriculture department relating to expenditure against approved budget for the year 2007/2008 were obtained in Table 4.5:

Since the vote – book control in place is not an automated system , the level of over expenditure in some items such as Diesel, Perdiem domestic, spare parts, motor vehicle & water craft and office consumable are relatively high, frequently direct alterations on the activity codes is done, slowly performed activities are never completed and are easily substituted by overlapping activities due to the fact that codes alteration is easy.

The study found that, MMC has a program to motivate the staff of the finance department by paying them extra duty allowances of twenty days in each month which is neither indicated in the finance Department's budget nor the general fund budget, but rather those staff are allocated to other departments for the purpose. Also the researcher noted that allowances from those departments are not in the budget even though those allowances were always paid from item no. 221005 (perdiem allowance) that is over expenditure by 19.5% from the budget.

4.4 The function of the Internal Audit Unit

Responding to the question of whether the management is effective in addressing financial management irregularities, 100% of the respondents said yes. This implies that MMC notwithstanding the prevalence of some sort of inefficiency in – terms of financial management, it is continually striving to overcome that challenge.

Through questionnaire, 100% of the respondents from the Internal Audit unit when listing the challenges encounter when trying to accomplish the audit work as per their plans, said mainly an insufficient budget allocation lead their section being continuously dependent to their clients, They further said that insufficient budget and lack of working facilities such as computers, printers, transport facilities have been their major obstacle for them to perform their tasks efficiently. For example they are unable to reach and verify existence of council projects and it is difficult to undertake value for money audit.

In connection with the functions of the internal audit a document detailing an internal Audit's action plan for Morogoro Municipal council for financial year 2007/2008 and 2008/2009 have been presented to this report as ***Appendix A***

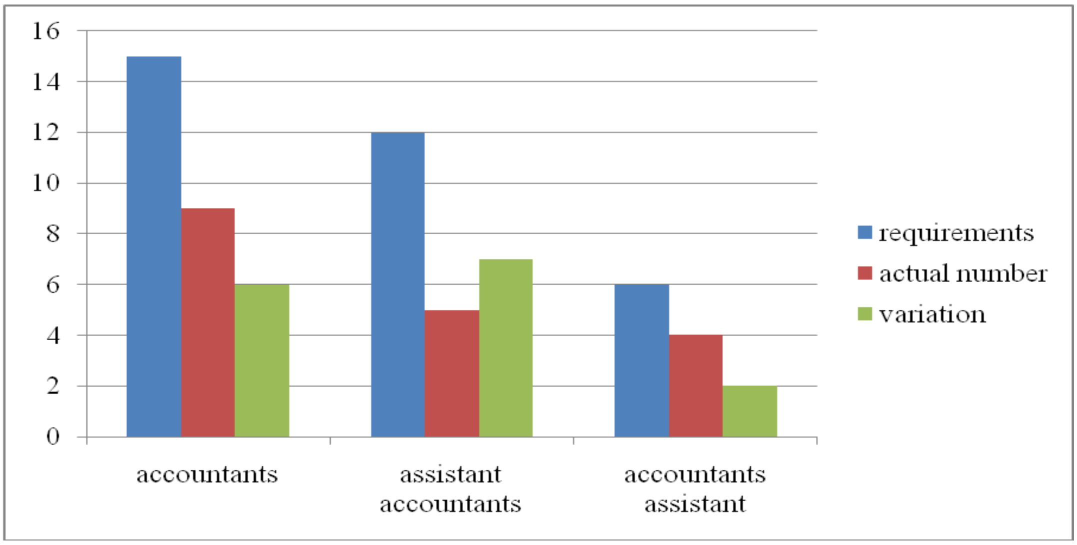
4.5 Job description and Job specification of staff in the finance Department.

The status of a number of staff in the finance department is as presented in Table 4.6

Table 4.5 number of staff in the Finance department

Category	Requirement	Actual Number	Variation
Accountants	15	9	6
Assistant accountants	12	5	7
Account Assistants	6	4	2
Total	33	18	15

Source: MMC finance Department



Source: researchers' analysis

According to the personnel establishment of the finance department in MMC the organization need to have fifteen (15) accountants, ten (12) assistant accountants and six (6) accounts assistants. In this study, the finding in – terms of the number of staff currently employed to work in the finance department was ni (9) accountants, five (5) assistant accountants and four (4) accounts. However the above number of staff said to be present was as per the recruitment status, some of them were in colleges for further studies.

