

**THE ROLE INTERNAL AUDIT IN PUBLIC SECTOR ON QUALITY SERVICE  
DELIVERY; CASE STUDY OF ARUSHA INTERNATIONAL CONFERENCE  
CENTRE-TANZANIA**

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**A DISSERTATION SUBMITTED TO THE COLLEGE OF ECONOMIC AND  
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**DECLARATION**

I, BENNY JOSEPH declare that the content of this study is a result of my own study and findings and to the best of my knowledge.

Name of Researcher: BENNY JOSEPH

Signature: 

Date: 29/05.....2013

Supervised by  
Henry O. BARLASA  
  
29/5/2013.

## **DEDICATION**

To Our Almighty GOD, who bless my MOTHER and Family, who tirelessly assisted me financially, encouraged and gave me moral support throughout the period of my studies.

### **ACKNOWLEDGEMENT**

Many people have contributed to make my work successful and I am very grateful to all of them. I would like to extend my grateful thanks to the Almighty God for his grace, blessings, love and good health during my field work.

My special appreciation goes to my research supervisor Mr.HENRY BARAZA for his advice, tolerance, guidance that enabled me to accomplish this work successful.

I also thank him for his encouraging comments, suggestions and discussions which gave me strength to carry on the whole research process with determinations.

My sincere appreciation is directed to the management of Arusha International Conference Centre (AICC), for accepting me to conduct my field study in the organization especially internal audit unit who were co-operative during my field study and granted me an opportunity to go through relevant and necessary information, records and material for my study.

## **ABBREVIATIONS AND COMMON NAMES**

AICC-Arusha International Conference Centre

CPA-Certified public accountants

IAA- Institute of Accountancy Arusha

IIA- Institute of Internal Auditors

MTEF-Medium Term Expenditure Framework

NBAA-The National Board of Accountants and Auditors

PV-Payment voucher

VFM-Value for Money

## **ABSTRACT**

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organizations operation. This study was intended to identify the role of internal audit at the Arusha International conference centre. AICC is the government organization which deals with hospital services, conference service and estate service. The study examined the position of an organization in the absence of internal audit in the organization. The study give out the possible suggestion and recommendation on the roles of internal audit which are in one way or another useful to the organization.

This report consists of five chapters.

Chapter one, which include introduction, back ground of the problem, statement of the problem, objectives of the study, research questions, and lastly significance and limitation of the study.

Chapter two is about literature review, theoretical literature review, empirical literature review. This tries to show the relevance of the theories to the proposed study by seeking information and critical appraisal.

Chapter three is about research methodology. There are seven parts to be considered here, which are research design, research technique, population, sampling technique, sample size, data collection methods, and lastly types of data to be collected.

Chapter four includes research budget, schedule of activities, references and sample questionnaires.

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Chapter four tries highlight on different research findings and analysis made by the researcher on various issues arising during the data collection and interpretation



Lastly recommendations, comments and conclusion are found in chapter five of this report. These depending solely on various issues, which need amendments in order to improve the provision of services and hence to create, maintain and sustain the good name of the organization in the future.

Both primary and secondary data were used to collect data in order to identify different roles performed by the internal audit department in the AICC. The information has been gathered through interviewing, participate observation, use of internal control, questionnaires and through documentation sources. Analysis of data has done by using both quantitative and qualitative technique.

## CHAPTER ONE

### 1.0 Introduction

Internal auditing is an element of an internal control system set up by the management of an organization to examine, evaluate, and report on accounting and other controls on operations. It exists either because of a management decision or in certain circumstances because of a statutory requirement. Internal audit are designed to evaluate the effectiveness of an internal controls by first gathering information about how a unit operates, identifying points at which errors or inefficiencies, are possible, and identifying system controls to assess how well they work. Managers ought to routinely evaluate controls in their operations by following the same process.

Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of organizational position and authority in an entity, an internal audit function often plays a significant monitoring role.

