

**EFFECTIVENESS OF INTERNAL AUDIT ROLES IN PROMOTING GOOD  
GOVERNANCE IN LOCAL GOVERNMENT AUTHORITIES:  
A CASE STUDY OF MTWARA DISTRICT COUNCIL**

**EFFECTIVENESS OF INTERNAL AUDIT ROLES IN PROMOTING GOOD  
GOVERNANCE IN LOCAL GOVERNMENT AUTHORITIES:  
A CASE STUDY OF MTWARA DISTRICT COUNCIL**

By  
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A Thesis/Dissertation Submitted in Partial/Fulfillment of the Requirements for  
Award of the Degree of Master of Science in Accounting and Finance (Msc.A.F) of  
Mzumbe University

2013

**CERTIFICATION**

I, the undersigned, certify that, I have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **Effectiveness of internal Audit roles in Promoting Good Governance in Local Government Authorities: A of Mtwara District Council**, in partial fulfillment of the requirements for award of the degree of Master of Science in Accounting and Finance (Msc A & F ) of Mzumbe University.

*Signature*

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Major Supervisor

*Signature*

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Internal Examiner

Accepted for the Board of

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*Signature*

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DEAN/DIRECTOR,  
FACULTY/DIRECTORATE/SCHOOL/BOARD

## DECLARATION

I **Salima Nalinga** declare that this thesis is my own work as a result of research finding except where identified by references and not submitted for a degree at any other university.

Signature .....

Date .....

## **ACKNOWLEDGEMENT**

This work becomes more successful following the material and moral support from different people. My sincere thanks are morally extended to everyone who in one way or another contributed towards the accomplishment of this task.

I would like to extend my heartfelt gratitude to my employer, the Tanzania Institute of Accountancy for permission and granting me the sponsorship to pursue this programme. I wish to acknowledge and appreciate the valuable and technical assistance, advice, comments and constructive criticisms from my supervisor Mr. Elias Malubi throughout the entire period of supervision, which honored this research successful.

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Lastly but not least, I would like to express my gratitude and sincere thanks with appreciations to the members of my lovely family personally to my lovely husband Hamisi Amani, My children Zahra, Al-haji, and Sahil for their tolerance, moral support and prayers during the entire period of my study.

Probably it is not possible to acknowledge every person who contributed in one way or another towards the accomplishment of this dissertation, so please bear with me and accept my acknowledgement. May god bless you all.

## **LIST OF ABBREVIATIONS**

|                    |   |
|--------------------|---|
| <b>LGA's</b> ..... | Local Government Authorities                |
| <b>IIA</b> .....   | Institute of Internal Auditors              |
| <b>COSO</b> .....  | Committee of Sponsoring Organizations       |
| <b>MDC</b> .....   | Mtwara District council                     |
| <b>LAFM</b> .....  | Local Authority Financial Memorandum        |
| <b>LGCDG</b> ..... | Local Government Capital Development Grants |
| <b>PFA</b> .....   | Public Finance Act                          |

## **LIST OF APPENDICES**

### 1. Appendix 1

Questionnaire on effectiveness of internal audit roles in promoting good governance in local government authorities in Tanzania. A case of Mtwara District Council.

## **ABSTRACT**

The aim of this study was to find out the effectiveness of roles played by the internal auditors in promoting good governance in Local Government Authorities in Tanzania due to the fact that there has been an evolution in internal auditing. The objective of the study was to determine the effectiveness of internal audit roles in MDC; relate the roles played by internal audit with promotion of good governance in MDC; identify the strength and weakness in the roles of internal audit in promoting good governance, to examine the extent to which the council's management acts upon Internal Auditor's recommendations in the MDC. Literature was reviewed in connection to the topic.

Data was collected using interviews and administration of questionnaires in Mtwara District Council from where 40 employees were given questionnaires. A sample of 40 respondents was selected from various departments to represent MDC as a whole. Data was analyzed using statistical package for social scientist (SPSS).

From the study, the researcher found out that, most of the employee at MDC has no knowledge on the roles played by internal auditors. Also, most of employees at MDC do not see the relevance of the internal audit activities in the MDC. The researcher also found out from the respondents that the internal audit unit in MDC is not well qualified professionals, motivated and also not well resourced so that internal auditors may help director reach their objectives.

The conclusion drawn was that the internal auditors find it difficult to perform their specific responsibilities of preventing, and detecting fraud, errors, irregularities, misappropriation and misuse of public resources. This is because they do not have the needed logistics to enable them carry out their statutory duties. The staff is not well motivated in terms of remuneration, offices and regional accommodation. This affects their morale and does not motivate them to give off their best.

The researcher therefore recommends that, public organizations are to be provided with qualified professionals, motivate them by way of higher incentives, training and so forth and government should provide them with necessary resources such as offices, computers and software.

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Introduction

The main purpose of this chapter is to give a description of the problem that will be addressed. In this section the researcher will discuss the nature of the research, the purpose of the research, the significance of the research problem, and the research question(s) to be addressed.

#### 1.2 Background of the Organisation

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

**In Tanzania** currently there are about 114 councils including Mtwara District Council, operating in 99 districts, 22 are urban and 99 are rural. This process of Local Government reform is still ongoing. It aims to promote democratic, accountable and autonomous local government Authorities, with wide discretionary powers and a strong financial base implemented by 2011.

##### 1.2.1 Aim of Local Government in Tanzania

MDC as other Local Government Authorities exist for the purpose of consolidating and giving more power to the people to competently participate in planning and implementation of development programmes within their respective areas and generally throughout the country.

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

## **1.2.2 Functions of Local Government**

MDC, as other Local Government Authorities are mandated to play three main functions; Article 146 (2) (a)-(c)

- a) Maintenance of law, order and good governance
- b) Promotion of economic and social welfare of the people in their jurisdiction
- c) Ensuring effective and equitable delivery of qualitative and quantitative services to the people within their areas of jurisdiction

In addition to the basic functions, all local governments are charged with seven other functions and duties, as follows: Refer, Part V of the Local Government (district) authorities Act.

- 1) Formulation, coordination and supervision of the implementation of all plans for economic, industrial and social development in their areas of jurisdiction.
- 2) Monitoring and controlling the performance of duties and functions of the council and its staff.
- 3) Ensuring the collection and proper utilization of the revenues of the council
- 4) Making by-laws applicable throughout their areas of jurisdiction, and considering and improving by-laws made by village councils within their areas of jurisdiction.
- 5) Ensuring, regulating and coordinating development plans, projects and programmes of villages and township authorities within their areas of jurisdiction.
- 6) Regulating and monitoring the collection and utilization of revenue of village councils and township authorities.

Subject to the laws in force, doing all such acts and things as may be done by a people's government.

## **1.3 Background of the Study**

The local Government Act No. 9 of 1982 requires the accounts of every District and Urban Council to be audited internally by an internal auditor employed by authority concerned. As the law requirement MDC also has Internal Audit Department. Internal Audit is part of the internal control system established by the Council

Management. The Internal Auditor's value lies in how well she/he has been able to contribute to the achievement of the overall organisational objective. The Internal Auditor should constantly seek to make himself relevant to his organisation by providing information that will make management take decisions that impact positively on their ability to achieve the organisational goals so as to maintain good governance. However, according to research and surveys conducted by Deloitte & Touche (2004), much of the work of Internal Audit has been very restrictive in terms of scope.

Good governance especially in the LGAs has become an interesting aspect attracting the attention of the government and development partners. This has been due to huge amount of funds that are disbursed to Local Government Authorities to facilitate various development projects and services. Thus efficacy of the internal audit units as monitoring and evaluation apparatus in LGAs become a critical area of concern as they are the overseers to appropriate utilisation of public funds.

The Local Authority Financial Memorandum of (2009), order No 13; cited section 48 of the Local Government Finance Act also requires every Council to employ its own Internal Auditors so as to examine and evaluate the effectiveness of the financial management in the Local Government Authorities. Despite this, the government through the Prime Minister's Office-Regional and Local Government (PMO-RALG) is implementing a system assessment process to its council so as to evaluate performance measures which determine the level of Local Government Capital Development Grants (LGCDG) funding to be received. The performance measurement is mostly qualitative and seeks to evaluate performance of the LGA in different key areas, among of them good governance (URT, 2010). Others areas include; participatory planning, poor budgeting, budget execution and other broader areas of local government such as transparency and accountability, council functional process, gender and the involvement of lower local governments (LLGs) and communities.

The management of the LGAs has the responsibilities of ensuring a systematic arrangement to good governance within the organization while the internal auditor of the LGAs are obliged to examine whether the management performs their

responsibilities for the interest of the organization and public as a whole. By doing these, internal auditors have to satisfy themselves that the existing laws and regulations are adhered to eliminate irregularities.

It has however been reported that, despite the government initiative to establish Internal Audit Units in every LGA, most of the Internal Auditors (Internal Consultants) fail to perform their duties to the required standard thus forcing the government to seek for external assessment (Independent Consultants) when conducting annual Local Government Capital Development Grants (LGCDG) assessment. The Controller and Auditor General (CAG) report of 2010 and 2011 fiscal years clearly reveal mismanagement of public funds in most of LGAs giving the impression that the problem is becoming critical thus a need for immediate intervention to redress the situation.

#### **1.4 Statement of the problem**

Internal Audit Plays Pivotal Role in Strengthening Good governance focuses on the profession's opportunities to become a strategic player in Good governance in response to increased government regulation and management directives to strengthen controls and improve risk management. Due to their responsibilities the Internal audit around the world faces a perception and, to some extent, a credibility problem as a value-adding unit of the organization. The Internal Audit Agency (2006) believes that the importance of Internal Audit is not well known by most of people. This unfortunate background continues to play down the importance of Internal Audit as a key function that can strengthen the oversight responsibility of the governing body. This reflects in the management attitude towards the Internal Auditor. According to a research jointly conducted by Deloitte & Touche and the Institute of Internal Auditors, U.K., (2004) "improved attitudes toward internal audit are built on a belief that internal audit functions are creating greater value for their organisations" Most often, the budget of the Internal Audit Unit, if any exist at all, is woefully inadequate to enable them meet the resource requirements of their annual audit plans. Internal Auditors are seen more as fault finders rather than solution providers and partners in the Government's strive for organisational excellence.

Also Studies by (Badara, 2012), Unegbu and Kida (2011) characterise internal audit units as weak, under resourced, dependent and understaffed. These and other problems have led to their inability to effectively oversee the management of finances in LGAs. Besides, the CAG audit reports for the fiscal years 2009 to 2011 have not shown any improvement on showing good governance to most of the Councils. The key weaknesses highlighted by CAG reports are in the areas of cash management specifically lack of discipline in revenue management, irregularities in expenditure management, poor payroll controls and weak internal control system. Such and other problems point to the weaknesses of internal control system (which is the proof of the inadequate performance of Internal Audit Unit) leading to irregularities in financial management in LGAs.

MDC's Audit reports for 2010 and 2011 fiscal years showed that the Council still experiencing problems in managing the public funds despite the presence of an audit unit within the Council. The report noted several factors which constrain the performance of the internal audit to include; inclusion of audit unit in the operations of the accounting officer, over concentration of the auditors to transactional audit neglecting the performance and achievement of the development projects aspects, and inadequate budgetary allocation, regardless of the government efforts to improve the efficiency of audit systems in the LGAs through staff capacity building and reorganization of Internal Audit Units. The key emerging questions are how effective are the LGAs audit units in managing the public funds? What factors constrain the performance of audit units in the LGAs in Tanzania? This study was set to examine the effectiveness of internal audit in promoting good governance in Mtwara district councils (MDC) and recommend means to strengthen the capacity of audit units to control and minimize mismanagement of public fund in LGAs. Specifically, it evaluates the performance of the internal audit unit in good governance following the amendment of Public Finance Act of 2004 and establishment of Internal Auditor General Division on June 2010.

This research is aimed at assessing the effectiveness of internal audit roles in promoting good governance in local government Authorities in Tanzania.

## **1.5 Research objectives**

The overall of this research was to assess the effectiveness of internal audit roles in promoting good governance in local government Authorities in Tanzania.

### **1.5.1 Specific objective**

This study is guided by the following specific objectives:

1. To determine the effectiveness of internal audit roles in MDC
2. To relate the roles played by internal audit with promotion of good governance in MDC
3. To identify the strength and weakness in the roles of internal audit in promoting good governance
4. To examine the extent to which the council's management acts upon Internal Auditor's recommendations in the MDC

## **1.6 Research questions**

1. What are the roles of internal audit in promoting good governance in MDC?
2. How are the roles played by internal audit related to good governance?
3. What are the strengths and weaknesses encountered by internal audit in promoting good governance in MDC?
4. To what extent does the council's management acts upon Internal Auditor's recommendations in the selected study areas?

