EFFECTIVENESS OF INTERNAL CONTROL OVER LIQUID ASSET (CASH) IN TANZANIA: A CASE OF KINONDONI MUNICIPAL COUNCIL

By

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A Dissertation Submitted to Mzumbe University, Dar es Salaam Campus College in Partial Fulfillment of Requirements for the Award of Master of Science in Accounting and Finance of Mzumbe University

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CERTIFICATION

We, the undersigned certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled: **Effectiveness of Internal Control Over Liquid Asset (Cash) in Tanzania: A Case of Kinondoni Municipal Council** in fulfillment of the requirements for award of the degree of Masters of Science in Accounting and Finance of Mzumbe university.

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I, **Faraja Kamaghe**, declare that this thesis is my own original work and that it has not been presented and will not be presented to any other university for similar or any other degree award.

Signature ……………………………………….

Date …………………………………………....

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DEDICATION

This work is dedicated to my Husband George Gandye for his care and material support. It is also dedicated to my lovely sons Gabriel and Giovanni George who missed me a lot during my study absence.

LIST OF ABBREVIATIONS

CAG	-	Controller and Auditor General
COSO	-	Committee of Sponsoring Organization
ICT	-	Information and Communication Technology
IFMS	-	Integrated Financial Management
LGAs	-	Local Government Authorities
MOF	-	Ministry of Finance
NSSF	-	National Social Security Fund
OECD	-	Organization for Economic Co-operation and Development
TSA	-	Treasury Single Account System

ABSTRACT

Despite the effort made by the government of Tanzania in ensuring there's control in their asset in LGA's few of them have managed to implements effectively the controls on those assets in their Finance Department. Their abundance evidence that arises through audit queries due to the fact that, there are procedure not followed as per government finance guide.

In view of the above this study aimed at exploring the effectiveness of controls over cash in the LGA's transactions. Thus obtaining the factors affected the effective cash controls in LGA's.. The study specifically set to identify strength and weakness of the system of internal controls over cash. More specifically to determine functionality of internal audit and to determine reliability and accuracy of financial report prepared within the period of three years. The study focused on the Municipality of Kinondoni Dar Es Salaam.

Findings of this research has shown that the main functionality of internal audit of Kinondoni Municipality included: Evaluating controls and advising managers at all levels, Evaluating risks, Analyzing operations and confirming information and reviewing compliance.

The study further revealed that the strengths and weakness of the system of internal control over cash in Kinondoni municipal council include Authorization, Recording and custody. Where Authorization scored 100%, Recording scored 100% and custody scored 100%.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE PROBLEM

1.1 Introduction

According to Annual general report of the Controller and Auditor general, 2007-2008, “Internal controls refer to all means by which public resources are directed, monitored, and measured.” The report also provides that internal control helps to prevent and detect fraudulent acts and misuse of public assets. The objectives of internal control can be reviewed under two levels: At the organizational level “Internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations” (Annual general report of the Controller and Auditor general, 2007-2008). At the specific transaction level “Internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the payments to suppliers and service providers are for valid goods and services rendered” (Annual general report of the Controller and Auditor general, 2007-2008). The report further provides that internal auditor within a given public entity is vested with the duty of ensuring that internal control in that entity is functional and a weak internal audit implies there is a weakness in internal control (Annual general report of the Controller and Auditor general, 2007-2008).

To ensure that internal audit is effective, different legislations provide obligations on part of the management of the Local Government Authority and the duties and responsibilities on part of the internal auditor. The details of the obligations and duties/ responsibilities of each will be provided in literature review chapter.

1.2 Background to the Problem

Saywer and Dittenhofer (1996:407) state that internal control is the plans of the organization, including management’s attitude, methods, procedures and measures, which provide reasonable assurance that the objectives are being achieved.

Andrew Chambers (2004) also provide assertion similar to the above and provides further arguments to complements his assertion as follows: First, he agrees that effective internal control provides reasonable assurance, though not a guarantee, that all business objectives will be achieved. Second, he claims that internal control extends much beyond the aim of ensuring that financial reports are reliable. It includes the efficient achievement of operational objectives and ensuring that laws, regulations, policies, and contractual obligations are complied with.

Third, he also claims that internal control does not evolve naturally but it is a result of concerted effort on an ongoing basis. He further argues that internal controls may enable a business to engage safely in more profitable activities that would be too risky for a competitor without those controls. This argument concurs with Codjia's claim that a government ministry or department that has internal control of its finances including cash will operate and render public service more effectively than one which has none (Codjia, 2011).

According to Codjia (2011), internal controls are measures taken to monitor the work of staff and ensure their following of rules and regulations in the course of their work. Effective internal controls must be comprehensive and functional, with provision on the correct performance of tasks and reporting problems.

Codjia also argue that cash is an important asset of an organization's financial position and its sound management helps in avoiding theft and fraud in every day operations (Codjia, 2004). In light of this, internal controls in cash management can be done through personnel policies or technological processes as in the separation of duties of staff handling accounting and disbursement (Codjia, 2004).

Effective cash control in the government requires efficient banking and clearing systems and capable data transfers. This has to be integrated with efficient information management systems in the government and analytical capabilities of its staff (Williams, 2004). Internal control should be integrated into the government's normal operating structure where a focus on control has been instilled in everybody because this would result in better internal control of cash with minimum incremental loss in the most cost-effective manner (Brown, 1995).

A well-prepared budget could be undone during its execution if sound internal control and accounting systems are not in place to ensure that the budget is being implemented as planned, and in accordance with prospective cash flows. The key issues are whether:

- The budget outturn is likely to be within the approved figure 3 and in with the planned expenditure priorities;
- There are any hidden financial implications of transactions not being adequately identified and reported during expenditure execution;
- Expenditure transactions comply with applicable laws and regulations; any problems are being encountered and/or fiscal risks are emerging during budget execution, such as the buildup of payment arrears; and
- The reliability of accounting records and financial reports is being assured (Pattanayak, Lubin and Sailendra, 2008:3).

The International Organization of Supreme Audit Institutions (INTOSAI) sets out four objectives for internal control in a public sector organization:

- executing orderly, ethical economical, efficient and effective operations;
- fulfilling accountability obligations;
- complying with applicable laws and regulations; and
- safeguarding resources against loss, misuse and damage

These objectives can be achieved in several ways, including controls over access to resources and records; authorizations and approvals; evaluations of operations and processes; supervision, verifications, and reconciliations; and reviews of operating performance (Pattanayak, Lubin and Sailendra, 2008:4).

Financial control is an integral part of internal control in public sector. This can be effected through:

Aggregate Cash Control

This involves release of cash using warrants and other notification documents. This is important part in control of finances in public sector. It helps the governments to "minimize the cost of financing government programs by smoothening out the gap between cash inflows and outflows from the treasury account so that the interest cost of loans raised to finance the resource gap is kept to a minimum and no payment arrears emerge" A well-prepared budget could be undone during its execution if sound internal control and accounting systems are not in place to ensure that the budget is being implemented as planned, and in accordance with prospective cash flows.

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Majority of nations in Africa have challenges in control of its financial resources. these challenges results from "unbudgeted expenditure, disregard for commitment control, absence of systematic use of cash plans, concealment of excess spending, and noncompliance with financial regulations" (Pattanayak, Lubin and Sailendra, 2008:3).

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Appropriation control

It aims at ensuring that the expenditure is properly covered in the annual budget. This control has two dimensions: (i) the verification of the availability of budget allocation under the relevant line item; and (ii) the assurance that the proposed expenditure amount has been calculated correctly and covers all unavoidable expenses so that no additional hidden expenses are assumed by agreeing to the expenditure proposal (ibid).

Control of regularity of expenditure

"It essentially ensures that the expenditure operation conforms to the legal and regulatory framework and procedures and in particular to the financial regulations" (ibid).

Commitment control

"This control reconciles the commitment with the availability of resources, thus ensuring that spending units enter only into contracts or other arrangements for which sufficient unencumbered balances, both with respect to the approved budget and cash plan, are available or likely to be available at the time of their payments" (ibid).

Verification of goods and services

"This control essentially involves:

- a verification of the goods and/or services delivered by a supplier to ensure that these conform to the specified quality and quantity; and

- a precise calculation of the liability incurred by the government" (ibid).

Verification of payment due

This is done by the controller to ascertain that payment due complies with the available funds. It helps the organization to avoid misappropriation of budgeted funds (ibid). It is also used as a way of counter changing the compliance with the financial and other regulations in advancing payments. Such regulations may include adherence to procurement procedures and financial management obligations.

Controlling liquidation of incurred liability

"This control is applied during the payment stage and seeks to establish: (i) the existence of budget cover; (ii) proper budget classification to facilitate budget execution accounting and reporting; and (iii) that the payment is being made to a real creditor for a claim that was not paid earlier" (Pattanayak, Lubin and Sailendra, 2008:6).

Accounting control

"Here the objective is to ensure that the transaction is accurately classified and recorded in the general ledger. This control is important for generating accurate and timely fiscal data and reliable fiscal reporting" (ibid).

Control of appropriateness of expenditure in terms of value for money

This is an ex post control in the sense that the proposed expenditure may have been budgeted for and legally valid but may not be the best option amongst a range of alternatives. Here the objective is "value for money" and the control requires an analysis beyond the routine verification with regard to the budget line item or compliance with rules and regulations. This control could be internally applied only in well-developed internal control systems. Since this is not the case in low-income African countries, this verification for "value-for-money" can only be done ex post by external and/or internal audit institutions (ibid).