### 1.1 FEATURES OF AN EFFECTIVE INTERNAL AUDIT

**Independence-** this is attitude of mind characterized by an unbiased approach to audit work. An independent auditor possesses the ability to form an opinion and report the facts without fear or favoring any party. However, internal auditors are employees of the organization and thus independence of internal audit is not always easy to achieve. However, it can be assisted by:

- The scope on how to plan its own activities
- ability to access records, assets and personnel
- the freedom to report to higher management or an audit committee
- internal audit personnel with an objective frame of mind
- acquire internal audit staff that has no conflicts of interest
- having internal audit staffs who have no non-audit work.

**Staffing-** Internal audit department should be adequate staffed in terms of number, qualifications and experience.

**Training-** all internal audit staff should be fully trained

**Relationship-** Internal auditors should foster constructive working relationships and mutual understanding with management, external auditors and an audit committee

**Due care-** Internal auditors should be up to date technically and have personal standards of knowledge, honest, probity and integrity.

**Planning-** Internal audit work must be adequately planned.

**Systems controls-** The internal auditor must verify the system by investigating, recording, identification of controls and compliance testing.

**Evidence-** The internal auditor must evaluate audit evidence in terms of sufficiency, relevant and reliability.

**Reporting-** The internal auditor must produce timely, accurately and comprehensive reports to management on a regular basis.

## **1.2 BACKGROUND TO THE PROBLEM**

Internal audit is a management- oriented discipline that has evolved rapidly since world war 11. It is primarily concerned with financial accounting matters. It now addresses the entire range of operating activities and performs a correspondingly wide variety of assurance services.

Efforts has been made by public accounting to integrate the work done by the internal and external auditors in the attestation function in order to assume the responsibility for their fairness and dependability in their work of attestation function. This is intentionally done because the assurance of auditors reports to provide the objective evidence that enables the auditors to express an opinion on the financial statement.

Tanzania like the other developing countries accept the work of internal auditor since internal auditors are there to advice the management on the accounting system where else the external auditors have to examine the work of internal auditors.

However, the role of internal audit in public organization plays a valuable role in assisting the directors in fulfilling their responsibilities and helping the organization to achieve its strategic business objectives by bringing a systematic discipline approach to evaluate and improve the effectiveness of risk management, control and governance processes. The executive directors wants to make sure that operations are reviewed at appropriate interval to determine whether they are efficient and operated in accordance with management instructions, state laws, policies and procedures, in addition they want to be certain that;

- First, resources are adequately protected.
- Second, programs, plans and procedures are achieved.
- Third, quality and continuous improvement are fostered in an organization.

AICC can achieve this objective if it has a good internal audit system which is established by the management to evaluate effectiveness of its operation.

### **1.3 STATEMENT OF THE PROBLEM.**

Arusha International Conference Centre (AICC) has a great task of managing the funds out of its services, Since the management of AICC can't continue to have personal contact with or to know everything about the organization, as it increase in size. As far as the organization has increased in size also its transactions per day also increase so is the work of an internal audit department to check the procedure carried out to record accounting in order to avoid misstatement of the financial information.

Because Poor roles, scope, objectives and functions of an internal audit can lead to poor quality and misstatement of financial information

This study examined and assess if the role and scope of internal audit unit used by Arusha International Conference Centre (AICC) are useful to identified financial

statement whether they show true and fair view and that activities are in accordance with the laid down rules and regulations of the management, standard accounting practice and the general accepted auditing standards.

Here the researcher found out the problem faced by the internal auditor during performing their work which leads to the failure of expressing their opinion, on the financial statements.

#### **1.4 SIGNIFICANCE OF THE STUDY**

The study significantly is in the following folds:

1. The study enable the expansion of the body of knowledge to professional, academicians and public in large.
2. The study may enable the organization to implement a code of conduct covering four principles of integrity, objectivity, competence, and confidentiality and a process to provide assurance that the code is being followed by all internal audit staff.
3. The study may enable the organization to improve on timelessness of delivery of audit report and findings to external auditor.
4. The study may enable the internal auditor to carryout a quality assurance program and communicate the results to the management and external auditor if she/he asks for it.
5. The study may enable the organization to improve documentation of the department policies and procedures and its audit methodology including the approach to identifying and testing information technology based controls.