When the management was interviewed on how they manage to operate its fiancé with that few number of personnel perhaps some of them being allowed to join studies at colleges and universities. The response was that in order to overcome the heavy workload, the council covers the gap by taking staff from the council cooperative section and of them having graduated in Advanced Diploma in Accountancy to fill the available gaps. Therefore during the period of study the problem of understaffing could not be observed directly. Also the researcher found that some sections in this department seem to have relatively heavy workload than others.

When the researcher interviewed the council Treasurer on whether there is a written documentation of job description for each employee of the finance department, he responded that the job description for each staff is always specified in his/her letter of appointment. Once they accept the offer, they are assigned to work under the supervision of the expenditure Accountant who is entitled to coordinate the activities of all accountants. He further explained that there are other accountants assigned to sections by written letters specifying his/her responsibilities in that section some of them being different from those originally stated in the letter of appointment.

The study also assessed whether accountants in MMC have chances to attend professional meetings, workshops, training and symposiums and how often approximately do they have that chance in a year. Sixteen respondents out of twenty one (21) which is equivalent to 76 percent said that the possibility for that opportunity to occur may exceed twice a year. At the end of every financial year before commencement of preparation of final accounts, all accountants in MMC responsible for preparation of final financial statements attend an internal training purposeful to update them with new requirements and standards of financial and non financial information.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction of findings

This study focused on the role of internal audit in improving the performance of LGA in Tanzania, the study was done in MMC. Information was collected from (48) respondents who were DED, Head of departments, and CAG officials. Those data collected had been very helpful for the researcher in address the problem of effectiveness in Internal audit system and propose the best step forwards for improving the system.

5.2 Summary

The study findings on the role of internal Audit in MMC revealed that though the management is aware of the need to strengthen procedures and principles guiding the authorization and access of organization's assets and documents, still there are some weaknesses as observed by the researcher as well as highlighted by the respondents in the findings. Under the researcher's perception, minor weaknesses observed in internal controls might be caused by management's incapacity the tools applicable.

Internal Audit reports observed that irregulaties in the payment system were improper approvals; improper documentation and attachment thus resulted to an increasing rate of improperly vouched expenditure year after year.

This observation implies that even the Internal Auditors recommendations do not work out to curb down those irregularities for strengthening the internal controls systems.

The findings on internal controls also revealed that though the financial regulations for all local authorities requires the management to rotate staff in their duty sections and stations to reduce the risk of fraud and on the other hand to make all staff conversant in their field to all sections of the organization, for MMC the findings reveled a satisfactory rotation of staff been undertaken periodically.

Employment regulations and terms between the employer and employee clearly stipulates that every staff of the local authority in Tanzania should be allowed to go for leave once every year, the leave duration is normally 28 days . The reason for this provision is to make staff rest, refresh and hence feel comfortable with their onward tasks, moreover, having allowed to vacate for leave the management is always in good position to make track and examination of all records and documents and all undertakings of the staff, on leave, thus it facilitates them to catch any hidden information, error of fraud.

On assessment of council's expenditure versus approved budget, first of all the study findings revealed that no automated is in place to simplify the planning budgeting and budgetary control activities, as a result the rate of over expenditure on some common items like fuels and allowances continues to exist. The findings also revealed that the categorization between capital and recurrent expenditure has become chronically a difficult task and an obstacle for the council to obtain clean certificates,

Moreover , since the system is not automated, chance of errors and frauds are high, credibility over the management towards financial management continues to decline. For instance, if a department of the organization is able to pay items out of the budget as it was the case in extra allowances observes to be paid several times though it was not in the budget, it is an indication that the approved budget is not followed because we can question ourselves that where does that money come from!

The findings on the functioning of the internal audit showed a good performance in relation to reporting and recommending on irregularities to the council management.
The modality of reporting is; the head of internal audit unit report to the council management team (CMT) chaired by DED, then the DED forward the minutes

of the meeting to the (CMT) chaired by the council mayor/chairman, which is then forwarded to control assembly meeting. A contradicting observation was whether is it possible for the council management team led by DED forwarding objective internal audit report to the councilors knowing that the contents presents the undertaking of the whole management team with the DED inclusive.