Effective cash management is characterized by the use of a Treasury Single Account System (TSA) that pools all revenues on a daily basis to ensure cash availability for expenditures, by a clear definition of the coverage of the system and by realistic planning and projections for the ministry's short-term cash and for its budget (Lienert, 2011).

Efficient internal control over cash in government ministries (LGAs) offers the following benefits: It increases the certainty that payments are done on time and also reduces the risks of mismanagement or fraud in operations. It also reduces idle cash held by ministries and payment authorities in transit. And finally helps develop a short term securities market that is efficient (Williams, 2004).

Majority of nations in Africa have challenges in control of its financial resources. these challenges results from "unbudgeted expenditure, disregard for commitment control, absence of systematic use of cash plans, concealment of excess spending, and noncompliance with financial regulations" (Pattanayak, Lubin and Sailendra, 2008:3).

Cash management focuses on cash flows and balances, although expenditure and revenue aggregates are expressed in accrual terms in many countries. Where there is a difference between cash requirements and budget approvals, problems may arise and the risk is that cash will be drawn by spending authorities in advance of need that in turn will undermine control discipline. A separate control system has to mitigate such risks (Williams, 2004).

Leadership in the government is crucial in internal control over cash. If management shows little concern, the staff is unlikely to be diligent (Brown, 1995). People will follow rules if there is adequate surveillance and punishment, but rewarding good behaviour is better than punishment because it internalizes ethical behaviour and avoid resistance that accompany punishment (Brown, 1995).

The benefits stemming from reduced expected losses in an internal control must exceed its primary cost of personnel and a control that prevents loss is better than one that detects loss (Brown, 1995). Internal control should be integrated into a ministry's normal operating structure where a focus on controls has been instilled in everybody, because this would result in better internal control of cash with minimum of cash with minimum incremental cost (Brown, 2011).

Increased mismanagement of public funds in most public institutions in Tanzania including majority of LGAs has prompted the government of Tanzania to reconsider its existing internal control over its finances. Current developments in an attempt to strengthen internal control over cash and other assets both financial and non-financial include the ongoing reforms by the Government through MoF. The reforms include establishment of Internal Audit Unit led by the Internal Auditor General and transferring accountability of respective Internal Audit units in government entities including LGAs, and other public entities to the IAG. The move is expected to enable internal auditors to execute their responsibilities with more autonomy and authority.

1.3 Statement of the Problem

Financial resources are among important assets of Kinondoni Municipality and their sound management helps the municipality to prevent loss of its funds through theft and/ or fraudulent acts of unscrupulous officials. Other benefits of sound management of Municipal finances include the prospects that funds available including cash be used for intended purpose, funds be available at the right amount in the right place and time in a manner that allows the Municipality to meet its obligations in the most cost-effective way.

Despite municipal efforts in effecting sound management of its finances by observing procedures and regulation lied down by the law of the land and investing heavily in Information Technologies, reasonable benefits of internal control over cash and other financial assets are not yet released. This particular study aimed at finding out how effective internal control over cash of Kinondoni Municipality. The findings from the study would provide the information to the management of the Municipality that they may use in improving management of its finances. This provides the Municipality with the reasonable assurance that their set objectives would be met. If the municipality's objectives are met, there is an increased chance for it to bring developments to the people of Kinondoni.

1.4 Research Objective

1.4.1 General Objective

The objective of the study was to investigate the effectiveness of internal control over cash in Kinondoni.

1.4.2 Specific Objectives

The study was guided by the following specific objectives:-

(i) To identify the strengths and weaknesses of the system of internal control over cash of Kinondoni Municipality

(ii) To determine functionality of internal audit of Kinondoni Municipality

(iii) To determine reliability and accuracy of financial reports prepared within the period of 3 years

1.5 Research Question

The study was guided by the following research questions:-

(i) What are strengths and weaknesses of the system of internal control over cash of Kinondoni Municipality?

(ii) What is the functionality of internal audit of Kinondoni Municipality?

(iii) What is the reliability and accuracy of financial reports prepared within the period of 3 years.

1.6 Significance of the Study

This study is significant in the following ways:

- The study highlighted the accounting and administrative control problems plaguing Kinondoni Municipality.

- Helps to improve internal control over cash in Kinondoni Municipality, and other public entities.

- Helps to improve delivery of services in the Municipality.

- Fourth, the study is expected to generate additional knowledge on internal control over cash in particular and financial management in general.

- The study provides policy makers, planners and managers in Tanzania with information to use in making policy decisions regarding internal control over cash in LGAs.

- Sixth, the study enable managers of services, organizations and government owned public utility establishments to bring the accounting and the internal control procedures inherent in them in conformity with internal accounting standards and practices.

- The study helps government owned establishments to assess their internal control measures and make amends where necessary and eighth, the study could arouse further research into some other functional areas in the Municipality by other scholars and/ or staff.

1.6 Limitation of the Study

This particular study was limited with meager budget, and time allocated for the study.

Budget

The researcher received funding for this research from Researcher's own source of funds. The funds were meager because they only covered costs for stationery supplies and facilitating typing and printing of research proposal and report. This funding was meager in the sense that it covered traveling costs to different facilities handle financial resources of the Municipality other than municipal headquarter. As a result, data from these facilities may not be available.

Time

Time was scarce because the period of four weeks allocated for researching on the problem was not enough because researching on internal control over cash was extensive and required consideration of many aspects of financial management to be exhaustive on the subject.

1.7 Delimitation of Study

The study encountered financial constraints but in order solve financial difficulties the researcher restricted the study at the Municipal headquarter because most of municipal information including secondary data on other facilities are available here.

Moreover, the researcher faced the problem of time constraints and in order to solve the problem the researcher has developed an action-plan and abides to it in order to manage time effectively. In addition, the researcher restricted himself into collecting data that are useful and are more likely to be processed later by developing effective data collection tools and come up with this dissertation.

Reluctance of respondents was another problem faced by the respondents where some of Kinondoni municipal officials rejected to answer some of the questionnaires by saying that they are not official spokes persons, to solve this problem the researcher informed the management and other personnel on the importance of research in general and the importance of this particular study to the municipal and the employee themselves.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter a detailed literature review on internal control is provided. Literature review is divided into both theoretical and empirical literature review.

2.2 Theoretical literature Review

2.2.1 Conceptual Definitions of internal control

By helping to anticipate and control the risks involved in not meeting the objectives the company has set for itself, the internal control system plays a key role in conducting and monitoring its various activities. There are a variety of definitions of internal control, as it affects the various constituencies (stakeholders) of an organization in various ways and at different levels of aggregation. Under the COSO Internal Control-Integrated Framework, a widely-used framework in not only the United States but around the world, internal control is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with laws and regulations (Natad, 2008).

Other definitions of internal control include:

Biggs (1985:149) has defined internal control as “the whole system of controls, financial or otherwise, established by the management in the conduct of the business, including internal control, internal audit, and other forms of control.

American Institute of CPAs (1980:15) has defined internal control as “the plan of organization and all the co-ordinate methods and means adopted within a business to safeguard assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies.”

Institute of Chartered Accountants in England and Wales (1988:67) has defined internal control as “the whole system of controls, financial and otherwise, established by management in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability to its records.”

Tanzania Auditing Standards No. 8 (Section 2.2), internal control is defined as “all the policies and procedures adopted by management of an entity to assist in achieving management objectives of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud or errors, the accuracy and completeness of accounting records and timely preparation of reliable financial information.”

In accounting and organizational theory, Internal control is defined as a process effected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks). At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations (Natad, 2008).

The concept of internal control goes beyond financial and accounting matters and the custody of company assets to include controls designed to improve operational efficiency and ensure adherence to company policies (Coopers and Lybrand, 1985).

Montalvo et al concur with Coopers and Lybrand's assertion that internal control goes beyond its accounting theory¨ Internal Control is a continuous set of processes carried out by an entity's board of directors, management and all personnel, designed to provide reasonable assurance of:

- Effectiveness and efficiency of operations.
- Reliability of financial and non-financial information.
- An adequate control of risks.
- A prudent approach to business.
- Compliance with laws and regulations, and internal policies and procedures Montalvo et al (2003).

They also provide that "Internal control should strengthen the internal operating environment of the company, thereby increasing its capability to deal with external (and internal) events and uncover possible flaws and deficiencies in processes and structures" (Montalvo et al, 2003).

According to Montalvo et al, Internal Control systems are intended to help achieving certain goals & objectives, including the following:

- Operational objective (effectiveness and efficiency of operations).
- Information objective (reliability of financial and non-financial information).
- Control objective (an adequate control of risks).
- Management objective (a prudent approach to business).
- Compliance objective (compliance with laws and regulations, and internal policies and procedures) (Montalvo et al, 2003).

2.2.2 Related Concepts

Not only is there a variety of Internal Control definitions, but there are also some issues that are particularly closely linked to Internal Control, these are Internal Audit, Corporate Governance and Enterprise Risk Management. The boundaries are not always clearly established, however, these elements have their own identity.

Corporate Governance

The Organization for Economic Co-Operation and Development (OECD) defines Corporate Governance as a ¨set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance provides means for attaining objectives and monitoring performance. Good Corporate governance should motivate management and staff to pursue objectives that help the organization to achieve its goals of its establishment. Internal control is a core part of corporate governance because it tends to affect the former tends the latter positively or negatively and vice versa (Montalvo et al, 2003).