## **1.7 Significance of Study**

The findings of this research study are significant in a number of ways. First, the study has revealed a number of weaknesses in the Internal Audit Units in the Mtwara district councils thus the study point out critical areas that require immediate interventions to rectify the problems. Second, the study uncovers new knowledge in the area of Internal Audit service within the LGAs thus providing a case study for other LGAs to learn from. Third, the findings of the study will facilitate informed decision making concern resource allocation in LGAs. Lastly, the findings of the

current study are crucial in devising monitoring and evaluation mechanisms not only in the studied case but also in other LGAs in Tanzania.

The research will further assist this researcher to complete a Master of Science degree in Accounting and Finance of the Mzumbe University (MSc – A&F).

### **1.8 Limitations of Study**

The study aimed at assessing the effectiveness of internal audit in promoting good governance in local government authorities. Certain weaknesses of the study influence the result and its generalization. The researcher had little or no control over such weakness. Some of the potential weakness includes;

Some officials of the audit service feel reluctant to release the needed information for the study. The administration procedure and process of obtaining information prolong the data gathering and analysis. This delay affects the researchers work.

To redress the limitations the research resorted to the following; 1.Use of documentary reviews and participant observation methods to supplement interviews.2. Use of covering letter to introduce the study and self introduction as well as to seek for informed consent of the interviewees

### **1.9 Scope of the Study**

The study will investigate the effectiveness of internal audit roles in promoting good governance in Local government Authorities. The study will consider those variables which create problems in promotion of good governance by internal audit such as funds, qualified personnel and management decisions.

### **1.10 Organization of the study**

The study is organized in five chapters. Chapter one covers the general background of the study. this include the general introduction, definition statement of the problem, objective of the study, research questions, relevance of the study, scope of the study and the limitation of the study. The chapter two reviews related literature on the topic. The methodology used for the study is captured in chapter three.

The chapter four covers detailed presentation of the findings while the final chapter, thus chapter five presents the summary of findings, conclusion and recommendation of the study

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews existing research theories and empirical evidence related to the subject matter. The literature review analyzes the effectiveness of internal audit in promoting good governance. It considers the roles of internal audit in governance, characteristics of good governance, the need of internal audit and the role of internal audit as well as comparative studies.

#### **2.2 An Overview of Auditing Systems in Organisations**

All over the world there is a realization that the Internal Audit activity has the potential to provide their unparalleled services to management in the conduct of their duties. This potential has been turned into a challenge and embodied in the new definition of Internal Auditing from the Institute of Internal Auditors.

Traditionally, people understand internal audit as an activity of self imposed internal check and audit which also supposedly involved the activity of going around telling people what they were doing wrong. However even if one sees it in a narrow sense , the contribution of the activity of internal audit is potentially of major importance as an effective internal audit system leads to improved accountability, ethical and professional practices, effective risk management, improves quality of output and supports decision making and performance tracking.

Auditors' role is to verify whether or not the financial statements of an organisation or institution reflect the true and fair view (Gupta, 1989).

Historically it was always held that internal auditing is confined to merely ensuring that the accounting and allied records have been properly maintained, the assets management system is in place in order to safeguard the assets and also to see whether policies and procedures are in place and are duly being complied with. With changing times this concept has undergone a change with regard to its definition and scope of coverage. Modern approach suggests that it should not be restricted to financial issues alone but also on issues such as cost benefit analysis, resource

utilization and their deployment, matters of propriety, effectiveness of the management, etc.

## **2.3 Conceptual Clarity**

### **2.3.1 Conceptualising Internal Audit**

**The Institute of Internal Auditors of UK and Ireland defines Internal Audit as:**

“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

**The Institute of Internal Auditors New York defines Internal Audit as:**

“Internal audit is an independent, appraisal activity within an organisation for the review of accounting, financial and other operations on the basis as a basis of service to the organisation. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls”.

The above definitions of internal audit call for internal audit, to be an independent function within an organisation placing greater emphasis on its objectivity. Thus internal auditing primarily provides an independent objective opinion to the Head of the Government Department/ Office.

An Internal Audit is part of the management team compared to external auditors who are from outside the organisation (Sawyer, 1996). They play independent appraisal function established by the management of organisations to review of the internal control system (Millichamp, 2002). By standards the Internal Audit unit is expected to be independent in terms of budget, programme of work, reporting mechanism, and staffing to be able to perform their function effectively (Kagashe, 2008). The definitions stress on two aspects of internal audit—assurance and consultancy.

### 2.3.2 Code of ethics for Internal Auditors

The golden principles that state the Code of Ethics for Internal Auditors in Government are Integrity, Objectivity, Competency, Confidentiality and Independence, but internal audit could act as a facilitator within this process.

- a) **Integrity:** Integrity is expected in aspects of the internal audit work. The principles of honesty and fairness are to be observed. The basic point that is raised here is that his report should bring with it an air of trust, reliance and fairness.

Audit integrity is critical to the well-being of society and the records that are generated as a result of audits conducted. Those who conduct audits must do so with integrity principles engrained in their personal character. Auditors performing such audits as accounting, quality assurance or quality system to name a few must not have any perceived conclusions of the outcome. When conclusions are present whether they are fixed or perceived without verification, the process of the audit and the data collected can be affected. He/she must make sure that the focus is maintained during the audit to accomplish the intent established.

**b) Objectivity:** Professional competency and assessment of facts with utmost care is a pre requisite for a good internal auditor. An internal auditor should refrain from making reckless and irresponsible statements or resorting to expressions without proper evidence. In this matter Internal Auditors shall:

- a) Conduct the audit as instructed by the Audit Protocol without bias, prejudice, variance or compromise;
- b) Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interest of the organization;
- c) Remain free of any influence, interest or relationship that impairs professional judgment, independence or objectivity while providing auditing services;

- d) Auditors must not market their services at anytime during the audit process;
- e) Reveal any potential personal or perceived conflict of interest during initial contact or communication with a client;
- f) Auditors must avoid conflicts of interest at all times;
- g) Auditors must not conduct two consecutive audits for an organisation
- h) Protect their independence and not accept any gifts of gratuities which could influence, compromise or threaten the ability of the auditor to act and be seen to be acting independently;
- i) Uphold both the actual and perceived political neutrality in order to discharge their duties and responsibilities in an impartial way.

**c) Competency:** An internal auditor is expected to apply appropriate skill and knowledge combined adequately with experience. An internal auditor should refrain from undertaking works that are outside his scope or beyond the scope of his skill and competence. Performance of the audit and preparation of the report require due professional care by persons possessing adequate training, experience and competence in auditing. The majority of staff development, however, results from on the job training where auditors assist in the training of other, less experienced staff members. Each auditor must be responsible for continuing his/her education in order to maintain their proficiency. This involves keeping abreast of current developments in auditing standards, procedures and techniques.

**d) Confidentiality:** The internal auditor should safeguard all information received by him as most of them may be of confidential nature. There shall be no spill out of possessed information unless there is a statutory, legal and professional requirement to do so. In this matter an internal Auditors shall:

- a) Sustain the confidentiality of information received during the audit;
- b) Be prudent in the use and protection of information acquired in the course of their duties;

- c) Not use audit information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization;
- d) Take all reasonable steps to protect the confidentiality of the audit results, data collected and the anonymity of interviewees;

**e) Independence:** As the definition states, Internal audit is an independent appraisal activity. We need to carefully note here that the word “independent” is important, even though it gets neutralized by the fact that it is within an organisation. Independence stands for an internal auditor being able to report on material facts and figures, uninfluenced by any favor or frown.

An effective internal audit activity is a valuable resource for management and the board or its equivalent, and the audit committee due to its understanding of the organization and its culture, operations, and risk profile. The objectivity, skills, and knowledge of competent internal auditors can significantly add value to an organization's internal control, risk management, and governance processes. Similarly an effective internal audit activity can provide assurance to other stakeholders such as regulators, employees, providers of finance, and shareholders (Millichamp 2000).

#### **2.4 Scope and objectives of Internal Audit**

According to URT (2009) order no 13 and 14, states that an Internal Audit unit shall be responsible for carrying out an independent appraisal of internal control within the local government by examining and evaluating the effectiveness of such control. This means that, internal auditor’s objective is to protect the assets and interests of the local government through a process of continuous examination of its activities, securing a continuous operation of a sound internal control system within each department, reviewing, and where necessary, making recommendations for improvement of the system, controls and procedures in the local government. Also it stated that; the internal auditor shall in collaboration with the accounting officer prepare annual work plan including annual risk based plan and submit to the

controller and Auditor General, Minister responsible for local government and Regional commissioner.

Millichamp (2000), however, identifies the common areas covered by internal auditing which include among others; reviewing the internal control system with a view to determining its adequacy and effectiveness, reviewing compliance with government regulations and accounting rules and standards, checking compliance with policies and procedures, safeguarding the asset of the organisation so as to prevent and detect errors, frauds and theft, appraising the effectiveness and efficiency in the use of resources, ensuring that the goals and objectives of the organisation are attained, making recommendations on improvement in the operation of the organisation, acting as in-house consultant on control matters. On the other hand, he stipulate the essential elements of internal audit such as independence, staffing, training, relationship, due care, planning, controlling and recording, system control, evidence and reporting It can be from these essential elements, no way the internal audit can perform their duties effectively.

## **2.5 Roles of Internal Auditing**

Internal auditor plays the most important roles within an organization as follows:-

- a) Examination and evaluation of financial and operating information within the organization. In certain organizations this can form a type a continuous auditing and may involve sophisticated information systems that capture monitoring of risks and evidencing of controls.
- b) Review of the economy, efficiency and effectiveness of operations.
- c) Review of compliances with external laws and regulations and internal policies and procedures.
- d) Review and advice on the development of key organizational systems and on the implementation of major changes.

### **2.5.1 Internal Audit at Local Government Level**

Internal audit is stipulated by the (URT, 2009) Order No. 13 cited section 48 of the Local Government Finance Act that every Council shall employ its own Internal Auditors who shall work closely with the Heads of Departments and shall report directly to the accounting officer. In this order Internal audit is an independent appraisal of internal control within a LGA. The main function is to examining and evaluating the effectiveness and adequacy of internal control.

### **2.5.2 Internal Audit and Management**

It is important to note that; the nature and scope of operations and the status of an Internal Auditors is determined by the Management and differs among organisation to organisation according to the needs and perceptions of different managements (Millichamp, 2002; Gupta, 1989). The management is responsible to lay ground of strong internal audit unit so as be effective toward enhancing financial management. The absence of the Management support will result to ineffectiveness of the internal audit unit.

On the other hand, Badara (2012) citing Thompson (2003) argues that internal auditing should not be restricted to financial transaction only. He believes that internal auditors can equally assist management by ensuring that adequate financial and management controls have been implemented and are operating effectively or by identifying the weaknesses in such system and making recommendations toward their improvement which include among the others; with internal audit, errors are more likely to be discovered in their early stages. On the other hand existence of assets is verified so as to protect the assets of the organisation, errors in account can be corrected early once detected by the internal auditor, it acts as moral influence on the staff and promotes efficiency by compelling the officers to keep their books of account entered up to date, a detailed examination of the financial account submitted by contractors is facilitated, cash disbursement, such as for wages and salaries, may be checked before they are paid out.

Internal Auditor's function should be independently in order to review properly internal control system regardless they are established by the Management of an

organisation by examining, evaluating and reporting of all adequate information as a contribution to the proper, economic efficient and effective use of resources (Millichamp, 2002). URT (2009) stipulates that the accounting officer is responsible for the establishment of an effective internal audit unit for the appraisal of the internal control system and ensure that the internal audit is functioning properly.