5.2 Conclusions

Basing on the study discussed in the previous chapter, the general conclusion of the study is that Internal Audit in MMC is slightly effective; however the study makes the following specific conclusions.

(i) In terms of the councils' internal controls, for MMC, still there are some weaknesses in terms of enforcing organizational procedures and principle guiding the authorization and access of organization's assets and documents.

(ii) The study noted an increasing rate of improperly vouched expenditure year after year often associated with improper approvals and authorization of transactions by improper authorities and above their authorization limit.

(iii) The study on expenditure controls observed an existence of over expenditure on some common items like fuels and allowances being mainly caused by non existence of a reliable automated or computerized system for budgeting and accounting activities.

(iv) The study on the functioning of the internal audit unit revealed a weakness only on reporting channel.

5.3 Recommendations

Following the above conclusions, the following recommendations for improvement of the roles of Internal Audit in Local Government Authorities of Tanzania are made.

The immediate computerization of the accounting and budgeting systems so as to overcome over – expenditure problems and non - budgeted expenditure in general.

Recruit more qualified and trained staff in the finance section. Since time immemorial accountants' expertise has always been an important component of managing a company efficiently. An efficient accountants' service plan necessitates that a business enterprise maintains appropriate accounting data files and documentation. This is undoubtedly an aid to effortless accounts preparation and processing.

To be able to put together accounting information that MMC could use to support the operating of the operations it is vital that regular trading accounts preparation steps are put into practice.

An accounting staff training curriculum instructs employees on how to comply with the latest rules and regulations regarding financial accounting and reporting systems. This program also helps accountants understand techniques used in preparing accurate and complete financial statements in accordance with professional standards, senior management's recommendations, industry practices and government rule and develop programs for updating and training them from time to time in order to reduce backlog challenges, inadequacies, and other improper performances such as improper vouching.

Improvement must be made on motivation schemes of staff to enhance integrity and team work. Motivation plays a critical role in achieving goals and business objectives and is equally as important for companies that work in a team-based environment or in a workplace comprised of workers who work independently. Making sure each employee's workplace goals and values are aligned with the organization's mission and vision is important for creating and maintaining a high level of motivation. That can lead to higher productivity, improved work quality and financial gain across all departments. Motivation has become increasingly important for organizations and companies of all sizes that want to reach their organizational objectives in a competitive market place. Top performers of an organization consistently provide high - quality work; maintain a high level of productivity and overcome obstacles or challenges. Helping all employees maintain a high level of motivation can help keep employees committed to working hard and contributing as much value as possible to the organization.

That performance measurement and reward systems of employees especially finance staff in terms of attainment of targets for each one for the sake of creating equality among staff and hence increase the morale to work.

Review and substantially improved budget allocation for Internal audit Unit to enable Internal auditors meet the objectives for the existence of Internal audit Units in LGAs

Finally; the council internal auditor should report to councilors and to the Permanent Secretary responsible in – order to strengthen independence of the Internal Audit functions.

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5. IPSAS and ISA

APPENDIX A

QUETIONNAIRE FOR COUNCIL INTERNAL AUDIT UNIT STAFF

Dear Sir/ Madam,

I am a master degree student from Mzumbe University conducting research study on the role of Internal Audit in improving the performance of the Local Government Authorities (LGAs). This study is mainly for Academic purpose.

On the understanding that you are an employee of Morogoro Municipal Council, I rate you as one of the key stakeholders of Local authority in Tanzania. I therefore, with kindest regard request you to respond objectively to the following questions. Your responses will enable me to reach reliable, valid and scientific conclusions.

I wish to guarantee that the information obtained will be used for the said academic purpose only and not otherwise. Also all information will be handled in confidentiality and anonymity. In this regard therefore you are not required to mention your name.

I thank you in advance for your cooperation and support.

Denis. S. Masui

Fill or tick the appropriate answer on the space provided:

Q1. Respondent job rank…………………………………………………………..

Q2. For how long have you been working on this post in LGA?