Internal Audit

The Institute of Internal Auditors defines Internal auditing as ¨an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Montalvo et al, 2003).

The Internal Audit definition provides a clear idea of the links between it and Internal Control. It designates Internal Audit an essential assessment function as well as being central to increasing the effectiveness of the Internal Control processes. While internal control is about helping a firm to meet its objectives, internal audit is about ensuring that its risk management and internal control systems are working properly (Montalvo et al, 2003).

Enterprise risk Management

The Committee of Sponsoring Organizations on the Treadway Commission's (COSO) draft framework on Enterprise risk management defines it as ¨a process, effected by the entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite to provide reasonable assurance regarding the achievement of entity objectives¨. Risk management is about understanding the nature (i.e. causes, effects, likelihood) and significance of the risks faced by a firm. It is also about deciding on acceptable levels for these risks and designing cost-effective control and or resilience strategies (i.e. strategies to help manage the impact of risk on the firm). The aim of the last stage is to ensure that the firm's risks are kept at an acceptable level (Montalvo et al, 2003).

Internal control is about understanding and controlling risk, as well as acting as a monitoring function. The primary purpose of internal control is to continuously evaluate whether a firm is meeting its objectives and to ensure that the board, managers and employees are all working to ensure the success of these strategies while keeping the level of risk at an acceptable level. In so doing a sound system of internal control should be able to reduce (but rarely eliminate) poor judgment in decision making; human error; the deliberate failure to follow control processes by employees and managers; and the impact of unexpected events (Montalvo et al, 2003).

Internal control and risk management are close complements. A firm should use its risk management systems to help assess potential opportunities and threats to its objectives. There are also many different risk management tools with the same purposes than Internal Control, such as loss prevention, loss reduction and risk financing tools that may be used to ensure that the firm continues to meet its objectives (Montalvo et al, 2003).

2.2.3 Types of Internal Control System

The internal control system consists of two main categories;

(i) Administrative control

(ii) Accounting control

Administrative Controls

Defliese et al (1975:85) says administrative control is not limited to the plan of the organization and the procedures and records that are concerned with the decision processes leading to management authorization of transactions. As a management function, authorization is directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing account control of transactions.

The importance of administrative control is reflected in the fact that the prime responsibility of management is to operate the organization within the available resources, it must be able to operate at acceptable cost, and use its limited resources in an efficient manner.

To accomplish the above, management must develop the requisite policies needed to promote efficiency in every area of activity. These policies must be implemented through proper personnel selection, training and management.

Accounting Controls

These comprises the plan of organization and the procedures, measures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that transactions are executed in accordance with management general or specific authorization.

The above definitions indicate that accounting control is designed to bring about accurate and suitable recording and summarization of only authorized financial transactions. Failure by Power Holding Company of Nigeria Management to install and effectively maintain such a control means that the objectives implicitly in the above definition would not be achieved. A direct consequence of this is the high incidence of loss or error.

2.2.4 Objectives of Internal Control System

Section 3.37 of the Tanzania Auditing Standards No. 9 provides the following as the main objectives of internal control:

- To make sure that organization's goals are met by directing efforts to management policies and guidance,
- To safeguard assets,
- To secure the relevance, reliability and integrity of information,
- To ensure the completeness and accuracy of records,
- To comply with legal obligations.

Other control objectives include:

- Controls are in place in the process to ensure accountability is established as early as possible at all points along the accountability chain.

- Assets are safeguarded from loss through watchful and responsible care and reconciliation functions.

- Segregation of duties, or mitigating controls, exists within transaction processes, custody, and recording functions.

- Transactions and events are properly recorded.

- Staff understands their duties, responsibilities, and accountabilities.

- Cash handling practices are documented and in compliance with State laws and regulations and, for credit cards, in compliance with Payment Card Industry Standards.

- Transaction activities are properly authorized.

- Cash records for authorization and transactions are maintained in accordance with established requirements.

- Accounting records are protected from theft, obsolescence, or destruction.

- There is accurate and timely bank reconciliation.

Natad (2008) on the other hand, claims that internal controls are established to further strengthen:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws and regulations.
- The safeguarding of assets.
- The economical and efficient use of resources.

(i) The accomplishment of established objectives and goals for operations or programs.

Management's objectives for internal control

It is management's responsibility to establish and maintain an adequate internal control structure. In establishing an effective control structure, management can consider a number of specific objectives, including the following:

- Attempting to ensure that all transactions are authorized. For example, the collection and management of user fees are accomplished only when properly authorized and controlled. Thus, all user fees should be tracked and accounted for on numbered receipts.

- Ensuring that all documentation and accountability for assets conform to local and national laws and procedural requirements. For example, only authorized forms that are completed in accordance with known laws and regulations should be used.

- Preventing unauthorized access to assets such as cash or medicine inventories. In addition, the internal control system should prevent unauthorized access to non-asset items, such as pre-numbered checks or receipts.

- Ensuring that assets such as cash amounts on hand are accounted for. For example, such assets should be periodically compared with actual amounts, and the appropriate action should be taken in the event of any discrepancy. In addition, the internal control system should ensure the timely posting of transactions.

2.2.5 Creating an Internal Control Structure

Although similar requirements exist in many organizations, the principal driver for implementing an effective internal controls system should be the enlightened self interest of particular organization (www.qfinance.com).

Else (1995) provides that creating an effective internal control structure is a primary concern of organizations seeking to improve their operations. Specifically, the internal control structure refers to the policies and procedures established to provide reasonable assurance that the organization's objectives will be achieved. The following five components are a key to establishing an effective internal control structure.

Creating an Organization That Promotes an Environment of Control

Management's attitude has a significant influence on the effectiveness of an organization's internal control structure. A management team with a cavalier attitude regarding its fiduciary responsibilities is likely to have difficulty establishing a working system of internal control. Likewise, managers who fail to give written policies to employees whom it holds responsible for control are offering a less than optimal environment. In an optimal environment, management should, for example, encourage and support efforts among employees to control the management of cash (Else, 1995).

Assessing and Prioritizing Risk and Minimizing the Possibility of Losses

For example, management should identify those areas of cash management that pose the greatest risk of fraud or calculation errors.

Establishing Activities and Procedures Intended to Maintain Internal Control

For example, management should institute appropriate measures to document user fee cash transactions. In addition, establishing methods that identify the status of actual versus expected performance is useful for identifying high-risk areas that are not yet under control (Else, 1995).

Promoting Information and Communication Among All Managers Within The Organization

For example, management should encourage people at all levels of the organization to support and promote internal control mechanisms. In addition, those responsible for certain aspects of the control process need to be thoroughly trained in the control task and have a clear understanding of their responsibilities. Written job descriptions are useful in promoting this understanding (Else, 1995).

Monitoring the internal control process in a methodical manner, making corrections and improvements as required

For example, management should periodically audit the control processes to ensure that they are functioning as intended. In addition, the management of a health care organization should consider the size, complexity, and diversity of its services and applicable legal requirements when designing internal controls. Generally, the larger and more complex an organization, the more elaborate the internal control structure needed (Else, 1995).

Control procedures

When establishing internal controls, management should follow five main procedures:

- Establish a system for authorizing transactions and activities. This is normally accomplished through a written policy with the approval of senior management.

- Segregate duties in order to reduce the opportunity for any one person to be in a position to perpetrate and/or conceal errors or irregularities in the normal course of his or her duties. This can be done by assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets.

- Design and require the use of documents and records that help ensure the proper recording of transactions and events.

- Institute adequate safeguards for accessing and using records and assets such as cash or medicine inventories. Such safeguards should also cover access to records, documentation, and record-keeping files.

- Perform independent checks of the internal control process and periodic validation via auditing to ensure that records reflect assets, and that a reconciliation of assets and records is accurate and balanced. The independent checks should first attempt to identify the types of errors or irregularities that could occur, and then determine the risk of these errors or irregularities actually occurring. Finally, the checks should provide relevant tests and audit procedures to evaluate the possibility that errors have occurred. Those performing the periodic audits should be familiar with the internal control process but not be a part of it.

2.2.6 Internal Audit

Financial audits are an important internal control (Mwisho, 2004).

Definition of Internal Audit

Mwisho (2004:12) internal audit is a continuous and systematic process of examining and reporting the operations and records of a business firm by its employees selected specially for this purpose.

Rationale of Internal Audit

Internal audit is much needed due to the following reasons:

- It is impossible to depend entirely on external audit which is done occasionally. Such occasional audit is not in a better position to uncover all the weaknesses the organisation has.
- On the other hand, conducting continuous audit using independent firms is expensive and organizations cannot afford the cost or it is not healthy for organizations to squander their finances cheaply like that.

Therefore, to minimize cost of external audit using independent firms and providing a mechanism for continuous auditing, selecting organization's staff to carry out internal audit is inevitable.

Scope of internal audit

According to Tanzania Statement of Auditing Standards guideline Section 4.8.1.2 of 1983, the scope of internal audit depends on the responsibility assigned to it by management, the size and structure of organisation. Commonly; internal audit covers:

- Review of accounting system and related control,
- Examinations of financial and operating information for management detailed test of transactions and balance,
- Review of implemented corporate policies, plans and procedures,
- Conducting special investigation.

Internal audit in LGAs

The Local Government Finances Act No. 9 of 1982 gives that accounts of the LGA should be audited internally. This is part of the internal control system by the management. It is a control that measures, evaluates and reports upon the effectiveness of internal controls, financial and others, as a contribution to the efficient use of resources within an LGA.