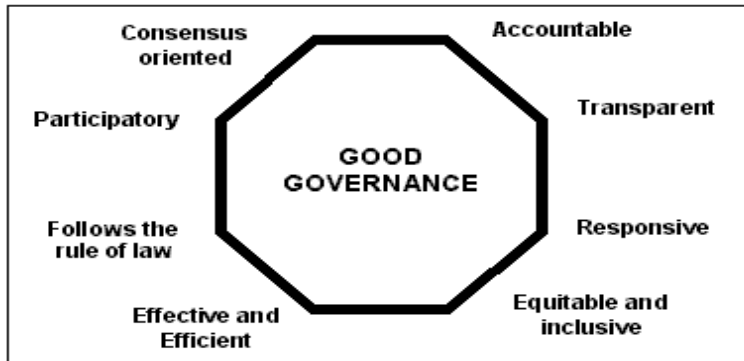
## **2.6 Definition of Good Governance**

**Good governance** is an indeterminate term used in development literature to describe how public institutions conduct public affairs and manage public resources in order to guarantee the realization of human rights ((Schneider, 1999)

Democracy and good governance are essential ingredients for development as they create the necessary enabling environment for sustainable economic growth, and improved service delivery and social well-being. Example in Tanzania Good governance and accountability continue to form the third pillar of MKUKUTA, Tanzania's national strategy for growth and reduction of poverty. Local governments are largely responsible for basic service delivery (education, health, water, roads, agriculture) in Tanzania.

**Good governance** has eight (8) major characteristics. It is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. It assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society (UNDP, 2002)

**Figure 2.1: Characteristics of good governance**



Source: <http://www.ameraldinsight.com>, retrieved on 17 August 2012

### **2.6.1 Characteristics of good governance and the roles of internal audit**

The value of the modern day internal auditor lies in his ability to help management to achieve its' objectives. According to a research jointly conducted by Deloitte & Touche and the Institute of Internal Auditors, U.K., (2004) "improved attitudes toward internal audit are built on a belief that internal audit functions are creating greater value for their organisations". Governance refers to all the strategic plans of the organisation to demonstrate its commitment to quality and excellence. They reflect the strategic thinking and orientation of the Board and Management to achieve the objectives of the organisation.

Internal auditors also have special roles in relation to good governance characteristics, as follows:-

#### **Participation**

Participation by both men and women is a key cornerstone of good governance. Participation could be either direct or through legitimate intermediate institutions or representatives. It is important to point out that representative democracy does not necessarily mean that the concerns of the most vulnerable in society would be taken into consideration in decision making. Participation needs to be informed and organized. This means freedom of association and expression on the one hand and an organized civil society on the other hand.

**Rule of law**

Good governance requires fair legal frameworks that are enforced impartially. It also requires full protection of human rights, particularly those of minorities. Impartial enforcement of laws requires an independent judiciary and an impartial and incorruptible police force. So in order to make sure there is good governance internal audit shall work according to the requirements of law and regulations

**Transparency**

Transparency means that decisions made by the internal audit and their enforcement are done in a manner that follows rules and regulations. It also means that information given by internal audit is freely available and directly accessible to those who will be affected by such decisions and their enforcement. It also means that enough information is provided and that it is provided in easily understandable forms and media.

**Responsiveness**

With regard to internal audit, responsibility pertains to behavior that allows for corrective action and for penalizing mismanagement. Responsible management would, when necessary, put in place what it would take to set the organisation on the right path. While the board of director is accountable to the organisation, it must act responsibly to and with responsibility towards all stakeholders of the organisation.

“Each contracted party is required to act responsibly to the organization and its stakeholders.”

**Consensus oriented**

There are several actors and as many view points in a given society. Good governance requires mediation of the different interests in society to reach a broad consensus in society on what is in the best interest of the whole community and how this can be achieved. It also requires a broad and long-term perspective on what is needed for sustainable human development and how to achieve the goals of such

development. In this matter an internal auditor have to understand the historical, cultural and social contexts of organization is working for so as to achieve the targeted objectives

### **Equity and inclusiveness**

The principle of equity relates to how fairly internal audit exercise the power entrusted to him/her. Citizens grant their agents internal auditors both money and power to carry out their responsibilities. However, citizens are concerned with the misuse of government power, waste of government resources, and any other issues involving corruption or poor management that could negatively impact the government's obligations and service delivery to its citizens.

### **Effectiveness and efficiency**

Good governance means that processes and institutions produce results that meet the needs of society while making the best use of resources at their disposal. The concept of efficiency in the context of good governance also covers the sustainable use of natural resources and the protection of the environment. The principle of effectiveness and efficiency calls for internal auditor to act with integrity and honesty. The erosion of public trust if public information and actions are not reliable undermines a internal auditor's legitimacy and ability to work.

### **Accountability**

Accountability is a key requirement of good governance. Not only governmental institutions but also the private sector and civil society organizations must be accountable to the public and to their institutional stakeholders. Who is accountable to who varies depending on whether decisions or actions taken are internal or external to an organization or institution. In general an organization or an institution is accountable to those who will be affected by its decisions or actions. Accountability cannot be enforced without transparency and the rule of law. Internal auditor need to be accountable for their decisions and actions. Mechanisms must exist and be effective to allow for accountability

From the above discussion it should be clear that good governance is an ideal which is difficult to achieve in its totality. Very few countries and societies have come close to achieving good governance in its totality. However, to ensure sustainable human development, actions must be taken to work towards this ideal with the aim of making it a reality.

However, every decision and program carries with it an element of risk of non-achievement, due to uncertainties associated with the implementation of programs. Some of the risks are reputation, financial, operational, and information technology related. It would therefore be appropriate to have a structured way of identifying events that would impact negatively on the ability of management to achieve their objectives and also to take advantage of opportunities and other events that could be leveraged to achieve those same objectives i.e. an integrated risk management framework that is embedded in the planning process of the organisations. Internal Auditors are experts in creating and promoting a risk management culture that is necessary to the effective implementation of good governance. They can also assist in monitoring the framework.

## **2.6.2 Benefits of Good Governance**

### **a) Promotes community confidence**

People are more likely to have confidence to their internal audit, if decisions are made in a transparent and accountable way. This helps people feel that internal auditor will act in the community's overall interest, regardless of differing opinions. It also encourages local governments to remember that they are acting on behalf of their community and helps them to understand the importance of having open and ethical processes which adhere to the law and stand up to scrutiny.

**b) Encourages elected members and council officers to be confident**

Elected members and council officers will feel better about their involvement in local government when good governance is practiced. Directors will be more confident that they are across the issues, that they can trust the advice they are given, that their views will be respected even if everyone doesn't agree with them, and that the council chamber is a safe place for debate and decision making. Officers will feel more confident in providing frank and fearless advice which is acknowledged and respected by director.

**c) Leads to better decisions**

Decisions that are informed by good information and data, by stakeholder views, and by open and honest debate will generally reflect the broad interests of the community. This does not assume that everyone will think each decision is the right one. But members of the community are more likely to accept the outcomes if the process has been good, even if they don't agree with the decision. They will also be less tempted to continue fighting or attempting to overturn the decision. So even the most difficult and controversial decisions are more likely to stick.

**d) Helps local government meet its legislative responsibilities**

If decision-making is open and able to be followed by observers, it is more likely that local governments will comply with the relevant legal requirements. They will also be less likely to take shortcuts or bend the rules.

**e) Supports ethical decision making**

Good governance creates an environment where elected members and council officers ask themselves 'what is the right thing to do?' when making decisions. Making choices and having to account for them in an open and transparent way encourages honest consideration of the choices facing those in the governance process. This is the case even when differing moral frameworks between individuals means that the answer to 'what is the right thing to do' is not always the same

## **2.7 Improvement of Internal audit roles in good governance**

Management is counting on internal auditors more than ever to improve governance processes, according to a new report from Crowe Chizek, Internal audit is an assurance, consulting, and risk management provider. Internal Audit Plays Pivotal Role in Strengthening Good governance focuses on the profession's opportunities to become a strategic player in Good governance in response to increased government regulation and management directives to strengthen controls and improve risk management.

The report notes that The IIA's International Standards for the Professional Practice of Internal Auditing calls on internal auditors to evaluate and offer recommendations to improve governance processes and affirms their importance in risk management activities. Providing an overview of the governance trends and challenges internal auditors face, the report reminds auditors and management that the board of directors bears the primary responsibility for ensuring effective governance. The report provides examples of steps internal auditors can take to help management and the board with their responsibilities, such as:

- 1) Assisting the board of directors in its governance self-assessment.
- 2) Bringing best practice ideas about internal controls and risk management processes to the audit committee.
- 3) Looking for opportunities to leverage compliance activities to reduce long-term costs.
- 4) Reviewing the organization's code of conduct and ethics policies to ensure they are current and are communicated to employees.
- 5) Conducting annual audits of whistleblower hotline and follow-up processes and reporting the results to the audit committee.
- 6) Addressing disclosure and transparency objectives in the annual audit plan.

Recent events have highlighted the critical role of boards of directors in promoting good governance. In particular, boards are being charged with ultimate responsibility for the effectiveness of their organisations' internal control systems. Historically, internal audit has been considered as a monitoring function, the "organizational policeman and watchdog" (Morgan, 1979), tolerated as a necessary component of organizational control but deemed subservient to the achievement of major corporate objectives.

However, Institute of Internal Auditors, (IIA, 1991; Taylor and Glezen, 1991; Konrath, 1996) defines internal auditing as "an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization". By measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device (Carmichael *et al.*, 1996), which is directly linked to the organizational structure and the general rules of the business.

In this period, internal audit is defined also by COSO (Committee of Sponsoring Organizations of the Treadway Commission, 1992) as a procedure which offers fundamental security to the business concerning the credibility of financial affairs. The report defines internal control and describes a framework for internal control. However, the crucial difference of this report is that it also provides criteria for the management to utilize so as to evaluate controls (Aldridge and Colbert, 1994). An important step was the new definition of internal auditing issued by the IIA in June 1999, which clearly states that "the internal auditing activity should evaluate and contribute to the improvement of risk management, control and governance" (IIA, 1999). The new definition shifts the focus of the internal audit function from one of assurance to that of value added and attempts to move the profession toward a standards-driven approach with a heightened identity (Bou-Raad, 2000; Krogstad *et al.*, 1999).

More recently, the Institute of Internal Auditors (2004) by stating that the internal audit activity should evaluate and contribute to the improvement of risk management, control and governance, recognizes the assurance and consulting role of internal auditing in Good governance. The Internal Control moves within a greater scope of management philosophy and of practical application, and adds up value, offering at the same time a systematic scientific approach on the assessment and the improvement of the effectiveness of businesses (Papadatou, 2005; Karagiorgos *et. al*, 2006).

From the above definitions, it is clear that the internal control is not just an one-sided tool for controlling the order and rightness of certain situations, but it is a method of detecting the value added up to a company, achieving the index of effectiveness and profitability of the company (Nagy and Cenker, 2002; Goodwin, 2004 Karagiorgos *et. al*, 2007).

## **2.8 Theoretical Background of Good Governance**

Good governance issues have become important not only in the academic literature, but also in public policy debates. Good governance issues are in general receiving greater attention as a result of the increasing recognition that a firm's Good governance affects both its economic performance and its ability to access long-term, low investment capital (Mordelet, 2009).

In this concept, Good governance is defined as the total of operations and controls of an organization (Fama and Jensen, 1983) or as an overall structured system of principles (Dey Committee, 1994) according to which an enterprise operates and is organized, managed and controlled. John and Senbet (1998) propose the more comprehensive definition that Good governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected. They include as stakeholders not just shareholders, but also debt holders and even non-financial stakeholders such as employees, suppliers, customers, and other interested parties. Hart (1995) closely

shares this view as he suggests that good governance issues arise in an organization whenever two conditions are present.

First, there is an agency problem, or conflict of interest, involving members of the organization– these might be owners, managers, workers or consumers. Second, transaction costs are such that this agency problem cannot be dealt with through a contract.

Good governance is also defined as the structure and processes among the board of directors, shareholders, top management and other stakeholders, and involves the roles of the stewardship process and exercising strategic leadership, and the objectives of assuring accountability and improving performance (Dunlop, 1998; Sternberg, 1998).

## **2.9 Empirical Literature Related to the Study**

The empirical literature review analyses previous researches related to this study to establish the research gap. Both published and unpublished research papers in print and electronic formats were reviewed to provide secondary information for the current study. The subsequent part provides a review of key studies conducted in and out of Tanzania.

Kagashe (2008) assessed the effectiveness of internal audit services unit in safeguarding public resources in LGAs in Tanzania using Kibaha District Council as a case study. A sample of 25 respondents was used to provide research data. The study revealed that Internal Auditor's reports lack of sound internal control over the council's resources as a result of management laxity over instituting, supporting and supervising the internal control is place. The study also revealed that Internal Audit Unit lack independence in carrying out audit functions in terms of reporting mechanism and programme of work. Other problems facing Internal Audit Units identified by this study was lack of financial and material support, lack of management support in implementing audit recommendations, lack of essential expertise, and inadequate knowledge and experience of Internal Auditors.

