

Assessment of Factors Hindering Internal Audit Best Practice in Public Institutions: A case study of Tanzanian Local Government Authorities

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Abstract : *The purpose of this study was to assess the effectiveness of internal audit functions in selected councils using exploratory sequential design. The sample size of the study constituted one hundred (100) respondents. Purposive sampling procedure was adopted for getting the full picture on the functions of internal audit office in Tanzania. The study was conducted in Dar es Salaam Region which involved four councils namely: Ilala, Kinondoni, Temeke and Ubungo. The study results revealed ineffective of internal audit functions in the following aspects; many respondents strongly disagreed with the: Resources availability for Auditing Practices, Independence of auditing operation in LGAs, Cooperation from heads of departments in getting reports, the Qualification and appreciation of Internal Auditing Works and good governance and accountability from top executive/high management. Generally, the study results recorded ineffective of internal audit practices in LGAs since high percentage of the respondents claimed that the powers and responsibility of internal audit are neglected by the system particularly the authority. To attain effective internal auditing performance, deliberate efforts must be made to strengthen and empower the office of internal audit. This could be attained by having the capacity to hire qualified personnel, and acquire important working tools for carrying out its day to day mandated functions. In addition to that, interference from government officials should also be discouraged to enable the office carry out its functions autonomously and independently. From these highlighted factors, this study recommends further researches to be conducted on factors affecting internal audit functions by scaling-up the study scope.*

Keywords: LGAs, Internal Audit, Audit Report, Councils, Independent, Opinion and Auditing Practices

Study Background

Public organizations have an internal auditing department, led by a Chief Internal Auditor ("CIA") who generally reports to the Audit Committee, with administrative reporting to the Accounting Officer/District executive director. To perform their role effectively, internal auditors require organizational independence from management to enable unrestricted evaluation of management activities and personnel. The audit activities in public organizations are guided by the regulations, laws and circulars i.e. Public Finance Act, 2001 and its regulations, Public Procurement Act, Treasury and Staff Circulars, Standing Orders and Professional Practices Framework (Tanzania Internal Audit Manual, 2003).

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The internal audit activity evaluates risk exposures relating to the organization's governance (Schwieger *et al.*, 2004). It is a self evaluation process informing people to abide with the laws and regulations governing the organization by verifying whether the existing system of controls is in harmony with the structure of the organisation (Therkildsen, O. 2001). An Auditor is required to review the reliability and integrity of financial and operating information. It is an organ exposing organization pitfalls in various aspects such as financial and staff regulations. Besides, improved accountability, ethical and professional practices, effective risk management, improved quality of output and performance tracking in public organisations are all accomplished by effective auditing functions (Grand and Bernard 1998).

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 sea of 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, and effectiveness of the management. Therefore, it is an independent and objective appraisal service within an office/organisation since it tends to assist members of the organisation to discharge their responsibilities effectively. This implies that the organization is furnished with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed for the purpose of promoting effective control at reasonable cost (Gabhart, 1993; McNamee, 1992).

The development of auditing in public organisations is closely linked to the development of organized system of accounting. The basic functions of internal audit in most public firms used to be performed by Finance and Accounts department of an organisation at the time of execution of transactions (Falcona, B. 1997). Nowadays, it is not possible to do it due to voluminous and complex business transactions, specialization in all segments of accounts and finance including, income tax, sales tax, and other legislatures, increased sophistication of management techniques requiring more accurate management accounts and reports. It is a legal requirement nowadays under the code of corporate governance to have internal audit department for listed public firms or companies (Moeller, 2004). This has raised awareness to the management of the advantages of establishing an audit office in any organization (Therkildsen, 2001).

Statement of the problem

Although the existence of Internal Audit functions in Public firm is more advantageous to the management, yet controller and auditor general continues to provide unqualified auditor opinions. The continuation of qualified and adverse audit opinion from the controller and auditor general interprets the lack of effectiveness of internal audit functions in the public organizations. Some claimed that ineffective of internal audit functions is due to diverse environment prevailing on the functions of internal auditing in public organizations (Moeller, 2004). Despite the ramous of the ineffective of internal audit functions there is little evidence of the factors hindering the effectiveness of internal audit functions in developing countries including Tanzania. This calls for researches to be conducted on the evaluation of factors influencing the effectiveness of internal audit functions in Tanzania.

1.3 Objective of the study

To analyze factors influencing the effectiveness of internal audit functions in Tanzania.