According to the Local Government Authority Internal Audit Manual 2005, internal audit involves conducting an independent appraisal within the LGA for review of accounting, financial and other operations as a basis for service to management. It is a managerial control tool which functions by measuring and evaluating the effectiveness of other controls.

Local Authority Financial Memorandum Revised Edition 2004 Section 45 (1) of Local Government Finance Act No. 9 of 1982 provides that each accounting officer shall establish and operate an effective internal control and employ an audit and provides the audit section with needed cooperation.

Functions of internal audit in LGAs

According to The functions of internal audit in LGAs include the following

- Review and report on the controls over revenues, custody of receipts and utilization of financial resources of the council.

- Assess the conformity with the financial and operational policies and procedures laid down institutes related to the management of LGAs.

- Review the reliability and integrity of financial and operating data so that the information provided allows for the preparation of accurate financial statements, performance reports and other reports for the council.

- Review and report on the systems in place for the safeguard of assets including verification of physical existence of such assets.

- Review and report on the operations and programmes of the council to ascertain whether physical achievements are consistent with approved targets.

- Review and report on the adequacy of action taken by HoDs in response to internal audit reports and advice them on the effective ways of implementing the recommendations in the auditors' reports.

- Review and report on the adequacy and effectiveness of controls installed in computerized operations.

Financial control in LGAs involves the following:

- Budgetary control - the LGA should plan and control its expenditure to meet its predetermined objectives.

- Legitimacy of income and expenditure – all income and expenditure should be in accordance with the policies of the LGA, should be properly authorized and should be within the law.

- Security of assets – assets of the LGA should be kept in proper custody and not wrongly applied either error or intent.

2.2.7 Roles and Responsibilities in Internal Control

According to the COSO Framework, everyone in an organization has responsibility for internal control to some extent. Virtually all employees produce information used in the internal control system or take other actions needed to affect control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct, or other policy violations or illegal actions. Each major entity in corporate governance has a particular role to play (http://en.wikipedia.org/wiki/ internal control).

Management: The Chief Executive Officer (the top manager) of the organization has overall responsibility for designing and implementing effective internal control. More than any other individual, the chief executive sets the "tone at the top" that affects integrity and ethics and other factors of a positive control environment. In a large company, the chief executive fulfills this duty by providing leadership and direction to senior managers and reviewing the way they're controlling the business. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions. In a smaller entity, the influence of the chief executive, often an owner-manager is usually more direct. In any event, in a cascading responsibility, a manager is effectively a chief executive of his or her sphere of responsibility. Of particular significance are financial officers and their staffs, whose control activities cut across, as well as up and down, the operating and other units of an enterprise (http://en.wikipedia.org/wiki/ internal control).

Board of Directors: Management is accountable to the board of directors, which provides governance, guidance and oversight. Effective board members are objective, capable and inquisitive. They also have knowledge of the entity's activities and environment, and commit the time necessary to fulfill their board responsibilities. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents results to cover its tracks. A strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions, is often best able to identify and correct such a problem (http://en.wikipedia.org/wiki/ internal control).

Auditors: The internal auditors and external auditors of the organization also measure the effectiveness of internal control through their efforts. They assess whether the controls are properly designed, implemented and working effectively, and make recommendations on how to improve internal control. They may also review Information technology controls, which relate to the IT systems of the organization. There are laws and regulations on internal control related to financial reporting in a number of jurisdictions (http://en.wikipedia.org/wiki/ internal control).

Staff and junior managers may be involved in evaluating the controls within their own organizational unit using a control self-assessment (http://en.wikipedia.org/wiki/ internal control).

2.2.8 Principles of Internal Control

Control--Integrated Framework

In 1992, COSO published the report *Internal Control--Integrated Framework* as a "basis for developing business control systems and assessing their effectiveness" (Internal Control Issues). This report provides the following five components of internal control:

The Control Environment - relates to the control consciousness of the people within the organization. The control environment is the basis for all other components of internal control (http://www.coso.org).

Risk Assessment - refers to the organization's identification, analysis, and management of the risks that are related to financial statement preparation, in order to ensure that financial statements are presented fairly and in compliance with generally accepted accounting principles (http://www.coso.org).

Control Activities - the organization's policies and procedures which help ensure that necessary actions are taken to address the potential risks involved in accomplishing the entity's objectives (http://www.coso.org).

Information and Communication - focuses "on the nature and quality of information needed for effective control, the systems used to develop such information, and reports necessary to communicate it effectively" (http://www.coso.org).

Monitoring - involves assessing the quality and effectiveness of the organizations internal control process over time. It includes assessing the design and operation of controls, and assessing compliance with policies and procedures. It also provides for the implementation of appropriate actions when necessary (http://www.coso.org).

From the above components, the following principles of internal control can be crafted to help create an effective Internal Control system in different organizations. The explanations of these principles that are given here have been adopted from explanations given by Montalvo and others while establishing standards for system of internal control among Insurance undertakings in Europe. They include the following.

- **Control Culture**

  The board of directors is responsible for promoting a high level of integrity and for establishing a culture within the company that emphasizes and demonstrates to all levels of personnel the importance of internal control. Management is responsible for the implementation of the internal control Culture and principles. All personnel need to understand their role in the internal control process and be fully engaged in the process.

- **Risk Assessment**

  In establishing and maintaining an effective system of internal control, there is a need to regularly assess both the internal and external risks that organization faces. Assessment should include the identification and analysis (using quantitative and/or qualitative tools) of all the significant risks that an organization is exposed to, and act accordingly.

- **Control Activities and Segregation of Duties**

  An adequate Internal Control system requires the implementation of effective and efficient Control Activities at all levels of the entity. They should be implemented by the management in line with the goals and strategies set up by the board of directors, and should involve all personnel. As an integrated part of daily business, these activities should be reviewed and recorded on an on-going basis.

  An efficient Internal Control system demands an appropriate segregation of duties and clear lines of responsibilities, both at individual level and between functions.

- **Information & Communication**

  Insurance Undertakings should have reliable information at all levels within their organization, in order to define, achieve and review the objectives set by the board of directors, through effective decision making processes.

  Internal Control systems should ensure the effectiveness of communication procedures.

  Such communication should be internal as well as external, and may include both formal and informal paths.

- **Information and communication technologies**

  Insurance Undertakings should implement Information and Communication Technology (ICT) systems appropriate to the activities they carry out, their strategies and needs.

  Security controls for the risks inherent in ICT should be established to effectively enhance management of those risks, allowing the insurance company to recognize both the potential benefits and the associated risks of such systems.

- **Monitoring**

  Insurance undertakings should implement appropriate systems to monitor their Internal Control's efficiency and effectiveness. Monitoring should be carried out on an ongoing basis, complemented with separate evaluations.

As an integral part of an internal control system, and in keeping with the diversity and complexity of the insurance undertaking's activity, there should be an effective and comprehensive internal audit carried out by operationally independent, appropriately trained and competent staff.

The internal audit function should be conducted through a professional audit program designed to provide reasonable assurance that Internal Control objectives are met. An effective internal audit function should also comprise a follow-up process on audit findings in order to assure that they are being adequately dealt with.

2.2.9 Limitations Inherent in Internal Control

Parent, Florence and Cunin, (2007) However well conceived and applied the internal control system might be, it cannot provide an absolute guarantee that the company's objectives will be met.The likelihood of meeting these objectives does not depend solely on the will of the company. There are in fact limitations which are inherent in any internal control system. These limitations are due to several factors, notably to the uncertainties in the outside world, to the exercise of people's judgment or to problem areas that can arise as a result of human failure or of a simple error.

In addition, when implementing controls, it is important to bear in mind the cost / benefit relationship and not to develop internal control systems which are unnecessarily costly, even if it means accepting a certain degree of risk. P.H. Mahushi (1985:312), "There is no control system however elaborated in itself guarantee efficient administration, completeness and accuracy of records for authority or trustee."

Mwisho (2004:31) agrees with Mahushi and elaborates as follows, internal control system, however elaborate, can by itself guarantee efficient administration and the completeness and accuracy of the records; nor can it be proof against fraudulent collusion, especially on the part of those holding positions of authority or trust. ACCA Students News Letter November 1992 identifies the following factors that tend to commonly undermine internal control system:

Collusion of Employees

When employees decide to collude, the system may fail. This is common in both private and public sectors in Tanzania. According to Mwisho (2004:31), the collusion of employees undermines internal control which relies on the segregation of duties.

Abuse of Authority

The person in whom authority is vested may decide to abuse his office or power. Top management is the biggest culprit of this crime because top managers are frequently in a position to override controls, which they have themselves set up.

Human Error

According to Mwisho (2004:31), Human error may occur as a result of errors of judgment, or interpretation, to misunderstanding, carelessness, fatigue, or distraction. The errors themselves may originate principally from incompetent employees due to shortcomings in recruitment process, employees who are less motivated, and employees who are overburdened with too much work.

In some cases, employees who are competent and highly motivated are found to be error prone. This can be attributed to pressures from within or outside the organisation. Typical examples of such pressures are too much work, unclear job expectations etc.

Likely human errors can be minimized by employing effective recruitment system, staff motivation, apportioning work carefully among staff and providing clear job expectations.

Sadler et al. (1998:110) explain the following in respect of the inherent limitations of the system of internal control in the organizations:

- A small staff component that does not permit a proper segregation of duties.