Mwakyonga (2009) examined effectiveness of auditing in Public sector in Tanzania and used a sample of 32 respondents. The study revealed a number of factors constraining Internal Auditors work to include absence of audit units at lower levels in the public institutions, the study revealed that auditing sections were situated at the headquarters thus affecting auditing exercise. High running costs and poor communication between the headquarters and the lower level public institutions were among critical factors constraining auditing activities in the public sector.

Kunze (2010) examined the impact of organisation structure on internal audit functions. The study revealed that organisational structure to be a stumbling block to internal audit functions. The further points out problems related to reporting system and urge for changes to enhance internal audit capacities in terms of autonomy and resources. The study also noted reluctance of the management to establish strong internal audit units, mainly due to their low perception on Internal Auditors whom they regard as enemies.

Mulinda (2010) examined the role of internal audit in risk management and revealed that most of internal audit personnel lacked basic Information Technology (IT) skills; quality assurance machinery was lacking, and monitoring and evaluation mechanisms were absent. Similarly, Samagwa (2010) study to explore the efficiency of internal audit in risk management control identified lack of internal audit charter and performance gap of the internal audit department as challenges facing internal auditors on assessing risk management in Tanzania.

Studies conducted outside Tanzania were also reviewed. First, Dessalegn and Yismaw (2007) assessed internal audit effectiveness a case of Ethiopian public sector and revealed that the internal audit office of the organisation studied needed to enhance the technical proficiency of the internal audit staff and minimise staff turnover and foster audit effectiveness. Most of the employees have a short term employment contract and need to upgrade their competencies to enable them to provide high quality services. Internal audit offices do not prepare strategic plans

hence leads their recommendations not afforded enough attention. Finally, the study revealed that organisation status and internal organisation of the internal audit office are fairly rated but internal audit's lack of authority on budgets reduces its control of resources utilisation as a result scope of internal audit services is limited to regular activities.

Similarly, works of Unegbu and Kida (2011) on the effectiveness of internal audit as instrument of improving public sector management in Kano state in Nigeria revealed that Internal Auditors failed to effectively check frauds in the public sector management. Inadequate staffing, presence of small number of public sector audit departments, lack of management support in implementing suggestions in audit reports as challenges facing Internal Audit units in Nigeria. Other challenges included lack of knowledge and experience on the use of computers and computer aided audit programmes, lack of progressive career structure, and lack of conducive working environment of audit staff, inadequate staff remunerations, lack of accountability and lack of professional officeholders as critical challenges facing audit units in the public sector in Kano state.

A more recently study by Sackey chiella (2012) on promoting good governance in public sector (the role of internal auditing in effective corporate governance) in Ghana, identified lack of proper independent exercise by the internal auditor, understaffing on the side of internal audit unit, weak internal control system and Auditors non-adherence to the general auditing standard as factors that constrain internal auditing.

## **2.10 Synthesis of Reviewed literature and Research gap**

A review of the previous literature shows that most of the past researchers have come up with various but similar problems facing Internal Auditing units in the Tanzania public service sector and Africa in general. This implies that, there are common problems facing Internal Auditors in developing countries which require government initiatives to strengthen and build the capacities of the Internal Audit units in alignment with the requirements of URT (2009) order no 14.

This study therefore, is intended to find out how effective are the Internal Audit unit are in promoting good governance in LGAs in Tanzania. The researcher intends to evaluate capacity and efficiency of Internal Auditing units especially with the amendment of the public finance Act of 2004.

### **2.11 Conceptual Framework and Research Model**

The framework (Figure 2.1) illustrates the relationship that exists between internal audit unit and good governance. Internal audit units have direct relationship with good governance in local government authorities (LGAs). In this study main variables ( in this case, independency of Internal Audit units, resources, management support) have direct relationship with good governance in LGAs.

Internal Audit needs to operate independently as an objective observer to provide the accounting officer with substantial feedback that most people in the organisation cannot or will not provide. Therefore, role and charter of the effective internal audit service unit will depend on the degree of independence of the Internal Audit Unit has in carrying out its responsibilities in order to assist Accounting Officers in achieving their objectives. The independence of the Internal Audit Units is considered as a fundamental principle to auditing not only in Tanzania, but in other similar units elsewhere. The independence is measured by scope of responsibilities in a given organisation, access to data and information, quality and amount of audit personnel (Buttery and Simpson, 1990). Internal Auditors are expected to be independent in terms of organizational status and personal objectivity which permits the proper performance of their duties (INTOSAI audit standard, 2009).

On the other hand, internal audit executive should have proper qualifications and experience as well as auditing and managerial skills. The unit has to be adequately staffed both in numbers of manpower and quality (INTOSAI, 2009). Thus, organisations have to ensure that staff appointed has appropriate qualification, personal qualities and potentials to perform the intended duties. Internal audit department should be managed by internal audit manager who possess accounting, managerial and audit skills. It is the responsibility of organisation to ensure that the

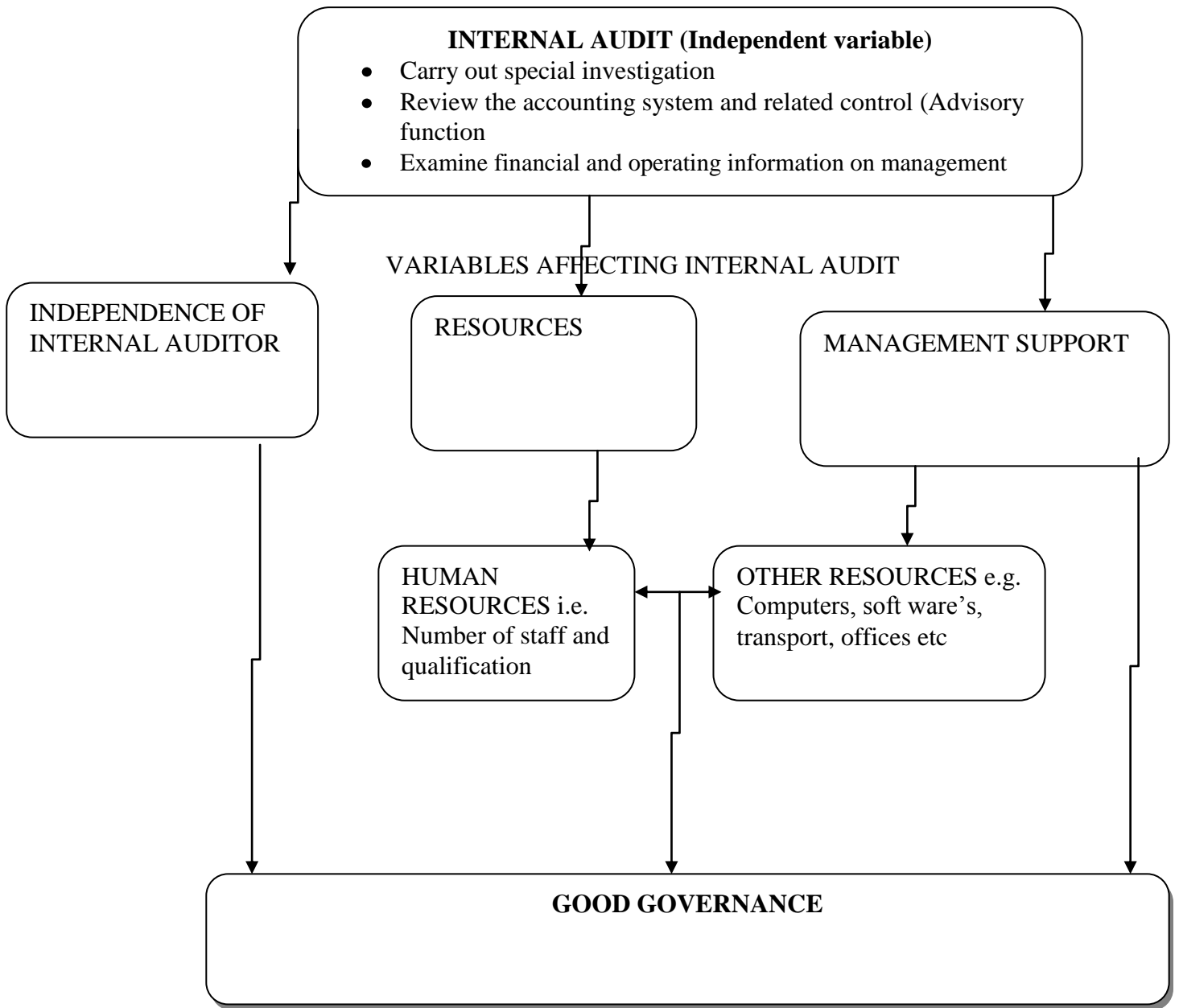
internal audit receives training to impart them with skills and expertise to allow them perform a full range of duties.

Internal audit unit are effective instrument to quality control and safeguard of entity's resources. In order to be effective, Internal Audit units must be supported by the management. The LAFM stipulate that the Director of a Council is responsible for directing the work of the internal audit section, receiving their reports and after consultation with relevant Heads of Departments, ensuring recommendations and acted upon and submitted to relevant authorities.

The internal auditor should not be expected to give total assurance that weaknesses do not exist (Supreme Audit Institute Standard No. 88). In order to demonstrate assurance, due care should be exercised by the Internal Auditor so as to show that his work has been performed in a way which is consistent with auditing guidelines. The Internal Auditor should be aware of the relevant laws and regulations which govern his responsibilities. ISA 610 (using the work of internal auditor), state that, due professional care is to state whether activities of the internal audit function are properly planned, supervised, reviewed and documented.

The framework provides a general setup for the whole subject so that each and every objective is fully represented. For example, objective number one of this study is to assess the effectiveness of internal audit unit roles in MDC in performing their duties. Objective number two is to relate internal audit roles with good governance. Thus, the framework illustrates all possible factors that are used to assess capacity of the unit. Objective number three assesses the strength and weakness of internal audit unit in performing their duties. In this context, the framework includes management support as one of the variable. Objective number four assesses the extent to which the management responds to the Audit reports and recommendations.

**Figure 2.2: The conceptual framework**



**Source: Modified by researcher from various source**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter explains the research methods and techniques that are used in obtaining sample from the population, data collection, the various sources of data, and the types of data collected, as well as the techniques that employed in data analysis. It describes the sampling procedure and the main instruments that will be used in data collection from the field. It therefore portrays the process and manner in which this research would achieve the set research objectives and specifically answer the research questions. This study is descriptive research and described the phenomenon under investigation.

#### **3.2 Research Design**

According to Saunders (2007), the research design describes the plan of the research work. There are two main types of work place research designs, survey and case studies. This study utilised a case study method. The rationale being that such a design provides narrow scope of study, offers rich qualitative data on work place activities and can be useful for providing opportunity to a more accurate source of information. It involves determination of the research questions, gathering of data, analysis of the data collected and evaluating the data and finally write a report. This kind of research design is flexible in collecting data as it allows collection of data from variety of sources especially through interviews and questionnaires. The research will be studied at MDC population regarding the effectiveness of internal audit roles in promoting good governance.

#### **3.3. Study Population**

The target population comprised of Director, Internal auditors, Heads of departments, HR personnel and other employees at the MDC community, making the total of forty (40) samples. In order to amass information regarding the study, these groups of people were interviewed using an in depth instrument. Each group of

respondents mentioned was included in the study since it provides relevant information as far as internal audit roles perception is concerned.

### **3.4 Unity of Analysis**

The study investigates the effectiveness of internal audit roles in promoting good governance in local government Authorities (LGA). The researcher has opted for this unit of analysis because; the large number of internal audit is employed by LGA. For that matter, if the roles of internal audit in promoting good governance understood by LGA's it would certainly lead to the understanding of the same by the private sector as well.

### **3.5 Sample Size**

The sample of forty (n = 40) respondents was drawn from the staff of MDC from various departments to represent MDC as a whole. The sample of 40 is reasonable and representative as recommended by Saunders (2007). The sample needs to be representative to provide an avenue for generalizations in the end. Director, head of department and HR personnel for instance is sampled because they are the ones monitoring and managing the staff at the MDC; Internal audit personnel because they are knowledgeable with the roles and responsibilities of the internal audit. Other employee is sampled also because they will help the researcher to know if they have any idea about internal audit, and its roles.

The following is a summary schedule of the proposed sample:

**Table 3.1: Sampling Frame**

| <b>CATEGORY</b>      | <b>NUMBER</b> |
|----------------------|---------------|
| Director             | 1             |
| Finance Officers     | 2             |
| Heads of Departments | 12            |
| HR Personnel         | 3             |
| Internal Auditors    | 2             |
| Other staff of MDC   | 20            |
| <b>Total</b>         | <b>40</b>     |

Source: Researcher's field work 2013

### **3.6 Sampling Technique**

A sampling technique is a procedure that utilized by a researcher to gather information (Saunders, 2007).