……………………………………………………………………………………………

Q3. What duties are you performing in the LGA?

……………………………………………………………………………………………

Q4. Other responsibility

……………………………………………………………………………………………

Q5. Are there any stated procedure for Internal audit practice in your department?

Yes ( )

No ( )

Q6. Does independence of an internal auditor exist in the Council?

Yes ( )

No ( )

Q7. What is the importance of effective planning on internal auditing functions?

……………………………………………………………………………………………

Q8. Are there enough staffs existing in internal audit unit within the Council?

Yes ( )

No ( )

Q9. What do you think are the roles of internal audit functions?

……………………………………………………………………………………………
………………………………………………………………………………………………………

Q10. What do you think are the benefits obtained by the internal audit unit by the Council?

…………………………………………………………………………………………

………………………………………………………………………………………………
…………

Q11. Mention any two problems which are facing by the internal auditors while performing his/ her activities.

………………………………………………………………………………………………
………………………………………………………………………………………………
…………

Q12. Does the internal audit meet the management at least annually to discuss the prepared audit reports?

Yes ( )

No ( )

Thanks for your cooperation.

APPENDIX B

MMC Expenditure Analysis, Agriculture Account for the year 2007/2008

Item Code	Description	Budget Estimate	Expenditure	Variation	(%)
503 Agriculture		T. SHS	T.SHS	T. SHS	
210207	Casual laborers	7,500,000.00	7,650,000.00	-150,000.00	-2
210301	Leave travel	7,691,000.00	3,245,800.00	4,445,200.00	57.79742556
210303	Extra duty	4,900,000.00	2,950,000.00	1,950,000.00	39.79591837
220101	Office consumable	2,515,600.00	4,170,322.00	-1,654,722.00	-65.77842264
220301	Petrol	1,540,000.00	1,343,569.00	196,431.00	12.75525974
220302	Diesel	4,700,000.00	8,956,433.00	-4,256,433.00	-90.56240426
220702	Rent- housing	2,400,000.00	2,150,000.00	250,000.00	10.41666667
220709	Conference facilities	500,000.00	600,000.00	-100,000.00	-20
220803	Hiring training facilities	2,274,400.00	1,680,500.00	593,900.00	26.11238129
221002	Ground travel (bus, tax etc)	720,000.00	402,500.00	317,500.00	44.09722222
221005	Perdium domestic	20,645,000.00	24,675,000.00	-4,030,000.00	-19.520465
221404	Food & refreshment	3,255,000.00	1,910,260.00	1,344,740.00	41.31305684
229920	Burial expenses	2,000,000.00	660,000.00	1,340,000.00	67
230409	Spare parts	3,600,000.00	2,220,844.00	1,379,156.00	38.30988889
230401	Motor vehicle & water craft	6,800,000.00	8,012,377.00	-1,212,377.00	-17.82907353
260507	Political aid	3,000,000.00	935,600.00	2,064,400.00	68.81333333
5034 livestock	**Subtotal**	**74,041,000.00**	**71,563,205.00**	**2,477,795.00**	**3.34651747**
210301	Leave travel	4,500,000.00	2,880,000.00	1,620,000.00	36
210303	Extra duty	1,700,000.00	1,555,000.00	145,000.00	8.529411765
220201	Electricity	960,000.00	826,110.00	133,890.00	13.946875
220302	Diesel	3,920,000.00		3,920,000.00	100
220709	Conference facilities	125,000.00	25,000.00	100,000.00	80
221002	Ground travel	300,000.00	60,000.00	240,000.00	80
221005	Perdiem domestic	8,365,000.00	9,275,000.00	-910,000.00	-10.87866109
221202	Posts & telegraphs	60,000.00	35,000.00	25,000.00	41.66666667
230401	Motor vehicle & water craft	6,000,000.00	2,678,942.00	3,321,058.00	55.35096667
230409	Spare parts	2,000,000.00	2,678,942.00	-678,942.00	-33.9471
	Subtotal	**38,504,000.00**	**36,504,000.00**	**2,000,000.00**	**5.194265531**
	Grand Total	**112,545,000.00**	**110,157,219.00**	**2,387,781.00**	**2.121623351**

Source: MMC Finance department.