- The possibility of circumvention of internal control through the collusion of management or an employee with parties inside or outside the entity.

- The possibility that procedures may become inadequate due to changes in conditions, which causes compliance with procedures to deteriorate.

- The possibility of internal controls being overridden by management.

- Management's insistence that internal control be cost effective.

- The emphasis of most internal controls on routine transactions rather than on unusual types of transactions.

- The impact of human errors, such as misunderstanding instructions, judgmental errors, carelessness, distraction or fatigue.

- The possibility of collusion circumventing the effectiveness of segregation of duties.

- The possibility that a person responsible for exercising internal control could abuse that responsibility.

2.2.10 Importance of Internal Control in the Organization

Woolf (1997:57) states that many organizations produce and keep up to date charts that depict the organizational hierarchy in linear terms. Such charts have the advantage of indicating most departmental functions as well as identifying the staff responsible for executing them.

Robertson (2002:232) states that the COSO Report defines internal control as a process, affected by an entity's board of directors, management and other staff, and designed to provide reasonable assurance regarding the achievement of objectives in the following three categories:

(i) Reliability of financial reporting
(ii) Compliance with applicable laws and regulations
(iii) Effectiveness and efficiency of operations

From the above it is clear that in today's complex organization environment, the role of internal control is of such importance that an organization (especially an administrative unit) cannot operate effectively unless it has the four fundamental concepts of COSO in place (Robertson, 2002:232-233).

Those concepts are mentioned below.

- Process
- People
- Reasonable assurance
- Category objectives
- Internal control has the following characteristics:

- It is a process – not an end in itself, but a means to an end. This means that internal control is a dynamic function operating every day.

- It is operated by people. This means that an organization may have policy manuals, procedures, forms, computer-controlled information and accounting and other features of control, but people make the system of internal control work at every level of management. Therefore, staff or management establish the objectives, put control mechanisms in place and operate them.

- It provides reasonable assurance. It can help to prevent and detect failures, but it cannot guarantee that they will never happen. It is not an absolute assurance. Because people operate the controls, breakdowns can occur.

- Internal control is designed to achieve objectives in three categories. In the operations category, some examples of objectives are good business reputation and safeguarding assets in the context of their effective and efficient use (Robertson, 2002:232).

For an organization to be successful, management must achieve the goals and objectives of the organization. To achieve those goals and objectives, management needs to establish internal controls and link communication systems to all interrelated components of internal control (Robertson, 2002:234-236).

2.3 Empirical Literature

There are many studies on Internal Control. But the researcher to use two studies as exemplary of others in this particular. The studies are on the impact of Internal Control on revenue collection and effectiveness of internal control over capital assets. Both studies were conducted in African context.

2.3.1 Study on Impact of Internal Control on Revenue Collection

Onyeka C.O. conducted a study at power holding company of Nigeria Plc in Enugu State in 2010. The study evaluates the impact of the internal control system on revenue generation. The study involved 40 participants that were randomly from different sections of the company. The questionnaires were used in gathering the primary data while secondary data were collected from the work of others in the form of literature review. The data collected were analyzed using the chi-square (x^2)

as the statistical tool to determine the valuation of the hypothesis. The findings concluded that weak internal control system encourages collusion, fraud, loss of revenue, embezzlement and computation. This have always impeded the company's ability to effectively supply electricity to customers and thus lower revenue collected. The researcher recommended the following among other things:

- strengthening of internal control including Internal audit
- unbundling the organization into separate distinct independent entities that handle generation, transmission, distribution and marketing and
- Introducing of prepaid meters to avoids accumulation of debts.

2.3.2 Study on Impact of Internal Control and the IC System

Natad (2008) studied Internal Control and the IC System in Philippines and found out Internal Control Myths and Facts among important things.

MYTHS surrounding internal control include:

- Internal control starts with a strong set of policies and procedures.
- Internal control: That's why we have internal auditors!
- Internal control is a finance thing.
- Internal controls are essentially negative, like a list of "thou-shalt-nots."
- Internal controls take time away from our core activities of making products, selling, and serving customers.

On the contrary, FACTS surrounding internal control include:

- Internal control starts with a strong control environment.

- While internal auditors play a key role in the system of control, management is the primary owner of internal control.

- Internal control is integral to every aspect of the business process.
- Internal control makes the right things happen the first time.

- Internal controls should be built “into,” not “onto” business processes. They are integral!

2.3.3 Study on Effectiveness of Internal Control over Cash in Tanzania

Patrick H. Benedict conducted a study on effectiveness of internal control over cash in Tanzania using NSSF as a case-study. He found out that internal control at NSSF was fair despite the fact that it had some employees who did not have minimum qualification requirements for the posts they were serving in the control chain. He recommended that training and development of existing staffs would boost performance in internal control over cash to higher levels.

2.3.4 Study on Effectiveness of Internal Control over Capital Assets

Motubatse conducted a study in 2005 at Ekurhuleni Metropolitan Municipality in South Africa. This study examined the effectiveness of internal control over capital assets at the Municipality. The capital assets of the Ekurhuleni Metropolitan Municipality include infrastructure, namely roads, taxi ranks and other tangible assets, such as vehicles, equipment, and etc. The researcher used an analytical survey, with statistical assistance to extract and interpret the meaning of the data. He found out there is no coordination and consultation between the head office and district office managers in the establishment of policies to regulate the capital assets. He recommended that middle managers at district offices be included and consulted when the central office of the Ekurhuleni Metropolitan Municipality makes important internal control decisions.

2.3.5 Study on the Effect of Internal Control Deficiencies on Firm Risk and Cost of Equity

Hollis Ashbaugh-Skaife and others conducted a study on the effect of SOX Internal Control Deficiencies on Firm Risk and Cost of Equity in 2006 and produced a final report in 2008. They hypothesized that benefits achieved from internal control are higher than costs of implementing it. The results suggested that benefits accrued from effective internal control are higher than its implementation costs.

2.3.6 Study on the Relationship between Internal and External Audit

Professor Atanasiu Pop, PhD Students Cristina Boţa-Avram, and Florin Boţa-Avram, reviewed secondary data on auditing with the intention of studying the relationship between internal and external audit. They found out that internal audit function was born through detaching of some activities from external audit. As a result, these two functions could be easily confused. In principal they are two different functions but do complement each other. The reality is that internal audit and external audit are two distinctive functions; net differenced, but which are also characterized through some complementary relationships.

2.4 Summary

The review of the literature has revealed that internal control is useful to both public and private organizations. It is useful in protecting assets including cash against mismanagement and facilitates preparation of reports. But, despite these and other advantages, little is known on internal controls including those over cash in public sector in Tanzania including LGAs. Therefore, this particular study has a greater chance of contributing to the body of knowledge on internal control in Tanzania.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is concerned with the design and methodologies of the study. It describes study design, study area; sampling technique, sample size and data collection methods.

3.2 Study Area

The study was conducted at Kinondoni Municipal Council. The study was limited to the Municipal headquarter due to budgetary constraints.

3.3 Study Design

The research has been conducted at Kinondoni Municipal Council using the case study design. This design was used to help the researcher to required, appropriate and adequate data to find out the effectiveness of internal control over liquid asset (cash) in Tanzania particularly at Kinondoni Municipal Council. A case study is an depth comprehensive study of a person social group a community, an institute or any social unit, (Krinshnaswami, 1993).

This case study design enables the researcher to be flexible in acquiring data as it employs more than one techniques, it uses historical method, employs interviewing, questionnaires, observation and documentary review. This is a plan that specifies how data from the study was collected and analyzed. For the proposed study, a case study designed was applied to get the necessary required information. The case study design was chosen due to its ability to provide in-depth of the case to be studied.

3.4 Sample, Sampling Techniques and Procedures

The techniques applied for data collection during the study were based on the true representation of the population as follows:

3.4.1 Quota sampling

Under this technique, individuals representing their respective departments were selected. A number of Head of departments ware selected such as Accounts department, plan and development department, social development, social welfare and others.

The aim of quota sampling is to produce a sample that reflects a proportional of people in different categories such as age group, gender, ethnicity socio-economic group and region of residence and in combination of these categories. Once the categories and the number of people to be interviewed in each categories (known as quotas) have been decided upon, it is the job of interviewers to selct people who feet these categories (Bryman A, 2007)

3.4.2 Random sampling

Under this technique, individuals with similar qualifications and functions were selected. A sample respondent from different department were selected and provided with questionnaires to get their views on the study.

3.4.3 Purposive sampling

Under this technique, Municipal Director, Municipal Treasurer and Municipal Internal auditor were selected because of their roles in internal control over cash in the Municipality.

3.4.4 Sample size

This were be determined by the number of departments present in the organization, and number of staff available during the study at the area of the study. One representative came from each part, half of the HoDs were involved, half of the employee in the accounting department were involved, Municipal director, Municipal Treasurer and Municipal Internal Audit were involved.

According to existing departments and categorisation above, the sample included 15 employees and 7 HoDs from 15 departments, 32 accountants from 61 accountants, 1 Municipal director, 1 Municipal Treasurer and 1 Municipal Internal Auditor. This made a total of sample size of 57.

3.5 Data Collection Methods

The researcher used interviewing, applying written questionnaire, documentary review, and observation. The reason for selecting each method was provided along with the discussion of each.