A purposive and simple random sampling technique was employed in this study. Purposive sampling was used because it is recommended when sample elements and locations are chosen to fulfill certain criteria or characteristics or have attributes under study (Makombe, Temba and Kihombo, 1999 citing Mbilinyi, 1992). This technique was used to select staff in specific departments who possessed skills, knowledge, and experience in Internal Auditing within Mtwara District Council. Criteria for selection were as follows:

- i) District Executive Directors was selected because he is the Accounting Officer of the MDC as stipulated in Local Authority Financial Memorandum LAFM (2009) order No. 7.
- ii) The Finance officers were chosen because they are MDC's Chief Financial Officer and they are responsible for advising the MDC on all financial matters.
- iii) Internal Auditors were selected because they are key players on ensuring there is good governance within MDC.
- iv) Selected Heads of Departments are Sub-Accounting Officers advising the District Director on management of all financial matters of the department.
- v) HR personnel were selected because they are responsible for the well being of their staff in ensuring that the working environment is conducive so as to attain good governance in MDC.
- vi) Other staff of MDC were selected so as the researcher can get to know if they have any knowledge on the roles played by the internal audit in MDC

### **3.7 Types and Sources of Data**

Both primary and secondary data was used in this study. Primary data are those data which are collected afresh and for the first time and thus happen to be original in character (Saunders, 2007). The researcher used the primary data source to collect information from a sample of MDC employees. Secondary data sources are those

data which have already been collected by someone else and which have already been passed through the statistical process (Saunders, 2007).

**Primary data** was collected from employees' at MDC. Having such a source, the researcher was able to amass their perceptions on effectiveness of internal audit roles in promoting good governance

**Secondary data** comprises those which have already been collected by someone else and which have already been passed through the statistical process (Saunders, 2007). This was gathered as documentary reviews in search of relevant literature for the study. The aim of such data was to acquire an overview of the study, understanding more about issues evolving the study by referring to previous studies, so as to be able to use the relevance information in generating knowledge gap and finally, a good research report.

### **3.8 Techniques for Data Collection**

The study employs different techniques in collecting both primary and secondary data. On collecting primary data the researcher used interviews and questionnaires. Likewise in collecting secondary data, the researcher used documentary reviews. The rationale for using these techniques was explained hereunder:

#### **3.8.1 Interviews**

Face to face interview was conducted and verbal communications involving descriptive type of research. The method has been prioritized because it is fast, easy and cheaper, it also saves time. Moreover an interview enables the researcher to seek clarifications from the respondents in areas where s/he did not understand. The interview technique is flexible; it permits adaptation of the language to the ability of interviewee to mention received facts. This technique was mainly used to amass information from internal audit, HR qualified personnel and heads of departments.

#### **3.8.2 Questionnaires**

Questionnaires as a method of collecting data enable the researcher to collect data for analysis and predict the eligibility of assumptions. Structured questionnaire will

be distributed to other employees. This method is widely acceptable and applicable in facts finding to the research problem. (Saunders, 2007). The questionnaire is provided on the appendix 1.

### **3.9 Methods of Data Analysis**

The study utilizes quantitative and qualitative approaches to analyze information on effectiveness of internal audit roles in promoting good governance in LGA. Quantitative data was analyzed, tabulated and then interpreted using the SPSS. A descriptive analysis was conducted by transforming raw data into understandable form to facilitate the interpretations of the data. Therefore, the researcher used SPSS (Statistical Product for Social Scientists) to analyze collected data. The major objective of this research was to assess effectiveness of internal audit roles in promoting good governance in local government Authorities, a case of Mtwara District Council.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

#### 4.1 Introduction

This chapter deals with the research findings and analysis of the data. The details include the personal data of respondents, findings on my four research questions which are as follows; what are the effectiveness of roles of internal audit in promoting good governance in MDC, the roles played by internal audit related to good governance, the strengths and weaknesses encountered by internal audit in promoting good governance in MDC and to what extent does the council's management acts upon Internal Auditor's recommendations in the MDC.

#### 4.2 Personal data of respondents

This section examines the personal data of all the respondents used for the study in terms of gender, job titles, ages and so forth.

In this study on the Effectiveness of internal audit roles in promoting good governance in local Government Authorities various respondent were examined. In this case, 33 respondents participated and data were collected through interviews and questionnaires.

The following are the results obtained through in-depth interviews; questionnaires.

**Table 4.1: indicates responses with role/position**

| CATEGORY             | Responses | Non responses | Total responses | Responses rate % |
|----------------------|-----------|---------------|-----------------|------------------|
| Director             | 1         | -             | 1               | 100.0            |
| Finance Officers     | 2         | -             | 2               | 100.0            |
| Heads of Departments | 8         | 4             | 8               | 66.7             |
| HR Personnel         | 2         | 1             | 2               | 66.7             |
| Internal Auditors    | 2         |               | 2               | 100              |
| Other staff of MDC   | 18        | 2             | 18              | 90               |
| <b>Total</b>         | <b>40</b> | <b>7</b>      | <b>33</b>       | <b>82.5</b>      |

Source: Researcher's field work 2013

The above table indicates that there was a response rate of 33 respondents which was 82.5% out of 40 people expected. Whereby, table shows that there was response of 100% from Director, finance officers and Internal audit Personnel whereas the response rate of other employees at MDC was 90% of other employees of MDC and 66.7% for HR personnel and Heads of departments. Therefore the table shows that 17.5% of respondents failed to respond to the study while 82.5% of the respondents responded well. The overall response rate of 82.5% is acceptable and hence guarantees further analysis of the data to this study.

#### 4.2.1 Respondents by Education Levels

The data collected also was analyzed according to the education level of the respondents. The results of the analysis were as follows:

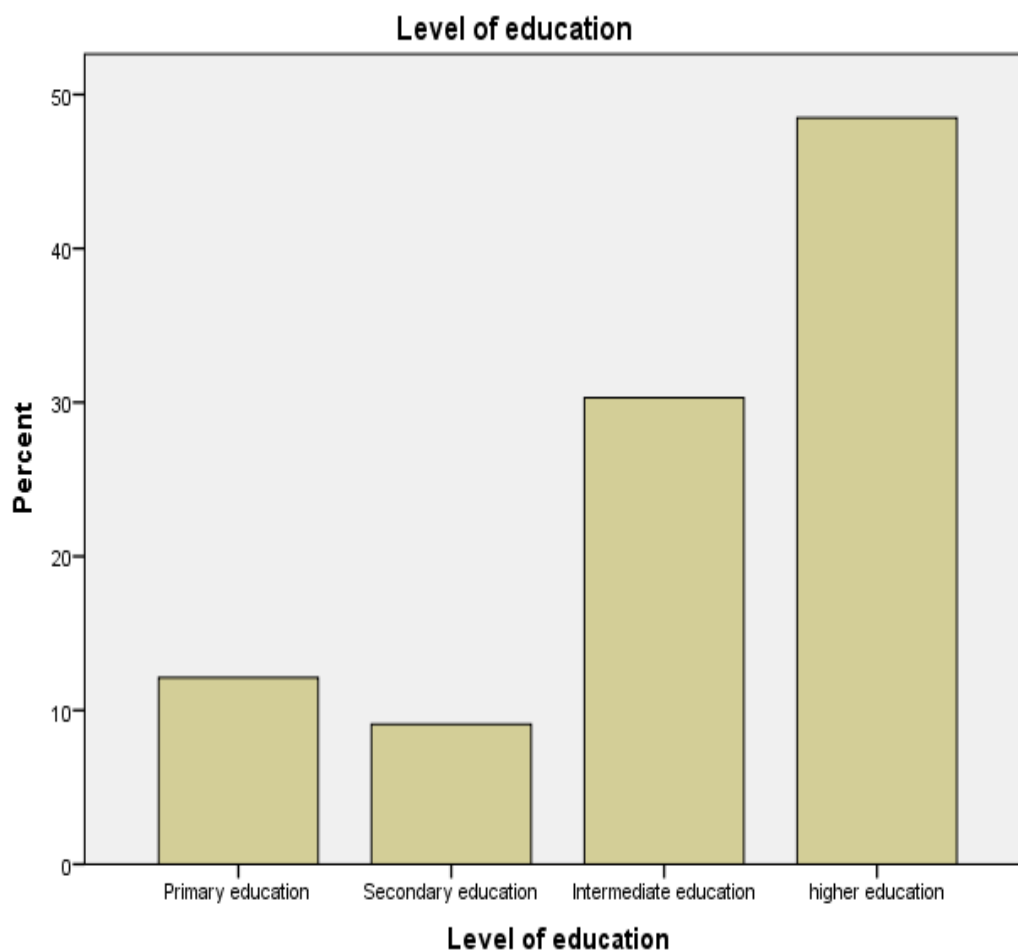
**Table 4.2: Respondents by Education Level**

|       |                        | Level of education |         |               |                    |
|-------|------------------------|--------------------|---------|---------------|--------------------|
|       |                        | Frequency          | Percent | Valid Percent | Cumulative Percent |
| Valid | Primary education      | 4                  | 11.8    | 12.1          | 12.1               |
|       | Secondary education    | 3                  | 8.8     | 9.1           | 21.2               |
|       | Intermediate education | 10                 | 29.4    | 30.3          | 51.5               |
|       | higher education       | 16                 | 47.1    | 48.5          | 100.0              |
|       | Total                  | 33                 | 100     | 100.0         |                    |
| Total |                        | 33                 | 100.0   |               |                    |

Source: Researcher's field work 2013

Table 4.2 above illustrates the level of education of the respondents as follows; with higher education were 48.5%, intermediate level were 30.3%, secondary education were 9.1% and 12.1% respondent with primary education responded in this study. This can be illustrated by figure 4.1 below

**Figure 4.1 : Level of education**



Source: Researcher's field work 2013

**Table 4.3: Respondents by Age**

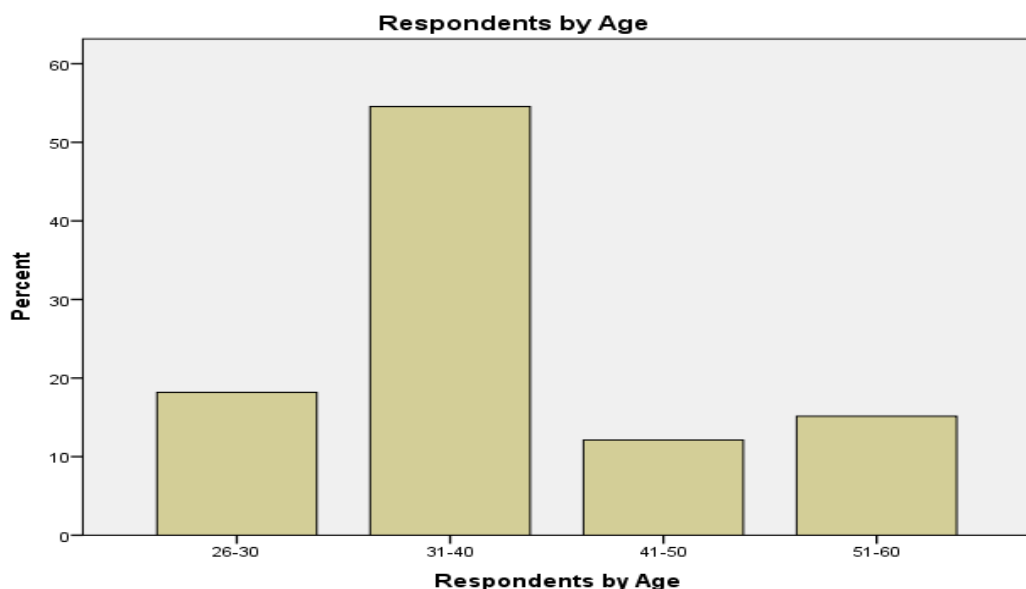
**Respondents by Age**

|                | Frequency | Percent | Valid Percent | Cumulative Percent |
|----------------|-----------|---------|---------------|--------------------|
| Valid 26-30    | 6         | 17.6    | 18.2          | 18.2               |
| Valid 31-40    | 18        | 52.9    | 54.5          | 72.7               |
| Valid 41-50    | 4         | 11.8    | 12.1          | 84.8               |
| Valid 51-60    | 5         | 14.7    | 15.2          | 100.0              |
| Valid Total    | 33        | 100     | 100.0         |                    |
| Missing System |           |         |               |                    |
| Total          | 33        | 100.0   |               |                    |

Source: Researcher's field work 2013

Table 4.3 represents the age groups of the total respondents for the research. From table 4.3, the researcher found out that, the majority of the MDC workers fall within 31-40 years which represents 18 respondents/frequencies making 54.5% of the total sample. 6 respondents representing 18.2% were in 26-30 years, 5 respondents representing 15.2% were in 51-60 years and the remaining 4 respondents representing 12.1% were in the ages of 41-50 years.