1.4 General question

What are the factors influencing the effectiveness of internal audit functions in Tanzania?

1.5 Significance of the study

This study specifically focused on the factors influencing the effectiveness of internal audit functions in Tanzania and thus expected to provide useful contributions to the literature. Additionally, the findings will assist policy makers in designing and adopting an appropriate model for effective and efficient internal audit functions from the highlighted factors influencing the reform.

2.0 Literature Review

2.1 Internal audit

Internal auditing is the verification of and reporting on to the appropriate level of management, regarding compliance of actual accounting and record keeping procedures of an organization. It ensures timely preparation of reliable and relevant financial information for use in sound decision making, better and efficient management of assets and other resources, safeguarding all resources and revenue from risk and losses, location of errors and irregularities, and detection and prevention of fraud. It is a constantly review of the systems and operations for improving performance of the business (Birkett,William P (1999) and Gupta (2005). It also reviews operations and programs to ascertain whether the results are consistent with established objectives and goals as defined in vision and mission statement, whether the operations or programs are being carried out as planned and whether the goals or programs themselves need to be revised in view of the changed circumstances and report the management accordingly (Gauntt, James E(1997)

2.2 Empirical Studies

Patric.H.Heaston (1993), on his study of the factor influencing internal audit functions described that the success of the internal auditor, to some degree, depends on the success of the organisation and the cooperation and support of management.

Cooper, Robert W (1993), on her study exhibited that undue reliance on prior work papers, in adequate education, lack of attention to appropriate continuing professional development, understaffed, failure to carefully plan, rotate, and supervise audit activities; and the conflict of interest created when one establishes and then audits an operating system are the factors hindering the effectiveness of proper internal audit functions.

Ponemon, Gabhart (1993) on his study of the contribution of internal audit reported that an effective internal audit function can enable the organisation get rid of it to penalties and punishments. Moreover, he identified that the establishment of adequate accounting and internal control systems is a responsibility of management which demands proper attention on a continuous basis.

According to Therkildsen (2001), the general weakness in Public organisations that needs to be targeted by the internal auditors is poor records management, which together with accounting, is in the process of being computerized in many organisation departments. It is essential that arrangements are in place to back up data and ensure that records can be maintained or recreated to ensure data security and the availability of financial information.

Gauntt, James E (1997), on her study of the factors hindering the effectiveness of internal audit functions revealed that the inability to identify control breaches or indicators of risk is among of the factor hindering the effective internal audit functions. On his recommendations stated that it is high time the management have risk register that will identify and monitor the operations of the business by highlighting high risk areas that jeopardize their organization's goals and objectives.

Mckey,Glen (2006) on her study exhibited that most of public organisation audits face many challenges including lack of management response on audit reports, lack of updated codes and the existences of asset registers that do not contain an appropriate details.

Tsui, J. (1996), on his study recorded that internal audit functions is surrounded by unprofessional staff whereas most of them lack audit skills especially in technical areas of IT & process design evaluation and also in softer interpersonal and communications skills.

Tim Mccollum (2006) on her study of the factors hindering the effectiveness in internal audit functions showed that the following are the factors that lead to the poor performance of internal audit functions ; aligning internal audit coverage to meet new expectations, realigning skills to address new requirements and addressing internal auditing's role in assessing risk management, leveraging technology to achieve greater efficiencies, coping with diminished resources, demonstrating value and adding to the bottom line.

Reider, Harry R (1994): on his study revealed that lack of specialized skills, un preferably persons having inadequate technical training and proficiency is among of factors hindering the performance of internal audit functions. Moreover, he added that it is better to outside personnel who can address risks associated with such key areas as information technology, financial instruments or off-shore operations, since Internal audit functions needs sufficient resources to conduct a systematic and timely review of the risks and controls needed to provide assurance to top management.

Tim Mccollum (2006) elaborated that good governance begins at the top. The study noticed underweight of the power of internal audit because of the poor structure of the offices of internal audit functions. He added that normally internal auditing can contribute most effectively when there is a free and independent internal audit department. Internal audit should report to the highest level of management or audit committee and in any case his powers are not required to be compromised by any organ, (Public Finance Act 2001). The head of internal audit should also have direct access to the Board of Directors or audit committee and report regularly to that body. The management should give priority to and acts on internal audit recommendations and this should be properly evidenced.