## **1.5 OBJECTIVE OF THE STUDY**

### **1.5.1 MAIN OBJECTIVES**

- i. To evaluate the role of internal audit in the AICC with the view of outline the strength and weakness in its operation.
- ii. To provide recommendations to the organization on the importance of having internal audit system and state whether they should be reliable by external auditor.
- iii. To identify weakness if any in terms of empowering internal audit and enabling it perform its roles effectively.

### **1.5.2 SPECIFIC OBJECTIVES**

- i. To evaluate the role of internal audit in the Arusha International Conference Centre (AICC) for assurance of quality service to the public.
- ii. To access the scope and objectives of internal audit of internal audit in the Arusha International Conference Centre(AICC)
- iii. To asses the reliability of external auditors on internal auditors works, during verification process and;
- iv. To identify the independent functions of audit

## **1.6 RESEARCH QUESTIONS.**

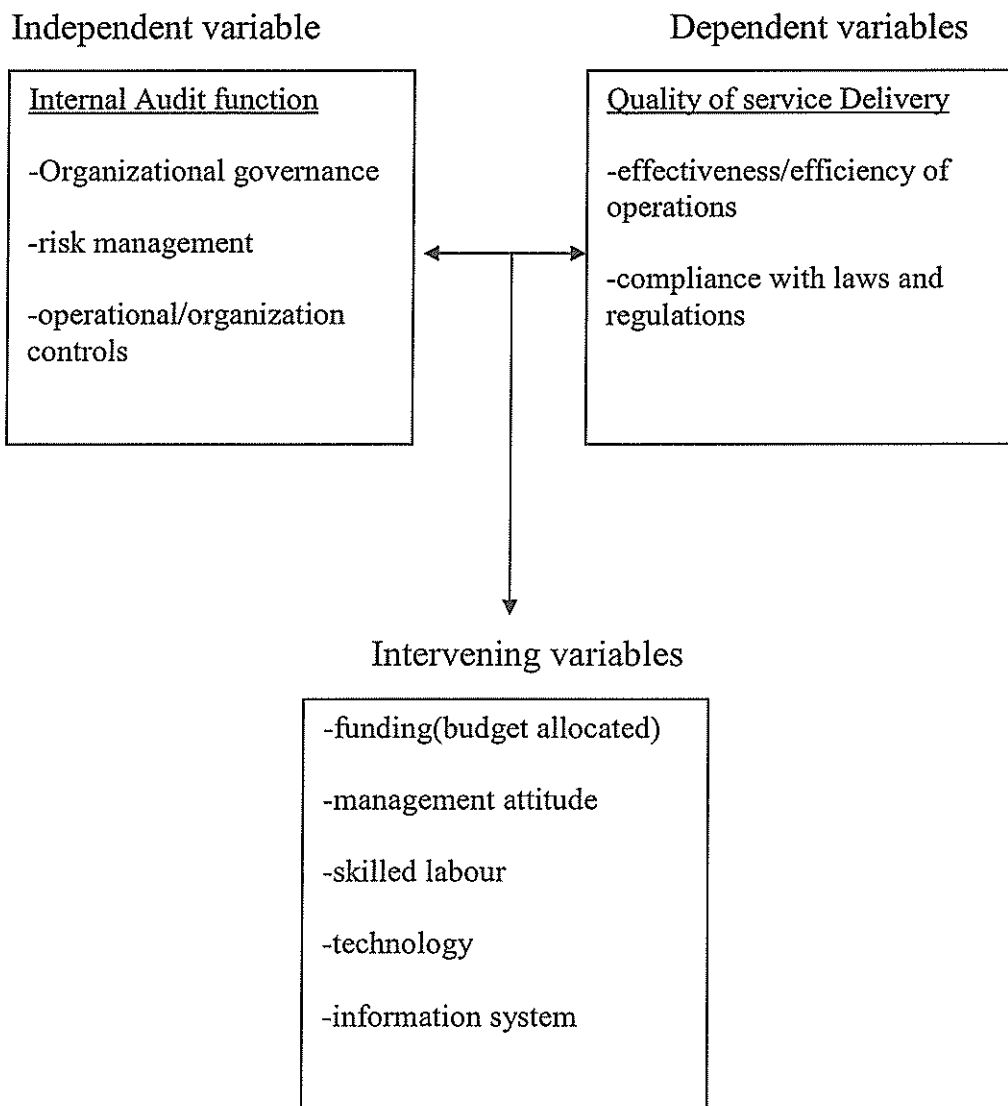
The research questions used in attempt of achieving research objectives were as follows:-