**Figure. 4.2 : Respondents by Age**



Source: Researcher's field work 2013

### **4.3 Analysis of findings**

As it was stated earlier, the analysis of the study was based on the research questions as explained below.

#### **4.3.1 To determine the effectiveness of internal audit roles in MDC**

The researcher in this section was interested in knowing about the employees' knowledge about the roles played by internal audit in MDC so as to enhance good governance in their office. However, several questions were raised to assess and response from the respondents at MDC were as narrated hereunder:

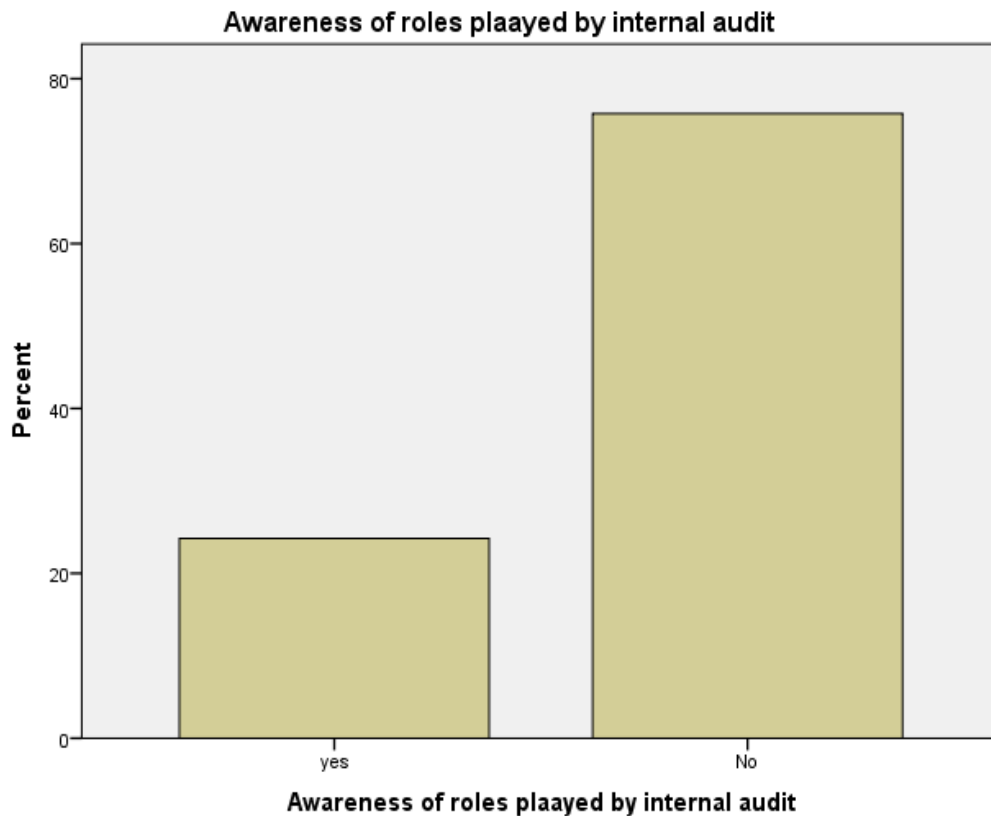
**Table 4.4:** Awareness of roles played by internal audit

|         |        | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------|--------|-----------|---------|---------------|--------------------|
| Valid   | yes    | 8         | 23.5    | 24.2          | 24.2               |
|         | No     | 25        | 73.5    | 75.8          | 100.0              |
|         | Total  | 33        | 100     | 100.0         |                    |
| Missing | System |           |         |               |                    |
| Total   |        | 33        | 100.0   |               |                    |

Source: Researcher’s field work 2013

Findings revealed that, majority of MDC employees has no knowledge about the roles played by internal audit in MDC. Out of the overall respondents, 25 of them representing 76% agree that they are not aware of the roles played by internal auditor whiles 8 respondents representing 24% agree that they know the roles played by internal audit. This is also can be represented by figure below.

**Figure 4.3:** Awareness of roles played by internal audit



Source: Researcher’s field work 2013

The data collected shows that, most of the employees at MDC have no knowledge on the roles played by internal audit. If that is the case means that internal audit may not get support or assistance during their work since most of the employees has no ideas on the roles played by them, so this will lead to under performance of the roles played by internal audit in promoting good governance in MDC. Also this may result to less commitment to internal audit by the management.

#### **4.3.2 To relate the roles played by internal audit with promotion of good governance in MDC**

The researcher in this section wanted an idea from the respondents as to whether the roles played by internal audit enhance good governance in MDC, if yes how

**Table 4.5: Relationship of roles played by internal Audit with good governance**

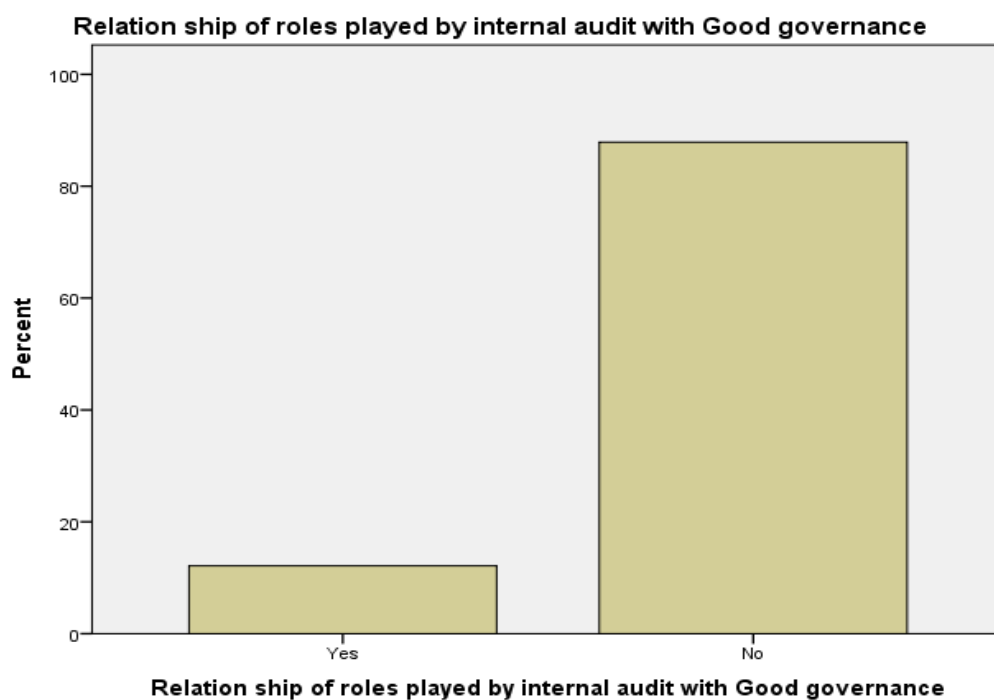
**Relation ship of roles played by internal audit with Good governance**

|               | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------------|-----------|---------|---------------|--------------------|
| Valid Yes     | 4         | 12.1    | 12.1          | 12.1               |
| Valid No      | 29        | 87.9    | 87.9          | 100.0              |
| Valid Total   | 33        | 100     | 100.0         |                    |
| Missing Total | 34        | 100.0   |               |                    |

Source: Researcher's field work 2013

From the data collected, 29 respondents out of the 33 representing 87.8% said that the roles played by internal audit do not enhance good governance in MDC whiles 4 respondents representing 12.2% said roles played by internal audit enhance good governance in MDC. This is illustrated by the figure 4.4 below.

**Figure 4.4: Relationship of roles played by internal audit with Good governance**



Source: Researcher's field work 2013

From the data collected researcher found from respondents that roles played by internal audit in MDC do not enhance good governance since most of the employee said no to the question that raised by the researcher on whether roles played by internal audit enhance good governance in MDC.

#### **4.3.3 Strengths and weakness of internal audit in promoting good Governance**

In this section, the researcher wanted idea of the respondents as to how independent the internal auditor is in MDC and how well the internal auditor is motivated through training and incentives, and if they are well resourced.

**Table 4.6: Independency of the internal audit unit**

|          | Frequency | Percent |
|----------|-----------|---------|
| Valid No | 27        | 81.8    |
| Yes      | 6         | 18.2    |
| Total    | 33        | 100     |

Source: Researcher's field work 2013

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.(Institute of Internal Auditors, 1999).

To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

Table 4.6 shows that, out of the 33 respondents, 27 who constitute 81.8% said internal auditors in MDC are not independent enough based on the fact that the internal auditor is an employee to the MDC and in most cases reports to the District executive officer while 6 respondents who represent 18.2% said internal auditors are independent.

Interviewees explained that:

*“It is difficult for internal auditors in the MDC to achieve independence as they are employees of the organisation they audit; this is issue around the reporting level, freedom of enquiry, the provision of non-audit activity, and the relationships with auditees.*

It was confirmed by other interviewees that:

*“Whilst internal auditors have their own separate department in the organisational structure, however, internal audit was located under head of accounting department”.*

**Table 4.7: Motivation of the internal audit unit**

|          | Frequency | Percent |
|----------|-----------|---------|
| Valid No | 31        | 94      |
| Yes      | 2         | 6       |
| Total    | 33        | 100     |

Source: Researcher's field work 2013

From the data collected, 31 respondents representing 94% of the total sample size of 33 respondents said that, the internal audit unit or function in MDC is not highly motivated in terms of incentives, and training whiles the remaining 2 respondents constituting 6% said that, the internal audit unit in MDC is motivated enough.

**Table 4.8: Resource of the internal audit function**

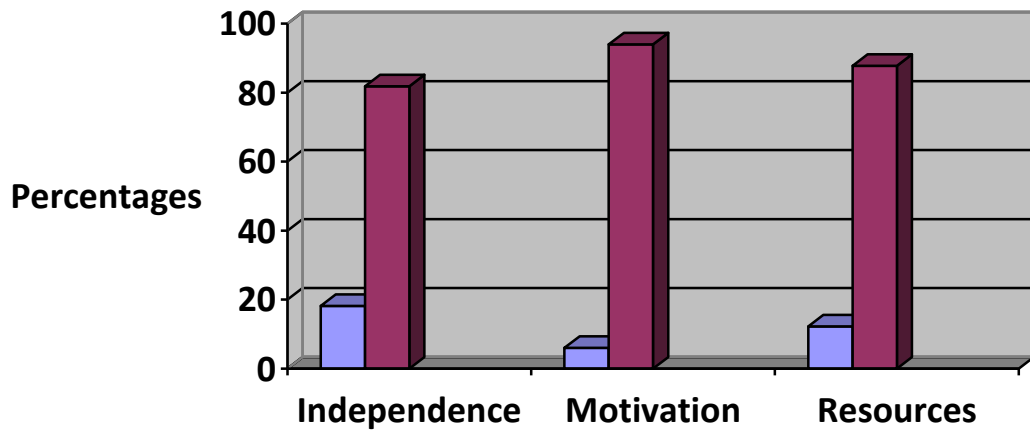
|          | Frequency | Percent |
|----------|-----------|---------|
| Valid No | 29        | 87.8    |
| Yes      | 4         | 12.2    |
| Total    | 33        | 100     |

Source: Researcher's field work 2013

Table 4.8 shows how well the internal audit unit in MDC is resourced. Data collected revealed that, internal audit units are not well resourced in terms of personnel, and infrastructure. Out of the 33 respondents, 29 representing 87.8% said the internal audit units are not well resourced in MDC while 4 respondents making 12.2% said the internal audit unit is well resourced. These data are shown in the fig. 4.5

**Figure 4.5: Independence, Motivation and Resources**

### **Independence, Motivation and Resources**



Source: Researcher’s field work 2013

From the data collected, the researcher found out from the respondents that, MDC internal auditor is not independent, motivated and well-resourced based on the fact that they are not to make decisions and recommendations for the betterment of the MDC but to cover the deeds of the co-employees. The internal auditors are not motivated enough based on proper incentives, training and so forth and they are not well resourced in terms of infrastructure and other resources, so this may cause them to fail to promote good governance in MDC since when they report on the matter they will not be confident fearing for their boss perception to them on the matter reported.