Kamal Gupta (2005) on his study revealed the existences of double responsibilities among internal auditors. Internal auditor should devote exclusive attention to the auditing function and should not be given any responsibility for operations or supervision of a system or department. Only then the internal audit team will be in a better position to make effective and professional report to the management on all aspects of the business activities without any fear or favour or prejudice.

Mc Collum (2006) on his study noticed the lack of audit manuals, work programs, working papers, poor record keeping and policies and practices for training. There should be well defined policies and practices for hiring, training, evaluation and supervision keeping in view their required experience and professional qualifications. The internal auditor should have qualities of adaptability, an enquiring mind, analytical ability, good business judgment, methodical, maturity and should also have an eagle eye to see where and why things can go wrong. Lastly the work of internal audit should be properly planned, supervised, reviewed and documented. There should be adequate audit manuals, work programs and working papers (Institute of Internal Auditors, 2007)

Reider, Harry R,(1994), identified the lack of auditor's understand of the objectives and techniques regarding internal audit functions. During discussion he elaborated that to reduce and avoid audit problems; auditees must understand the audit objectives, techniques, specific areas of audit emphasis, and the options for analyzing and effectively responding to audit findings. Employing best practices in dealing with auditors on a regular basis and formulating an effective chain of communication during the course of

various audits, will often achieve this objective. But, mitigating the risk of audit problems and successfully resolving audit problems also requires a thorough understanding of certain audits that most frequently raise adverse issues, as well as a auditee's responsibilities and rights for effectively addressing questioned costs or challenges to internal controls that result from audits. Public organization must also be vigilant and diligent in understanding the sequence of steps and levels of public organization activities in resolving audit disputes. Understanding how to prepare for audits; the audit objectives and procedures employed by auditors; how to interact with auditors; and effective methods for deterring and addressing audit issues will mitigate the risk of cost disallowances, loss opportunities.

3.0 Materials and Methods

3.1 Study Area

The study was conducted in Dar es Salaam Region in four councils namely Ilala, Kinondoni, Temeke and Ubungo. These four councils were selected because of the availability of data.

3.2 Research Design

The research adopted a case study design whereby descriptive and exploratory data were captured. Hence, both qualitative and quantitative data were collected. The research was designed to allow triangulation by using multi-methods of data collection.

3.3 Sampling Techniques and Sample Size

The study applied multistage sampling procedure whereby: first, purposive sampling was conducted to select the four councils in Dar es Salaam i.e Ilala, Kinondoni, Temeke and Ubungo. Second, stratified sampling was employed to select staff that are willing to participate in the study. Third, the proportional simple random sampling was carried out to select 100 who know the functions of the internal audit in detail in the four councils of which each council was represented by 25 staffs.

3.4. Data Types and Sources

The research collected both qualitative and quantitative information as well as both primary and secondary data. In primary data, the researchers intended to know the current situation and perceptions of the people who were interviewed by using questionnaires and focus group discussions. For secondary data, the researchers intended to get both the findings of other researchers regarding the system.

3.4.1 Questionnaire

Questionnaire is among widely techniques used in collecting structured information for different purposes. Basically, each respondent is required to respond to the directed questions in a pre determined order. In this study a total of 100 questionnaires were administered to the staffs at the selected councils. Questionnaires are very useful in drawing accurate information from the respondents in a logical sequence. Questionnaires were developed to capture information about the factors influencing the effectiveness of internal audit functions. The questions in the questionnaire relating to the internal auditors' problems and constraints were based on a five-point Likert scale as follows: 5 = Strongly agreed, 4 =Agreed, 3 = Neutral, 2 = Disagreed, 1 = Strongly disagreed.

2.4.2 Focus Group Discussion

The follow-up interviews through Focus Group Discussion (FGD) to all selected staffs were conducted to get clarification on some findings whereby a semi-structured interview approach was applied.

3.4.3 Documentary review

The secondary data were collected from four council's social and economic profile.

3.5. Data Analysis Plan

Data collected were categorized and coded according to a predetermined coding scheme. An effort was made to code the data at the point of collection to simplify work during the analysis stage. Descriptive data were coded after data collection since it is

difficult to do so before due to the diversity of possible responses (Saunders et al 2003). The data were then entered into the Microsoft excel statistical data analysis software. Processed data and results were summarized and presented using appropriate statistical tables.

4.0 Results and Discussions

4.1 Respondents Involved

One hundred respondents were involved and all questioners were collected as distributed to the respondents (LGA’s staffs) 100% of the respondents replied the distributed questioners.