3.6.1 Interviewing

This method was used to tape value added information from people whose insights were needed in solving the problem under study because interview allows flexibility between interviewer and interviewee and brings to light the non-verbal information that they provide to each other. But, it is prone to interviewer bias.

3.6.2 Application of Written Questionnaire

Saunders et al. (2009) defines questionnaire as data collection technique in which each person is asked to respond to the same sets of questions in a predetermined order. According to them, questionnaire can be posted, emailed, made available online or personally given to someone and the person oneself fills it and return as appropriate and convenience to the receiver and sender. But, they also provide that the questionnaire can be administered by the interviewer.

The formal is referred to as self administered questionnaire and the latter as interviewer administered questionnaire. In the interviewer administered questionnaire, the interviewer is expected to maintain is non-influential role. Kothari (2004) insists that the respondents have to answer the questions on their own. This method is useful among respondents who are busy and are not likely to respond to long interviews and especially if their insights are perceived to be insignificant.

In this particular study, questionnaires were administered to staffs other than Municipal Director, Municipal Treasurer, Municipal internal auditor, internal auditors and Heads of departments because they were deemed by the researcher that their insights were insignificant. None of the questionnaires was lost because the researcher used the assistant picked the questionnaire once it was filed and respondents were encouraged to fill the questionnaire on the very day they were given to them. Each day five respondents were given questionnaire and this reduced the duty of collection.

The very day, the researcher went through the questionnaires and in case of doubts the follow-up was made to the responsible person according the code number issued along with the questionnaires. This technique together with the co operation from the respondents resulted into zero error in the filling and 100% of the questionnaires.

3.6.2 Observation

Saunders et al (2009) defines observation as the systematic observation, recording, analysis and interpretation of people's behaviour. The participant can be informed that he is being observed (open observation) or not (concealed). In this particular study, the observation will be done in conceal. This will be easier for the researcher because he is forming part of the employees in financial department. Observation was used to define the gap between what the respondents reported and understood and the actual practice in the field.

3.6.3 Documentary Review

Secondary data means data that are already available i.e., they refer to the data which have already been collected and analysed by someone else. When the researcher utilizes secondary data, then he has to look into various sources from where he can obtain them. In this case he is certainly not confronted with the problems that are usually associated with the collection of original data.

Secondary data may either be published data or unpublished data. Usually published data are available in:

- Various publications of the central, state are local government
- Various publications of foreign governments or of international bodies and their subsidiary organizations;
- Technical and trade journals;
- Books, magazines and newspapers;

- Reports and publications of various associations connected with business and industry, banks, stock exchanges, etc.;
- Reports prepared by research scholars, universities, economists, etc. in different fields; and
- Public records and statistics, historical documents, and other sources of published information.

The sources of unpublished data are many; they may be found in diaries, letters, unpublished biographies and autobiographies and also may be available with scholars and research workers, trade associations, labour bureaus and other public/ private individuals and organizations (Kothari, 2004: 111).

Researcher must be very careful in using secondary data. He must make a minute scrutiny because it is just possible that the secondary data may be unsuitable or may be inadequate in the context of the problem which the researcher wants to study. In this connection Dr. A.L. Bowley very aptly observes that it is never safe to take published statistics at their face value without knowing their meaning and limitations and it is always necessary to criticize arguments that can be based on them.

By way of caution, the researcher, before using secondary data, must see that they possess following characteristics:

Reliability of Data

The reliability can be tested by finding out such things about the said data:

- Who collected the data?
- What were the sources of data?
- Were they collected by using proper methods
- At what time were they collected?
- Was there any bias of the compiler?
- What level of accuracy was desired?
- Was it achieved (ibid)?

Suitability of Data

The data that are suitable for one enquiry may not necessarily be found suitable in another enquiry. Hence, if the available data are found to be unsuitable, they should not be used by the researcher. In this context, the researcher must very carefully scrutinize the definition of various terms and units of collection used at the time of collecting the data from the primary source originally. Similarly, the object, scope and nature of the original enquiry must also be studied. If the researcher finds differences in these, the data will remain unsuitable for the present enquiry and should not be used (ibid).

Adequacy of Data

If the level of accuracy achieved in data is found inadequate for the purpose of the present enquiry, they will be considered as inadequate and should not be used by the researcher. The data will also be considered inadequate, if they are related to an area which may be either narrower or wider than the area of the present enquiry. From all this we can say that it is very risky to use the already available data.

The already available data should be used by the researcher only when he finds them reliable, suitable and adequate. But he should not blindly discard the use of such data if they are readily available from authentic sources and are also suitable and adequate for in that case it will not be economical to spend time and energy in field surveys for collecting information. At times, there may be wealth of usable information in the already available data which must be used by an intelligent researcher but with due precaution (Kothari 2004: 111-112).

This method was used to collect data from internal audit reports, annual audit plans, monthly income and expenditure reports, audit queries, ledger books, annual budgets, MTEF and annual financial statements.

3.7 Data Collection Instruments

Interview questions, observation schedule/guide, documentary review guide, and questionnaires were used.

3.8 Data analysis Procedures

Data analysis was an important step towards finding solution of a problem understudy. It was a systematic process involving working with data, organizing them and dividing them into small manageable parts. Guba and Lincolin (1994) explained that data are further synthesized in order to discover what was important and what had been learned so as to decide what to tell others.

In this case study research, the researcher closely linked data analysis to data collection (Eisenhardt, 1989 and Melyoki, 2005). Data collected were checked and compared for their validity (Saunders et al 2009 & Kothari, 2004). The purpose was to add value to this study (ibid). Analysis based on the objectives and research questions provided in chapter one (ibid). The data collected was edited for accuracy and completeness before they were used for analysis. Questionnaires were coded, tallied and then rates of response for each item were calculated and computed into percentage (ibid).

For non- numerical data, information were summarized and then displayed by using tables (ibid). With regard to this study, the open-coding procedure was utilized during data analysis. The open-coding procedure was the analysis that pertains specifically to the naming and categorizing of phenomena through case examination of data (Enon, 1998).

In this case, the first step was to categorize data based on the research objectives. Data analysis begun with individual response and responses from different respondents was purposively sorted and grouped to make them tally with research objectives and research questions. Comparison of data was done to identify those similar. This reduced data into small manageable and analytical packages which was used for analysis and drawing the conclusion and recommendations. Quantitative data was analysed by using Statistical Package for Social Scientists. Descriptive analysis was employed to measure and arrive at conclusion on the accuracy of financial information in financial control at the organization (Melyoki, 2005). Data analysis involved detailed case write-ups and reflection on the descriptions, a practice recommended in the literature (ibid). Eisenhardt (1989) posits that case analysis typically involves detailed case write-ups for each case (ibid). The case write-ups are pure descriptions, however, they are central to the generation of insights (Gersick, 1998; Pettigrew, 1988 both cited in Eisenhardt, 1989) (ibid). The literature suggests that there is no standard way in which the descriptions can be provided (Einsenhardt, 1989) (ibid).

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

In this chapter the analysis and discussion of the findings are presented. The analysis and discussion in this chapter is based on the responses from research questionnaires, interview questions and secondary data information. The research intended to find out the effectiveness of internal control over liquid asset (cash) in Tanzania particularly at Kinondoni Municipal council. Main areas of concern in the research are identify the strengths and weaknesses of the system of internal control over cash of Kinondoni Municipality, determine functionality of internal audit of Kinondoni Municipality and finally determine reliability and accuracy of financial reports prepared within the period of 3 years and this was according to the research objectives.

4.2 Response Rate

A sample of 57 participants was expected to participate in the study as respondents to the interviews or questionnaires and as subjects of observation. Luckily, all of them accepted to take part in the study. Therefore, the response rate was 100%. All respondents returned the questionnaires and all the questionnaires were well filled. The analysis presented is solely done by using simple percentage based on the response from employees of Kinondoni Municipal Council.

4.3 Strengths and Weaknesses of Internal Control System over Cash in Kinondoni Municipality

According to primary and secondary data the following are the strengths and weakness of internal control system over cash in Kinondoni Municipal Council when there is no segregation of duties;-

From table 3.3: 120 Questionnaires were distributed to Kinondoni Municipal council and only 57 questionnaires were answered. The following is the table showing the strengths and weakness of the system of internal control over cash in Kinondoni municipal council as indicated by various respondents and their percentage scores as indicated in table 4.1

Table 4.1: Strength and Weakness and Frequency of Scores

Strengths and Weakness	No. of respondents tested	Knowledgeable	Not Knowledgeable	Total percentage
Authorization	57	57	0	100%
Recording	57	57	0	100%
Custody	57	57	0	100%

Source: Analyzed data, 2013

According to the table above the strengths and weakness of the system of internal control over cash in Kinondoni municipal council include Authorization, Recording and custody. Where Authorization scored 100%, Recording scored 100% and custody scored 100% as indicated in the table above.

Moreover; the data collected through documentary review which included: Local Government Authorities Internal Audit Manual (2005), URT Local Government Finance Act (1982), Controller and Auditor General Report (2009), URT, Public Audit Acts (2008), and NBAA, Tanzania Financial Accounting Standards (2001) and other relevant literatures revealed the following:-

In order for internal controls to be effective, there must be the separation of duties basing on three functions: Authorization, Recording, and Custody of Assets. If anyone department has more than one of these abilities, then there potentially is a weakness in control. The point in segregating the duties is to prevent and deter fraud that may potentially be committed if one person had the power to do all three. In essence, anyone person who has all three capabilities can cover their fraud.