- i. What is the role of internal audit in Arusha International conference Centre?
- ii. What are the scope and objectives of internal audit in Arusha International Conference Centre?
- iii. How reliable internal auditor in verification functions at Arusha International Conference Centre?
- iv. What are underlying functions that make internal auditing department to be independent?

## 1.7 LIMITATION OF THE STUDY

-**Limited access to information.** Some information was not accessible due to their confidentiality. Financial information of the organization is considered to be top secret to the company, hence not relevant to third parties. The researcher used other methods to collect data in order to achieve objectives of the study.

## 1.8 CONCEPTUAL FRAMEWORK



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 THEORETICAL REVIEW

##### 2.1.1 Definition of internal auditing

N. A. Saleemi (1999: 262) defines, "Internal audit as an independent appraisal of the activities within an organization for the review of accounting, financial and other business practices."

International standards of auditing (ISA 2004); defines internal audit as an appraisal activity established within an entity as a service to the entity. Its function include, among other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.

Jack Robertson (1996:817) defines "Internal auditing as an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. It is n examination by auditor of the final accounts i.e. trading, profit and loss account, balance sheet and cash flow statement of the business enterprise.

F .M. H. Mhilu (2002), auditing can be defined as an independent examination and expression of opinion on the financial statement of an enterprise by an appointed auditor in pursuance of that appointment and in accordance with relevant legislation or statute including adherence with approved auditing standard.

A. H Millchamp (1987: 549) defines "Internal auditing as an independent appraisal activity within an organization for the review of operations as a service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls."



## **2.1.2 OBJECTIVE OF AUDITING**

### **PRIMARY OBJECTIVE**

The main objectives of an audit is to enable the auditor to report on the true and fair view on the financial position shown by the profit and loss account and any other information required to be disclosed from the financial account.

In preparing a report the auditor of an organization must also form an opinion as to whether proper accounting records as been kept and whether the accounts being prepared follows the international financial report standards.

### **SECONDARY OBJECTIVES**

#### **i. Errors and defalcations**

The examinations of the accounting records, which the auditor undertakes in order to asses whether the accounts show true and fair view is not primarily or specifically designed and cannot be marked upon, to disclose errors, defalcation similar irregularities.

The responsibility for safeguard a organization's assets, proper records, preventing and deducting errors and fraud nests with the directors and they are not entitled to newly upon the auditor to protect them from failure to discharge this responsibility.

#### **ii. Reporting on internal control**

As part of auditing, the auditor should always assist management in its responsibility to establish and maintain an adequate of internal control by reporting deficiencies in controls noted during the course of his audit.

#### **iii. Constructive advice**

In addition, because of the client's affairs and independent viewpoint, the auditor is often able to make constructive suggestions to the client regarding various aspects of clients operations.

### **2.1.3 ORIGIN OF INTERNAL AUDIT**

Contemporary professional practice of internal auditing was born in 1941, when the first internal auditing was published and the institute of internal auditors was formed. Throughout 1940's and 1950's internal auditing activities in many organizations focused on financial auditing, the internal auditing department being primarily involved in the review of financial statements. However modern auditing has developed since nineteenth century. This lead to the separation of ownership from management and a consequent need to safeguard the interest of owners (shareholders) who were not involved in the day to day decision made by management.