#### **4.3.4 Importance of internal Audit to the MDC**

Internal Audit is a tool of control to measure and evaluate the effectiveness of the working of an organization primarily with accounting, financial and operational matters (Sawyer, 1996). The job of internal audit is to ensure that the work of the organisation is going on smoothly, efficiently and economically and that all the

laws, rules and regulations governing the operations of the organization are adhered to, besides ensuring that an effective internal control system exists to prevent errors, frauds and misappropriations.

This section examines how important internal audit unit is to the employees, management and other stakeholder in MDC.

The data collected shows that, 6 respondents representing 18.2% see the importance of the internal audit unit as very high to the MDC, 8 respondents constituting 24.2% see internal audit unit as highly important, 16 representing 48.5% said the importance of internal audit as moderate and the remaining 3 respondents representing 9.1% see the importance of the internal audit unit as low.

**Table 4.9 : Importance of Internal Audit to the MDC**

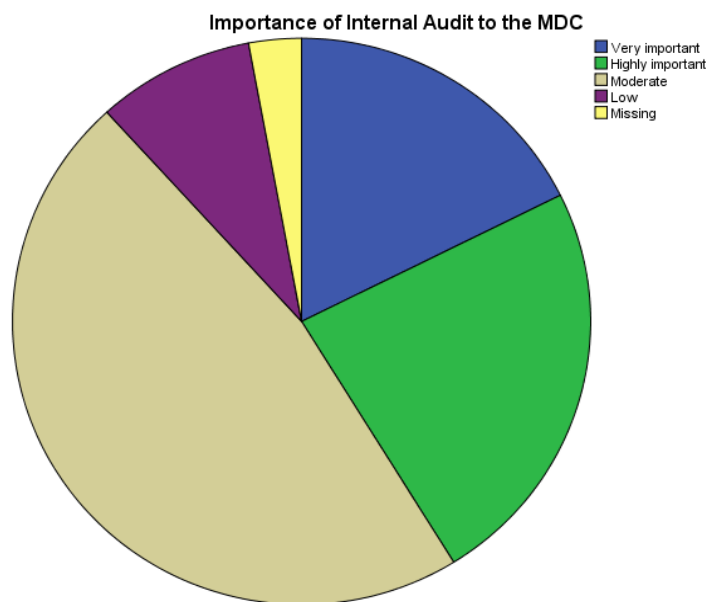
**Importance of Internal Audit to the MDC**

|         | Frequency        | Percent | Valid Percent | Cumulative Percent |       |
|---------|------------------|---------|---------------|--------------------|-------|
| Valid   | Very important   | 6       | 17.6          | 18.2               | 18.2  |
|         | Highly important | 8       | 23.5          | 24.2               | 42.4  |
|         | Moderate         | 16      | 47.1          | 48.5               | 90.9  |
|         | Low              | 3       | 8.8           | 9.1                | 100.0 |
|         | Total            | 33      | 97.1          | 100.0              |       |
| Missing | System           |         |               |                    |       |
| Total   |                  | 34      | 100.0         |                    |       |

Source: Researcher's field work 2013

From the data collected showed that, the importance of internal audit activities in MDC is moderate. This means that, most of the employee at MDC does not see the importance of employing internal auditor when the internal audit is to examine the operations and activities of the organisation. Out of the 33 respondents, 48.5% which makes the majority say that having internal audit function or unit in MDC is neither relevant nor irrelevant.

**Figure 4.6: Importance of internal Audit to the MDC**



Source: Researcher’s field work 2013

#### 4.3.5 Management action on the advice and recommendations of the internal Auditor

In this section the researcher wanted to know about the actions of management on internal auditor’s advices and recommendations. The result was as shown below

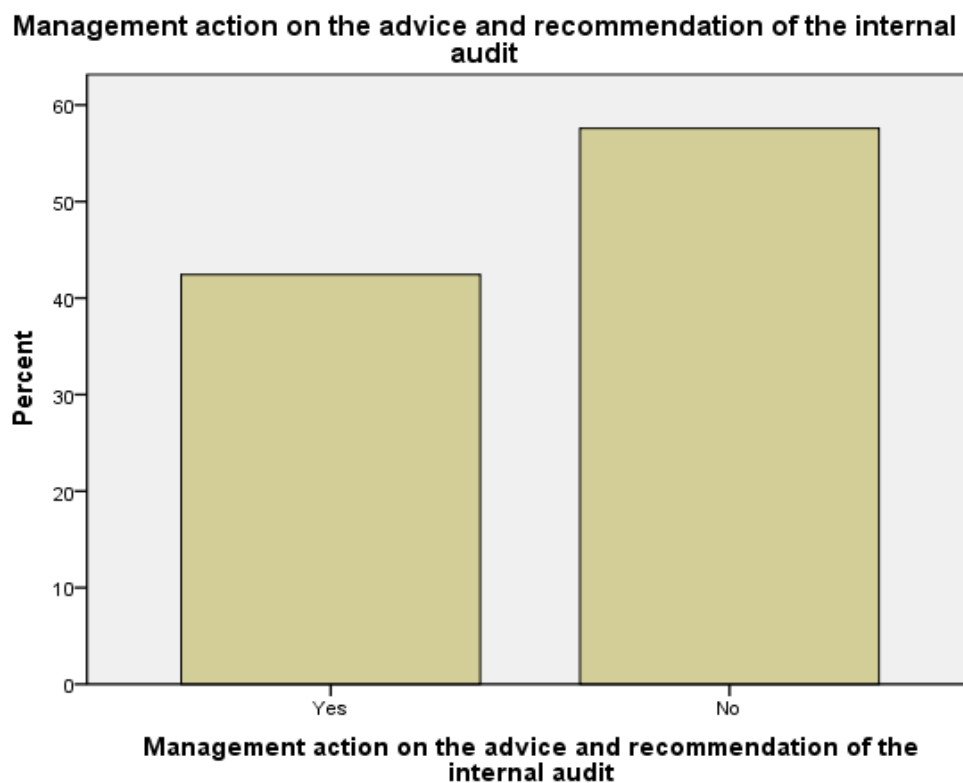
**Table 4.10 Management action on the advice and recommendation of the internal audit**

| Management action on the advice and recommendation of the internal audit |           |         |               |                    |
|--|-----------|---------|---------------|--------------------|
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid Yes  | 14        | 42.4    | 42.4          | 42.4               |
| Valid No   | 19        | 57.6    | 57.6          | 100.0              |
| Total  | 33        | 100.0   | 100.0         |                    |

Source: Researcher’s field work 2013

Data collected shows that, out of the 33 respondents, 18 frequencies representing 54.5% said that, management does not consider or carry out advices and recommendations of internal auditors in the MDC whiles 15 frequencies representing 45.5% said that management at MDC carry out internal auditor's advices and recommendation. This can be represented by figure 4.7 below

**Figure 4.7: Management action on the advice and recommendation of the internal audit.**



Source: Researcher's field work 2013

Results on whether management carries out advices and recommendations of the internal auditor revealed that, out of the 33 respondents, 18 representing 54.5% said no to the question which can be concluded then that, management majority of the entitled parties to audit quarrel raised by internal audit in MDC do not carry out the advices and recommendations of the internal auditor.

Interviewees reported that internal audit suffers from a lack of support from top management. Several reasons were offered for the perceived absence of management support. Moreover one of the respondents also agreed that internal audit did not receive sufficient support from the highest officials of the MDC. He pointed out that “*there is not sufficient support for internal audit*”, and he considered this as one of the reasons for the lack of independence. In addition one of the respondents believed that lack of support affected the competence of the department, saying “*internal audit will not have qualified staff as long as it does not receive sufficient support from top management*”.

When recommendations given by them to management is ignored it will cause them to be disappointed and loose morale so this will cause the failure of their roles in promoting good governance in MDC

#### **4.3.6 Presence of Audit Committee and performance**

Audit committees established in the board of directors as a controlled mechanism capable of establishing an interface between the management and the statutory audit and reduce conflicts of interest and subsequently the agency costs (LAFM 2009).

The Audit Committee’s role is to supervise and control the audit process and also resolve any dispute that may arise between the auditors and management.

In this section, the researcher wanted idea of the respondents as to whether there is an audit committee and if it is performed on the basis of annual plan. Data collected shows that, out of the 33 respondents, 25 respondents representing 75.8% said that, audit committee is not performed on the basis of annual plan in the MDC while 8 respondents representing 24.2% said audit committee is performed on the basis of annual plan, as shown in figure 4.3.7 below.

**Table 4.11 : Performance of Audit Committee**

|          | Frequency | Percent |
|----------|-----------|---------|
| Valid No | 25        | 75.8    |
| Yes      | 8         | 24.2    |
| Total    | 33        | 100     |

Source: Researcher's field work 2013

From the data collected by the researcher it shows that the Audit committee is there but the committee is not performed on the basis of annual plan, as stated in Local Authorities Financial Memorandum (2009) the audit committee is required to be performed four times per financial year discussing on the matter of LGA's financial performance.

#### **4.3.7 Internal audit function human resource management**

In this section the researcher wanted to know if there is sufficient number of audit staff within the department, and if they are qualified enough to work as auditors also to know if there is any training done/attendance to those internal auditors so as they can work properly. However, several questions were raised to assess and response from the respondents at MDC were as narrated hereunder:

**Table 4.12: Internal audit function human resource management**

| Question   | Yes     |      | NO      |      |
|--|---------|------|---------|------|
|  | Number. | %    | Number. | %    |
| Do you think that the organization's audit department or divisions have sufficient number of staff   | 3       | 9.1  | 30      | 90.9 |
| Do you think that the organization's audit department or divisions have Appropriately qualified staff  | 6       | 18.2 | 27      | 81.8 |
| Do you believe that internal audits core competencies are directly related to its mission, role and scope of work                                | 12      | 36.4 | 21      | 63.6 |
| Are salary levels sufficient to allow the organization to attract and retain auditors with the requisite professional skills and qualifications? | 14      | 42.4 | 19      | 57.6 |
| Are in service trainings for auditors organized whenever required?   | 8       | 24.2 | 25      | 75.8 |

Source: Researcher's field work 2013

Table 4.12 above reflects that 30 respondents which are 90.9% says that there is no sufficient number of staff in the audit department, while 3 respondents representing 9.1% agree that there is sufficient number of staff, another question whereby the researcher wanted to know if the internal audit posses appropriate qualified staff, 27 respondents which represents 81.8% said "no" while 6 respondents which represents 18.2% said "yes".

Furthermore findings on the Internal audit function human resource management researcher wanted to know if in service training for Auditors organised whenever required, 8 respondents representing 24.2% said "yes" while 25 respondents representing 75.8 said "no".

From the analysis above the researcher found the following

### **Sufficient number of staff**

From the respondents response shows that there is no sufficient number of staff in the Audit department in MDC, 30 respondents representing 90.9% of the total sample size of 33 respondents said that, the internal audit unit or function in MDC has no sufficient number of staff while the remaining 3 respondents constituting 9.1% said that, the internal audit unit in MDC has sufficient number of staff. Also it was observed by the researcher during the work there is only two internal auditors in MDC.

### **Appropriately qualified staff**

Professional certification (example CIA, CPA) is considered an important indicator of technical proficiency (Tarr, 2002; Lewington, 1996; Myers and Gramling, 1997; Felts, 1994), but sadly, interviewees revealed that internal auditors did not possess any such qualification. 27 respondents representing 81.8% of the total sample size of 33 respondents said that, the internal audit unit or function in MDC has no qualified staff while the remaining 6 respondents constituting 18.2% said that, the internal audit unit in MDC has qualified staff. Through interview the researcher discovered that none of the two internal auditors in MDC has qualified profession offered by NBAA or IIA or ACCA

Furthermore, interview responses from members suggested a lack of understanding of the importance of having qualified staff to perform the internal audit function as “*it is all simple daily transactions*” and there is no need for holders of “*professional qualifications*”.

### **In-service training for internal Auditors**

Continuing development and training of internal audit staff is addressed in Internal Audit manual, which states that the head of the internal audit department should prepare a training plan for staff and that this plan should be approved by the first official of the organisation. The plan should contain details of the location and timing of the training and the content should be designed according to the training need. At the international level, the IIA recommends that internal auditors should

complete 80 hours of acceptable continuous professional education (CPE) every two years (IIA, 2000), that is, an average of 40 hours each year. However, analysis of the interview data revealed that there is a shortage of development and training programmes and too few opportunities to attend such training that did exist. This is shown by the data collected by the researcher as 25 respondents representing 75.8% of the total sample size of 33 respondents said that, the internal audit unit or function in MDC has no in-service training while the remaining 8 respondents constituting 24.2% said that, the internal audit unit in MDC has in service training.