Authorization

There should be a separate person/department authorizing the disbursement of funds. After the fund is authorized the document will then be transmitted to an appropriate department for the next step and if not is one of the key weaknesses of internal control system over cash and vice versa. According to LGA Internal Audit Manual (2005) effective internal control over cash at great extent depends on separation of duties in internal control system and one of the duty is authorization of cash in the organization and if not could lead fraud and miss appropriation of funds/ cash in the organization. Indeed this matches with the opinion from various respondents where there response is 100% as indicated by table 4.1 above which means the system is good in the control over Municipal asset .

Recording

This generally is the book keeping department. They record the journal entries and such to ensure that the books reflect the cash balances (NBAA, Tanzania Financial Accounting Standards, 2001). The absence of record keeping means weak internal control over cash in the organization and vice versa is true. Indeed this matches with the opinion from various respondents where recording keeping scored 100% as indicated by table 4.1 above.

Custody

This is generally the treasurer, only this department should have custody of the cash. Once they receive the authorization, they would match the appropriate documents and make cash disbursement (URT, Public Audit Acts, 2008). With absence of custody to keep cash that is weak internal control system over cash in the organization and vice verse of it is true. Indeed this matches with the opinion from various respondents where custody scored 100% as indicated by table 4.1 above.

4.4 Reliability and Accuracy of Financial Reports Prepared Within the Period of 3 Years

According to primary and secondary data the following are criteria for the Financial report to be reliable and accuracy to ensure effective contol over cash in the municipal.

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Hiring of Accounting Firm

Respondents provided different responses regarding hiring firm to ensure financial report are reliable and accuracy for effective cash control in the Municipal. 91% of the respondents are knowledgeable that the financial reports of the municipal are being audited by National Audit office under Auditor General who audit all the LGA’s in Tanzania. 68% of the respondents knows that there are independent external auditors are being hired to audit the special projects as requested by donors to ensure the effective use of their funds; these are mostly Accountants, Auditors, Treasurer Municipal Director and some of the Department managers.

Whereas 9% of respondent doesn’t know where the independent auditor (External Auditor who perform the audit in the office) come from and 32% of the respondent they don’t know about the external Auditors.

In an audit, the outside accountant tests reported account balances for accuracy. As importantly, the auditor tests to see that the accounting principles used in recording transactions are in conformity with GAAP and applied on a consistent basis. Despite some notorious recent audit failures involving large corporations, the auditing process, in most cases, provides a reasonable safeguard against fraudulent and inaccurate financial reporting particularly over cash management in organization.

Prevent fraudulent and Inaccurate Financial Reporting

To prevent fraudulent and inaccurate financial reporting is the adoption of adequate internal controls. Internal controls are the policies and procedures that a business can take to safeguard its assets, insure accuracy of financial reporting, and prevent fraud.

The application of these policies and procedures in Kinondoni Municipal is limited by the following:

Lack of Motivation

Staffs in the accounting department lack motivation. The only motivator used is allowance paid largely as extra duty. The staff will intentionally delay their assignments to create rooms for demanding allowances. As a result, majority of routine activities are carried out as ad hoc activities. This causes delay in documentation leaving rooms for forgeries.

Inadequate Supervision

Staffs in the accounting department are not routinely supervised especially by their immediate supervisors (Heads of Sections). Lack of immediate supervision causes delays in and inappropriate execution of work. It may result into forgeries and manipulation of data.

Negligence and Status Quo

Some staffs do not do their job properly not because of ignorance but negligence. This negligence largely results from prevalence of status quo.

Technology Gap

Some staffs especially the old staffs do lag behind the technological transformation that is being undertaken in the council especially with information technologies. As a result, they do not perform as expected.

Lack of Ownership of Internal Controls

The ownership of internal controls among staff is minimal. Staffs do not consider internal controls as safeguard tools that prevent them from unnecessary trouble but as the fulfillment of management desire. This is one of the important setback tools.

Lack of Reliable Electricity

Lack of reliable electricity is another setback especially frequent power cuts from main supplier Tanesco. The council has one generator which is costly to run and its use is limited only to important assignments. This interferes with routine work as the greater part of the work has been computerized.

Voluntary Avoidance

Voluntary avoidance has also been noted in some areas especially with documentation and is largely associated with back dating.

77% of the respondents in the Municipal said that they are knowledgeable with the policies and procedures which are provided by the government as guidelines to these LGA's, whereas 23 % they are not in fully conversant regarding the policies and procedures.

4.5: Functionality of internal auditor at Kinondoni Municipality

Table 4.2: Functionality of internal audit of Kinondoni Municipality

Cadres	Number tested	Understands	Not Understands	Percentage of the Understanding
Top management	10	7	3	70%
Accountants	32	32	0	100%
Other employees	15	5	10	33%
Total	57	44	13	77%

Source: compiled by the student

The results suggest that 77% of the respondents understand the functionality of internal auditor. The understanding is higher among accountants and top management. But the 30% of the top management and 67% of other employees do not understand. The managers and employees that do not understand may perceive the work of internal auditor as bureaucracy to them on the doing their activities.

The functionalities of the internal auditors can be viewed on the following aspects

Evaluating Controls and Advising Managers at All Levels

The Internal Auditor of the Kinondoni Municipal review all the transactions documents before any payment is made to ensure that all policies and procedure are being adhered to and if otherwise he returns the document to the accounting department for further processing. This is revealed on the 70% from the managerial levels, 100% from the accountants and 33% of that of other employees.

Evaluating Risks

The Internal Auditor of Kinondoni Municipal review thoroughly the payment documents together with the district budget and district workplan to ensure that there is no risk of misusing money, embezzlements, or possibility of skipping procedures which are in place and advise the Municipal Director on the risk involved. The Internal Auditors identify key activities and relevant risks factors and asses their significance. 70% of respondents from the managers and 100% accountants agreed that the interna Auditor evaluates risks on his day to day documents review and advice the Municipal Director who is the owner of the Municipal financial transactions.

Analyzing operations and confirming information

The internal auditors of the Municipal work closely with the Municipal director and to ensure those activities which are in plan are carried out and policies and procedures are adhered to. This is reflected by the 77% of the respondent in the Table 4.2, where mostly Accountants (100%) and Managers (70%) and few of other staff (33%) understand this role played by the Internal Auditor. In the event of non performing project the internal auditor advise the Municipal Director on the implication of it.

Internal Auditors work closely with line managers to review operations then report their findings. The internal auditor must be well versed in the strategic objectives of the organization, so that they have a clear understanding of how the operations of any given part of the organization fit into the bigger picture (Institute of Internal Auditors Manual, 2013).

Reviewing Compliance

The Municipal internal auditor reviews all transaction documents to ensure that they comply with the government policies and procedures. When it comes to the donor funded projects funds the internal auditor rely only on their procedures instead of conforming to the donors rules and regulation in which this lead them to be in trouble with the donors as they may disqualify some transactions. Table 4.2 shows that 77% of respondents understands the functions of an internal auditor in the municipal on is to ensure compliance to all policies which are put in place, whereas 23% doesn't understands the purpose of an internal auditor to the Municipal.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, summary of the study, conclusions, recommendations and need for further research are presented. The main objective of the study was to determine effectiveness of internal control over liquid asset (cash) in Tanzania a case of Kinondoni municipal council.

The study was conducted through questionnaires and interviews to the selected sample and data were collected and analyzed. Three important areas of the study concern were to identify the strengths and weaknesses of the system of internal control over cash of Kinondoni Municipality, determine functionality of internal audit of Kinondoni Municipality and finally determine reliability and accuracy of financial reports prepared within the period of 3 years.

5.2 Summary of the Study

The objective of this study was to determine the effectiveness of internal control system over liquid asset (cash) in Tanzania particularly at Kinondoni Municipal council. Data were collected and analyzed. The study revealed the following basing on the purpose of the study.

The study revealed that the strengths and weakness of the system of internal control over cash in Kinondoni municipal council include Authorization, Recording and custody. Where Authorization scored 100%, Recording scored 100% and custody scored 100% as indicated in the table 4.1 above.

The study further revealed that the main functionality of internal audit of Kinondoni Municipality included: Evaluating controls and advising managers at all levels, Evaluating risks, Analyzing operations and confirming information and reviewing compliance.

5.3 Policy Implications

Internal control is a public policy issue because effective internal control over cash guarantees that public funds in the Municipal can be used for intended purpose. It is therefore important for the Municipal to craft policies that will institute an effective internal control over cash. Some of the recommended areas of improvements are:

- Training staffs on internal control, computers and information technologies
- strengthening performance management by OPRAS,
- Instituting a viable electrical back-up system for instance investors and back-up batteries,
- Supervision and periodic checks of subordinates, books of accounts and general operations should be strengthened,
- Secure a culture charge within the various cadres of staff that focuses on customer satisfaction, quality service rendition and transparency in service delivery and procurement process and
- Audit department should separate its operations from internal control.

5.4 Recommendations

Based on the research findings analysis and discussion the following recommendations are put forward immediate improvement and future career;

- All Employees should be cascaded on the purpose of the internal auditor to the Municipal and make them understands the reason for reviewing all documents before they pass for payment.

  This will be effected by providing frequent training to existing employee and inductions once there are new employees in the Municipal. It will enable other staff clear up the process as bureaucracy in their mind.

- The government should other independent external auditors other than National Audit Office which is a government board to undertake the process of auditing the Municipal Financial report because the two NAO and the

Municipal belongs to the same father which is the Governance they may collude to provide the unqualified report even if it is qualified one.