4.2 Age of Respondents

Table:1 regarding respondent’s age revealed that 47.7% of the respondents are between 25-40 years while 31.3% their ages is between 41-50- years and 14% rages between 51 and above. The table tells us that majority of LGA’s staff have the age ranging between 25 and 40 years. This suggests that majority of LGAs staffs are youth. During group discussion researchers noticed that nowadays young generation prefer to be employed in Government agency than in private sectors because of the good salaries and employment security.

Table 1: Age Group Distribution Respondents

Category (Age)	Frequency	Percentage (%)
25-40	32	47.7
41-50	21	31.3
51-60	14	21
Total	67	100

Source: Case study data, (2020)

4.3 Education Background

The distribution of responses based on the educational background is shown in Table:2 The study showed that 8 of respondents equivalent to 8% hold master degree, 52 respondents equivalent 6% hold bachelor, 28 respondents equivalent to 28% diploma, and 12 respondents equivalent to 12% holding certificate. These results show us that majority of staffs being employed in local government possessed required qualifications. This suggests that the LGA’s are operated by the people who are knowledgeable and competent.

Table 2: Education Background

s/n	Education background	Frequency	Percentage (%)
1	Master degree	8	8
2	Bachelor degree	52	52
3	Diploma	28	28
4	Certificates	12	12
	Total	100	100

Sources: Case Study Data, (2020)

4.4 Challenges facing internal audit functions in LGAs

4.4.1 Lack of resources needed for Auditing Practices

Table: 3 shows that 66 equivalents to 66% of respondents strongly disagreed with resources available for auditing practices, 17 equivalents to 17% disagreed with resources available for auditing practices, 13 equivalents to 13% were neutral with the resources for auditing practices, and 4 equivalents to 4% agreed with the resources available for auditing practices. The study findings indicate that the majority of LGAs underperform internal audit functions due to lack of appropriate resources needed for auditing practices for efficiency of auditing operation, as resources must be available to sustain effective and standard operation of auditing practice; manpower and financial resources are all necessary factors for auditing operation. During discussion researchers noticed that financial resources, human resources, working tools and transportation are the factors contribute the problem of which financial resources contributed the ineffective of internal audit functions by 47.5%, human resources by 12.5%, working tools by 35% and transportation by 5%.

Table 3: Availability of Resources for Auditing Practices

s/n	Availability of Resources for Auditing Practices	Frequency	Percentage (%)
1	Strongly disagreed	66	66
2	disagreed	17	17
3	Neutral	13	13
4	Agreed	4	4
5	Strongly agreed	0	0
		100	100

Sources: Case Study Data, (2020)

4.2.2 Lack of Independence of Auditing Operation in LGAs

Table: 4 shows that 68 equivalents to 68% of respondents strongly disagreed with the independence of auditing operation in LGAs 12 equivalents to 12% disagreed with the independence of auditing operation in LGAs, 13 equivalents to 13% were neutral with the independence of auditing operation in LGAs, and 4 equivalents to 4% agreed with the independence of auditing operation in LGAs. During discussion majority of respondents claimed that the level of independence for auditing practices in LGAs is very weak since senior staffs tend to issue directives that interfere the independence of auditing practices. Not only that but also majority claimed that there is the tendency of underrating the opinions of internal audit. One respondent added that the opinion of external auditor normally seemed to be given more weight than the opinion of internal audit. It is for this observation and finding in figure whereas we can briefly comment that lack of independence in internal auditing in public corporations is a strong challenge and an obstacle for the achievement of best practices for auditing operation. Internal auditing is a professional work which requires maximum independence and freedom of access to any information including receipts, registers, physical assets and documents in the verification of monies before developing audit reports. Furthermore, majority of respondents claimed that the following are the factors constraining independence of operation of internal auditing practices in LGAs include: absence of receipt and register books for monies spent, lack of direct access to the board members or auditing committee, too many pressures from the to management, less priority assigned to auditors' works or recommendations, political interference with the auditing activities, and too many unrelated and undefined responsibilities assigned to auditors.