**Give this objective; sawyers (1988); outlined the activities of internal auditor as:**

- a) Review the reliability and integrity of financial and operating information and the means used to identify measure, classify and report such information.
- b) Review the systems established to ensure compliance with those policies, plans, procedure, laws and regulation which could have a significant impact on operations and reports and should determine whether the organization is in compliance.
- c) Review the means of safeguarding assets and as appropriate, verify the existence of such assets.
- d) Appraise the economy and efficiency with which resource are employed; and
- e) Review operation or programs to ascertain whether results are consistent with established objectives and goal and whether the operations or programs are being carried out as planned

**According to EMILE WOOLF "auditing today" internal auditor plays a big role in organization to ensure the accomplishment of an organization's objectives. These duties are;**

- a) Review of accounting system and related internal control
- b) Examination of financial and operating information for management including detailed testing of transactions and control
- c) Review of economy, efficiency and effectiveness of operation and functioning of non- financial control and:
- d) Perform special investigation.

#### **2.1.4 ARGUMENTS ON THE ROLE OF INTERNAL AUDITING IN AN ORGANIZATION**

Internal auditor has to perform the following roles;

1. Reviewing and appraising soundness, and adequacy, and application of accounting, financial and other operating control and promoting effective control at reasonable cost.
2. Ascertaining the extent of compliance with established policies, plans and procedures.
3. Ascertaining the extent to which the company assets are accounted and safeguard from losses of all kinds.
4. Ascertaining the reliability of data developed with the organization.
5. Appraising the quality of performance in carrying out the assigned responsibilities. The effective internal auditor should possess a high degree of independence which will facilitate his work to the organization hence led the external auditor to rely to financial information provided by him or her.

**The following are the arguments on role of internal auditor from different authors;**

Holmes and Burns (1939: 123-124) argues that “from an independent audit stand point, the crucial function of internal control is to protect the financial records of the audit (from which financial statement are prepared) from material misstatements resulting from undetected errors and other irregularities. In an independent auditor’s view, the adequacy of a client’s internal control system depends directly on the extent to which the system accomplishes this important function (quality of internal control)”

Wilcox mentions in the CPA Handbook, an auditor must fulfill his obligations even when it means opposing or denying the wishes of those who have employed him, and who he knows may cease to do so. It is a requirement unparalleled in any other field. Independence is an attitude in mind. Not only should a professional accountant maintain independence but he should also appear to be independent to all reasonable persons. Thus independence must be real as well as evident.

The institute of chartered Accounts (1987/88) said “internal audit is an element of internal control system set up by the management. The extent to which the external

auditor is able to take account of the work of the internal auditor will depend on his assessment of the effectiveness of the internal audit function

On top of that Howard (1977:82) argued that “internal auditing is an independent appraisal activity within the organization for the review of operation of services to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other control”

Also internal auditing is an independent appraisal function established by the management of an organization for the review of internal control systems as a service to the organization.

It objectively examines, evaluates, and reports on adequacy of internal control as a contribution to proper economic, effective and effective use of resources”. (Millchamp A. H.)

That being internal auditors works as a tool for management, Again if we come to the scope and objective of internal auditing you will find that “the objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities, by furnishing them with analysis, appraising, recommendations and pertinent comments concerned activities reviewed.”

#### **2.1.5 OBJECTIVE AND SCOPE OF INTERNAL AUDIT**

Sawyers (1996); provide the objective of internal audit as to assist all members of management in the effective discharge of their responsibilities, by furnishing them with analysis, appraisal, recommendation, counsel and pertinent comments concerning the activities reviewed.

The internal audit undertakes reviews of individual systems and precise in the organization. As a result, recommendations are made to relevant accounting officer on

how internal control could be improved; this recommendation should ensure that the risk to achieve the objectives of the system under review is reduced.

Scope of internal audit should encompass the examination and evaluation of adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

**Broad areas/ scope operated by internal audit are;**

- i. Review of accounting system and related internal controls;
- ii. Examination of financial and operating information for management including detailed testing of transactions and balances;
- iii. Review of economy, efficiency and effectiveness of operations and of the functioning of non-financial controls;
- iv. Review implementation of corporate policies, plans and procedures; and
- v. Special investigation.

Tradition rule of internal audit centers on the examination, evaluation and monitoring of the adequacy and effectiveness of control structure of an organization. It evolves internal control structure and examination of financial and operating information through a detailed testing of transaction. Increasingly, the internal audit role is being more broadly prescribed to encompass a stronger performance orientation through business partnership, independent advice and consulting activities. Internal auditing is now being viewed as forward looking I terms of process, techniques and tools employed by an organization to achieve it's achieve its strategic objectives.