Also it was observed by the researcher during the research through interview that there are several reasons for the lack of training, including financial issues (example, the amount allocated for training staff), shortage of internal audit-related programmes available to internal auditors, and a small number of internal audit staff such that the head of department might not allow staff to attend such training because of the departments inability to continue.

In conclusion, it can be seen from the findings that, internal auditors lacks qualified professionals since they are not trained, they are not well resourced and motivated and above all, internal auditors are not independently enough to take decisions as to whether MDC financial statements are prepared accordingly and their actions towards fraud, errors and irregularities detected in the course of their activities. These problems face by MDC internal auditor violate how public organizations are to be operated and directed.

#### **4.4 Problems of internal audit in MDC**

The challenges faced by the service in the performance of their duties can be summarized as follows;

1. The service receives insufficient funds from the central government to meet its obligations.
2. The service also lacks infrastructural facilities such as offices, libraries and residential premises for staff.

3. Lack of logistics such as vehicles for operational duties, computer for processing data.
4. Human resource is one of the service short falls. Staff strength of the service is in adequate considering the number of department they have to audit in MDC.
5. Even the fewer staff is also not motivated in terms of remuneration. This affects the morale of the staff of the service which may have adverse effect on their performance in promoting good governance in MDC.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This section summarizes the overall findings from respondents, the problems identified, the researcher's recommendations and conclusion to the whole research.

The conclusion and recommendations are derived from the study and analysis of the findings as discussed in chapter four. This is focused on the effectiveness of internal audit roles in promoting good governance in local government authorities in Tanzania, a case of Mtwara district council based on the research data. The support of my conclusion is as well as discussed by the current prevailing situation, views from academicians and graduate students.

#### **5.2 Summary of Research Findings**

The summaries of findings are based on the analysis of information presented in chapter 4. In assessing the effectiveness of roles played by Internal Audit in promoting good governance in LGAs, some necessary aspects for the internal auditing were examined; including independence of internal auditors, staffing and resources, management support and professional development and professional experiences of the Internal Auditors.

Independence of internal auditors is manifested in budgetary processes especially disbursement, utilisation and management of Audit Units finances. The study noted that the MDC' management is the overseers of Internal audits budgets and the amount of units' funding depends on the management decisions.

With regards to the capacity of Internal Audit Units, the study reveals that MDC do not have adequate Internal Audit staff to enable them perform their functions timely and effectively. It was also revealed that the major auditing activities the Internal Audit Units perform are transactional audit rather than performance and achievement of the projects. This scenario is contributed by absence of adequate

manpower and other facilities and resources such as transport, hence their inability to visit the various projects.

On the management reaction to Internal Audit recommendations, the study revealed that the management response to recommendations of the Internal Auditors report is very low.

Also the researcher findings revealed that most of the employee has no knowledge on the roles played by internal audit in MDC hence causing them to see that presence of internal audit department in their office is irrelevant.

Another finding is that MDC as other LGA's has Audit committee as required by law but it is not performed on the basis of annual plan, so due to this internal audit fails where to discuss on the issue of MDC financial performance.

### **5.3 Conclusions**

From the analysis of findings, the following conclusions can be made on the effectiveness of internal audit roles in promoting good governance in Local government authorities. It is evident from the study that, the internal audit service in Tanzania plays an important role in promoting good governance in the Local government Authorities by safe guarding public assets and ensuring good financial management system. They are however not able to play this role effectively and efficiently because of the challenges they face.

Even though systems, procedures and processes are clearly stated to be followed by public officials in the public service and monitored by the internal service, non-compliance and non co- operation from management negatively affects their governance role in MDC, this is evidence from the question raised by the researcher that needs to know if the employee of MDC has any knowledge on the roles played by internal audit, most of them responded negatively showing that they know less about the duties played by internal audit in their office, so if the role played by internal audit is not well understood they may also lack cooperation from co-employees

Again it can also be concluded that the internal auditors find it difficult to perform their specific responsibilities of preventing, and detecting fraud, errors,

irregularities, misappropriation and misuse of public resources. This is because they have no enough resources to enable them carry out their statutory duties, this is evident from the data collected by the researcher where by out of 33 interviewee 29 representing 87.8% said the internal audit units are not well resourced in MDC while 4 respondents making 12.2% said the internal audit unit is well resourced.

Also internal audit staff is not well motivated in terms of incentives and training this also can be evidenced from the data collected from MDC 31 respondents representing 94% of the total sample size of 33 respondents said that, the internal audit unit or function in MDC is not highly motivated in terms of incentives, and training while the remaining 2 respondents constituting 6% said that, the internal audit unit in MDC is motivated enough. This affects their morale and does not motivate them to give off their best.

#### **5.4 Recommendations**

Based on the findings of the study, the following recommendations are proposed to help the internal audit service in MDC to overcome the challenges it faces' in the performance of promoting good governance.

##### **5.4.1 Staffing**

It is evident from the finding that the internal audit service is understaffed, as it is shown from the data collected by the researcher 30 respondents representing 90.9% of the total sample size of 33 respondents said that, the internal audit unit or function in MDC has no sufficient number of staff while the remaining 3 respondents constituting 9.1% said that, the internal audit unit in MDC has sufficient number of staff. Also it was observed by the researcher during the work there is only two internal auditors in MDC. Considering the number of departments they have to audit. It is recommended that the service should link with the national service scheme so that some personnel can be posted to serve to enhance their staff strength. Graduate with accounting and auditing background can be employed by the service, given training to help reduce their work load in an acceptably lowest level. The reduction in the work load will enable them to get more time to plan and carry out audit work effectively

#### **5.4.2 Condition of service of staff**

The researcher recommends that the government should improve upon the conditions of service of the staff. Necessary arrangement should be made by the fair wages commission and the Workers' Union for the staff of the service to be migrated to the into the single spine salary structure. Allowances, incentives, and fringe benefits should be provided by the government to retain and motivate the staff of the service

#### **5.4.3 Staff training**

The researcher recommends that the internal audit service at MDC should link with accounting firms such as price Waterhouse and Coopers, Ernest and Young, Deloitte, and associates and other local firms also with profession bodies to train both old and new staff of the service. This will provide new staff of the service with requisite knowledge and skills to enable all staff of the service to be abreast with current trends in the auditing profession. Besides, the service should organize refresher courses for the both old and new staff of the service to update them on current trends in the profession by this will enable them to play their roles efficiently and effectively.

#### **5.4.4 Joining with profession bodies**

27 respondents representing 81.8% of the total sample size of 33 respondents said that, the internal audit unit or function in MDC has no qualified staff while the remaining 6 respondents constituting 18.2% said that, the internal audit unit in MDC has qualified staff. Through interview the researcher discovered that none of the two internal auditors in MDC has qualified profession offered by NBAA or IIA or ACCA so due to that the researcher recommends that the MDC internal audit employees should join with professional bodies such as Nation Body of Auditors and Accountants (NBAA) and Institute of Internal Auditors (IIA) and attend their seminars so as they can be current with the emerging issues within their field this will help them in promoting good governance.

#### **5.4.5 Provision of logistics and infrastructure**

The MDC internal audit service should be provided with the needed logistics and infrastructure to enable the staff performs their responsibilities efficiently and effectively. Funding for this should be provided by Controller and Auditor General (CAG) to them charge a small percentage as audit fee and review it as and when appropriate.

Enough vehicles should be provided for the field staff to enable them to carry out their assignments more effectively. Those who use their personal vehicles for official duties should be adequately given allowance.

Researcher also found out that the office is located far away from their working place, office is located at Mtwara Municipal Council while their working place is located about 5 km away so this is difficult for them doing their work effectively, it is hard for them to do verification of some matters. The researcher recommend the movement from the present location to where they can be comfortable doing their work effectively and efficiently.

#### **5.4.6 Organization commitment**

Organization commitment has a positive significant relationship with the good governance. The researcher observed that the role of internal audit department is not well known by the large number of employees at MDC also their presence is seen not important to many employees of MDC, this is shown from the data collected by the researcher The data collected shows that, 6 respondents representing 18.2% see the importance of the internal audit unit as very high to the MDC, 8 respondents constituting 24.2% see internal audit unit as highly important, 16 representing 48.5% said the importance of internal audit as moderate and the remaining 3 respondents representing 9.1% see the importance of the internal audit unit as low. Due to this management may not be committed to the internal audit

The rationalization of this finding is because the organization commitment, especially from head of local government and all staff give strong power in governing the organization

The rationalization of this finding is because internal audit function has important roles in governing the organization, such as control, evaluate, monitor, and advise the head of local government. If the internal audit runs his/her roles effectively, the governance mechanism will run well and the good governance practices improve

### **5.5 Areas for Future Studies**

The study attempted to assess the effectiveness of internal audit in promoting good governance in LGAs. The research design, therefore, was specifically focused to address this at Mtwara District Council. Thus, the findings in this study may also apply to other Councils within or outside the country.

In this study we attempted to consider some variables (independent of internal auditors, management support, staffing and resources and professional qualification). Thus, future studies may focus on among others, to explain how political environment and organisation structure, management culture, management style and management risk management have impact to internal auditing.

Also, in this study we only were assessing the effectiveness of internal audit in promoting good governance. Thus, future studies may focus on impact of internal auditing in ensuring effective financial management. Effective financial management may be on a reducing of audit queries issued by external auditors, improving value for money audit, organisation to obtain clean report rather than adverse reports and many others.

Lastly but not least, in this study we tried to consider a number of targeted populations such as head of departments, head of finance department within the council, internal auditors from MDC, director. The findings were based on both responses. Thus, future studies may focus on survey development research design by considering only council internal auditors so as to reveal their observations on promoting good governance

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**APPENDIX 1: QUESTIONNAIRE ON EFFECTIVENESS OF INTERNAL  
AUDIT ROLES IN PROMOTING GOOD GOVERNANCE IN LOCAL  
GOVERNMENT AUTHORITIES IN TANZANIA.**

***Objective of this study***

Well performing internal audit function is one of the strongest means to monitor and promote good governance system in an organization. The purpose of this research is to assess and determine what current practices and desired practices of the role of internal audit functions are and identify the gaps related to monitoring and promoting of good governance system.

In line with this, you are kindly requested to complete this questionnaire. The questionnaire is designed in a way that can be completed with no trouble, in each question you are requested just to mark option(s) applicable to your organization.

Your responses will be treated confidentially and only for the purposes of this research.

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1. What is the gender of the respondent?

Male  Female

2. Age of the respondent?

26-25  36-40  41-50  51-60

3. Please provide your job title .....

4. Do you know the role played by internal audit in promoting good governance in your organisation?

Yes  No

5. Please specify the number of staffs in your internal audit unit? .....staffs.

6. Can you please specify the role of the internal audit to your organization?

.....

7. Is your internal audit function well resourced?

Yes  No

8. Do you think the internal audit function is motivated enough?

Yes  No

9. Is the internal audit unit independent?

Yes  No

10. Generally how do you rank the relevance of internal audit in your organization?

Very high  High  Moderate  Low

11. Is the internal auditor part of management?

Yes  No

12. Does management carry-out the advice and recommendations of the internal auditor?

Yes  No

13 (a). Does your organization have audit committee?

Yes  No

(b) Are audit committee performed on the basis of annual plan?

Yes  No

#### 14. Internal audit function human resource management

1. Do you think that the organization's audit department or divisions have;

i. A sufficient number of staff Yes  No

ii. Appropriately qualified staff Yes  No

iii. Staffs that have relevant skill and experience to risk identification and planning methodology to deliver a high quality audit services

Yes  No

2. Do you believe that:

i. Internal audits core competencies are directly related to its mission, role and scope of work

Yes  No

ii. Internal audit's staffing strategy reflects its mission, role and required competencies

Yes  No

iii. The human resource strategy is sufficiently flexible to respond to changes in demand

Yes  No

3. Are salary levels sufficient to allow the organization to attract and retain auditors with the requisite professional skills and qualifications?

Yes  No

4. Training and quality assurance programs

i. Are in service trainings for auditors organized whenever required?

Yes  No

ii. Do quality assurance & improvement programs exist?

Yes  No

iii. Are audits sometimes subject to external review?

Yes  No

15. What do you consider the three most important actions needed to promote internal auditing in MDC?

a).....

b).....

c).....

I am very grateful for devoting your time and completing this questionnaire!!

With best regards,

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