Table 4: Independence of Auditing Operation in LGAs

s/n	Independence of Auditing Operation in LGAs	Frequency	Percentage (%)
1	Strongly disagreed	68	68
2	disagreed	12	12
3	Neutral	15	15

4	Agreed	5	5
5	Strongly agreed	0	0
		100	100

Sources: Case Study Data, (2020)

4.4.3 Lack of Cooperation from Heads of Departments in Getting Reports

Table: 5 shows that 78 equivalents to 78% of respondents strongly disagreed with the cooperation from heads of departments in getting reports 12 equivalents to 12% disagreed with the cooperation from heads of departments in getting reports, 5 equivalents to 5% were neutral with the cooperation from heads of departments in getting reports, and 4 equivalents to 4% agreed with the cooperation from heads of departments in getting reports. During discussion majority claimed that they did not get reports and statements necessary for efficient operation of their duties and when they got it, they get out of time something which hinders the effectiveness of internal audit functions. Many claimed that the level of cooperation given to internal auditors by heads of departments is not significant for achievement of best practices in most LGAs in Dar es Salaam.

Table 5: Cooperation from Heads of Departments in Getting Reports

s/n	Cooperation from Heads of Departments in Getting Reports	Frequency	Percentage (%)
1	Strongly disagreed	78	68
2	disagreed	12	12
3	Neutral	5	5
4	Agreed	5	5
5	Strongly agreed	0	0
		100	100

Sources: Case Study Data, (2020)

4.4.4 Lack of the Qualifications and Appreciation of Internal Auditing Works

The finding in table:6 has shown that 40 equivalents to 40% of respondents strongly disagreed with the qualifications and appreciation of internal auditing works 28 equivalents to 28% disagreed with the qualification and appreciation of internal auditing works, 5 equivalents to 5% were neutrally with the qualification and appreciation of internal auditing works, 15 equivalents to 15% agreed with the qualification and appreciation of internal auditing works and 12 equivalents to 12% strongly agreed with the qualification and appreciation of internal auditing works. During discussion respondents claimed that majority of the auditors in LGAs do not have CPA thus why many of them the acting the office of internal audit. Because of the lack of the required qualification many of the stakeholders do not appreciate the internal audit works since majority of audit lack of enough skills and auditing ethics which are achieved after CPA examination.

Table 6: Qualification and Appreciation of Internal Auditing Works

s/n	Qualification and Appreciation of Internal Auditing Works	Frequency	Percentage (%)
1	Strongly disagreed	40	40
2	disagreed	28	28

3	Neutral	5	5
4	Agreed	15	15
5	Strongly agreed	12	12
		100	100

Sources: Case Study Data, (2020)

4.4.5 Poor good governance and accountability from top executive/high management

The finding in table: 7 has shown that 44 equivalents to 44% of respondents strongly disagreed with the governance and accountability from top executive/high management 32 equivalents to 32% disagreed with the governance and accountability from top executive/high management, 9 equivalents to 9% were neutrally with the governance and accountability from top executive/high management, 15 equivalents to 15% agreed with the governance and accountability from top executive/high management. During the discussion majority claimed that most of the senior staffs lack good governance and accountability as many lack moral values because they normally entertain corruptions.

Table 7: good governance and accountability from top executive/high management

s/n	Governance and Accountability from Top Executive/High Management	Frequency	Percentage (%)
1	Strongly disagreed	44	44
2	disagreed	32	32
3	Neutral	9	9
4	Agreed	15	15
5	Strongly agreed	0	0
		100	100

Sources: Case Study Data, (2020)

5.0 Conclusion and recommendation

5.1 Conclusion

The purpose of the study was to evaluate the challenges hindering the effectiveness of internal audit functions in Dar es Salaam region. The study results revealed ineffective of internal audit functions in the following aspects; many respondents strongly disagreed with the: Resources availability for Auditing Practices, Independence of auditing operation in LGAs, Cooperation from heads of departments in getting reports, the Qualification and appreciation of Internal Auditing Works and good governance and accountability from top executive/high management.

Generally, the study results recorded ineffective of internal audit practices in LGAs since high percentage of the respondents claimed that the powers and responsibility of internal audit are neglected by the system particularly the authority.

5.2 Recommendation

To attain effective internal auditing performance, deliberate efforts must be made to strengthen and empower the office of internal audit. This could be attained by having the capacity to hire qualified personnel, and acquire important working tools for carrying

out its day to day mandated functions. In addition to that, interference from government officials should also be discouraged to enable the office carry out its functions autonomously and independently.

From these highlighted factors, this study recommends further researches to be conducted on factors affecting internal audit functions by scaling-up the study scope.

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