- The Internal Auditor of Municipal should work as an independent persons (this means he/she should not report to the Municipal Director because She/he may dictate the report of the internal auditor)

- The Municipal needs to provide training to all staff of different departments regarding financial policies and procedures which are in places for them to have a clear understanding.

- The application of strategic asset management principles should ensure that fixed assets employed by entities contribute to the achievement of outcomes. To be effective, asset management requires a whole of lifecycle approach that considers the full cost of asset ownership. Having complete, accurate and reliable asset accounting records is one of the keys to implementing asset management. Effective control in these areas is critical to ensure that assets are well managed and utilized efficiently and that their value is accurately reflected in the financial statements (Ludovick, 2011).

- Audit noted that there cases in some LGAs where purchases were made without the approval of the relevant Councils' Tender Boards. This is contrary to the requirement of Regulations 40 and 41 of Public Procurement Regulations of 2005. It is important for councils to adhere to the regulations. Non-compliance results to inadequate internal control and exposes councils to losses of funds due to fraud (ibid).

- The Local Authority Financial Memorandum (1997) Order 207 stipulates that "A" record of receipts, issues and physical balances of each item of stores shall be recorded in a separate page of the store ledger showing the following details: (i) Details of purchase date of purchase, goods received notes number and the rate per item; (ii) Details of the date of issue, the quantity of issue and the stores issues number, and (iii) The physical balance (ibid).

- Some LGAs do not comply with this order. In some areas, auditors fail to obtain some documents as they were not available. It was therefore recommended that all essential documents related to a project or contract is kept in one file for easy reference and monitoring of the projects/ contracts. This practice would have not only facilitated easy access to information by the Councils but also by other interested persons like auditors (ibid).

- Management of the Councils should take a leading role to ensure the provisions of the Local Government Finances Act No.9 of 1982 are adhered to. This requires that the village accounts to be audited by such a public officer or organization as the Council may direct in writing. This could include ensuring that the village management prepares appropriate financial statements and the Council appoints the auditor for giving assurance on the financial statements which have been prepared as per the requirement of the law. This arrangement is expected to strengthen financial management at the villages' level and improve implementation of development projects at the LLG under direct supervision of LGAs

- Councils' management should introduce a training programme which will help village leaders and Development Project Committee members to be able to properly supervise the implementation of development projects and at the same time ensuring that there are proper controls over the collection and use of the public resources.

- The Municipal needs to set motivation criteria to ensure their staff works effectively and accurately on their duties ensure there is enough source of power (electricity) which will help not to skip some procedures in the payment process.

- Kinondoni municipal council should employ duties separation in order to have effectiveness of internal control over liquid asset (cash) in the organization by dividing the duties in authorization, record keeping and custody.

- A research to be done to other LGA's to ensure there's effective control over Government Assets.

- **Adoption of Internal Audit Charter**

  The PMORALG has not yet issued Internal Audit Charter. This is important and many charters are available on line. Councils can adapt some important aspects from the online charters that do not contradict with the principal regulations. In my opinion, the following aspects are important and do not contradict with the existing regulations.

- **Authority of internal audit departments in LGAs**

  Authority should be granted for full, free, and unrestricted access to LGAs' records, physical properties, and personnel relevant to any function under review. All employees are requested to assist Internal Auditing in fulfilling their staff function. Internal Auditing shall also have free and unrestricted access to the District Executive Directors and Control Auditor General's Office. Documents and information given to Internal Auditing during a periodic review will be handled in the same prudent and confidential manner as by those employees normally accountable for them ((Charter, 2012).

- **Independence of Auditors**

  All internal audit activities shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports. Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be audited (ibid).

- **Audit Planning**

  Annually, the Chief Audit Executive shall submit to senior management and the Audit Committee a summary of the audit work schedule, staffing plan, and budget for the following fiscal year. The audit work schedule is to be developed based on a prioritization of the audit universe using a risk-based methodology.

  Any significant deviation from the formally approved work schedule shall be communicated to senior management and the Audit Committee through periodic activity reports (ibid). Part of auditing plan should be the amount of funds auditors will serve in a given financial year (Crespo, 2005).

- **Reporting**

  One of the common observations in audit reports of CAG has always been failure to work on previous years' recommendations (Ludovick, 2011). Non-implementation of the audit gaps imply that the millions of tax payers' money that is spent by CAG on annual auditing of financial statements is a waste. On the other hand, it implies perceived objective of improving control of public funds through audit findings and recommendations is not achieved.

  It is high time now that the executive take note of this shortfall and starts working on the issue else other two arms in the three pillars of the government (Judiciary and Parliament) are to exercise their power given by the law of land to rescue the situation.

- The councils should start practicing this with its monthly internal audit reports. The internal audit department should prepare reports of its audit and send it to Council Directors and copies to departments. The responsible persons should take the reports seriously and answer its eligibly and timely. The heads of department who do take the matter seriously should be given sanctions.

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APPENDICES

Appendix 1: Questionnaire for Masters Degree Course Research

To Respondents

Dear Respondent

The following is the questionnaire intending to collect data basing on the following topic: **Effectiveness of Internal Control over Liquid Asset (Cash) in Tanzania: A Case of Kinondoni Municipal Council.** You are requested to assist in responding questions as you know them.

The information contained in the questionnaire will be confidential, and only for research purposes

I anticipate my gratitude to your assistance

PART A: QUESTIONS

Appendix 2 : Internal Control Structure/ Interview Guide Questionnaires

These internal control questionnaires have been adopted from Else (2007). They have the aim of checking the adequacy of internal control in any organisation in this particular case over cash of Kinondoni Municipality.

The questionnaires include spaces in which to indicate negative or positive responses. Negative responses indicate less than adequate internal control, while positive answers generally indicate adequate internal control. A not applicable (N/A) column is also included. In addition to using the following questionnaires, a complete evaluation of an organization's internal control structure would entail observing, discussing, and verifying the structure's design and operation. The questionnaires serve as catalysts for evaluating issues and concerns commonly deemed important to establishing internal control structures that meet international standards.

The end of the questionnaires contains room in which to add comments and suggestions regarding the strengths and weaknesses of the internal control structure.

Questionnaire/ interview guide	Tick (V) your answer			
	YES	NO	NA	Explain
Questions				
1. Does the accounting department have an organizational chart?				
2. Does the organization have a chart of accounts or an organized financial accounting system?				
3. Are there accounting and internal control manuals, and do they set forth accounting procedures?				
4. Does the organization have a controller or chief accountant?				

5. Does the organization have an internal auditor or equivalent person?				
6. If there is an internal auditor, is he/she independent from the internal control processes?				
7. If there is an internal auditor, are there internal audit reports available? Have they been reviewed recently?				
8. Is the general accounting and bookkeeping department completely separate from the cash receipts and cash disbursement function?				
9. Is the general accounting and bookkeeping department separate from the sales, purchasing, and operational departments?				
10. Are regular vacations required for those who control the operational and financial cash, bookkeeping, asset, and/or record-keeping functions? (Vacations often cause others to notice discrepancies.)				
11. If regular vacations are not required, are the regular duties of these key individuals temporarily assigned to others?				
12. Does the head office retain adequate control over branch facilities?				
13. Are expenses and costs under budgeted control? In other words, is there a budget plan with which others can compare performance?				
14. Are key and material bookkeeping entries approved by senior management personnel?				
15. Are periodic financial statements prepared and submitted to management?				
16. If periodic financial statements are prepared, are they designed to alert management to significant fluctuations in costs, revenues, assets, and the like?				

Source: Ernst and Young (2003)

Are any of these functions performed by the same person?

(i) Accountant

(ii) Bookkeeper

(iii) Cashier

(iv) Purchasing

(v) Receiving

(vi) Revenue

(vii) Department Head

(i) Yes ( )

(ii) No ( )

If yes, what are functions and who is performing more than one function (mention his/ her work and not hid/ her name)?

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

OBSERVATION CHECKLIST	**TICK (V)**			
	YES	**NO**	**NA**	**COMMENTS**
CRITERION				
1. Does the accounting department have an organizational chart?				
2. Does the organization have a chart of accounts or an organized financial accounting system?				
3. Are there accounting and internal control manuals, and do they set forth accounting procedures?				
4. Does the organization have a controller or chief accountant?				
5. Does the organization have an internal auditor or equivalent person?				
6. If there is an internal auditor, is he/she independent from the internal control processes?				
7. If there is an internal auditor, are there internal audit reports available? Have they been reviewed recently?				
8. Is the general accounting and bookkeeping department completely separate from the cash receipts and cash disbursement function?				
9. Is the general accounting and bookkeeping department separate from the sales, purchasing, and operational departments?				
10. Are regular vacations required for those who control the operational and financial cash, bookkeeping, asset, and/or record-keeping functions? (Vacations often cause others to notice discrepancies.)				
11. If regular vacations are not required, are the regular duties of these key individuals temporarily assigned to others?				
12. Does the head office retain adequate control over branch facilities?				
13. Are expenses and costs under budgeted control? In other words, is there a budget plan with which others can compare performance?				

14. Are key and material bookkeeping entries approved by senior management personnel?				
15. Are periodic financial statements prepared and submitted to management?				
16. If periodic financial statements are prepared, are they designed to alert management to significant fluctuations in costs, revenues, assets, and the like?				

Source: Else (2007)

Thank you for your corporation