**2.1.6 THE EXTENT OF RELIANCE OF EXTERNAL AUDITORS ON INTERNAL AUDITORS'S WORK**

The external auditors do rely much on the work of internal auditors in Arusha International Conference Centre (AICC) due to skill posses by internal audits staff. The

external auditors rely on the work by taking into consideration the standard accounting methods used together with general accepted auditing standards use.

The professional competence of an internal auditor that must be registered with the NBAA as a certified public accountant in public practice i.e. CPA- PP or its equivalent recognized board.

Also the external auditors rely on the internal auditing papers, which clearly shows the following checking of the organizations;

This is achieved through checking the following measures;

- Internal auditors has examine and constant scrutiny of all authorizations to ensure adequate control of activities.
- periodic examination of the system of internal checks and internal control to ensure the highest possible standards of efficiency.
- maintenance of adequate checks against errors, frauds, misappropriations and misapplications.

#### **2.1.7 INDEPENDENCE OF INTERNAL AUDIT UNIT**

Howard (1977: 82) said that “internal audit is an independent appraisal activity within the organization for review of operations as a service to management”. It is a managerial control, which functions by measuring and evaluating the effectiveness of other control.

The functions of internal audit are to assist all members of management in the effective discharge of their responsibilities, by furnishing them with analysis, appraisal, and recommendations and pertinent concerning the activities reviewed. The internal auditor is considered with any phase of business activity where he can be of service to management.

**The following are the functions of internal audit which make it to be independent,**

- a) Ascertaining the extent of compliance with established policies and procedure.
- b) Appraising the quality of performance in carrying out assigned responsibilities and recommending operating improvements.
- c) Reviewing and appraising the soundness adequacy and application of accounting financial records and other operating controls and promoting effective control of resource

- d) To ensure performance is in accordance to specified standards. This is done by technical auditor through field inspections and where necessary to do field training.
- e) Ascertaining the extent to which company's assets are accounted for safeguarding against losses of all kinds.
- f) The internal auditors activities related to verification involves two areas.
  - The accounting records.
  - Reporting and underlying asset, equities and operating results.

### **2.1.8 SCOPE OF WORK OF INTERNAL AUDIT**

Sawyer (1973: 47-48) said that,

1) The scope of internal audit should encompass the examination and evaluation of the adequacy and effectiveness of the organizations system of the internal control and the quality of performance in carrying out assigned responsibilities

a) The scope of internal audit work as specified in standard, above encompasses what audit work should be performed. It is recognized, however, that management and the board of directors provides general direction as to the scope of work and activities to be audited.

b) The purpose of the review for adequacy of the system of internal control is to ascertain whether the system established provides a reasonable assurance that the organization's objectives and goals will be met efficiently and effectively and economically.

c) The purpose of the review for effectiveness of the system of internal control is to ascertain whether the system is functioning as intended.

d) The purpose of the review for quality of performance is to ascertain whether the organization's objectives and goals have been achieved.

2) The primary objective of internal control is to ensure;

- The reliability and integrity of information
- The safeguarding of assets
- The economically and efficient use of resources

Reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.

- Information system provide data for decision making control and compliance with external requirements therefore, internal auditor should examine financial system and as appropriate ascertain whether: financial and operating records and report contain accurate, reliable, timely complete and useful information or control over record keeping and reporting are adequate and effective.
- Compliance with policies plans procedures, laws and regulations.
- Internal auditors should review the systems established to ensure compliance with those policies, plan, procedures, laws, and regulations which could have significant impact on operations and reports should be determined whether the organization is in compliance.
  - Management is responsible for establishing the system designed to ensure compliance with such requirements as policies, plans, and applicable laws and regulations. Internal auditors are responsible for determined whether the system are adequate and effective whether the activities audited are complying with appropriate requirement.
- Safeguarding of assets.
- Internal auditors should review the means of safeguarding assets and as appropriate, verify the existence of such assets.
- Internal auditors should review the means of safeguard assets from various types of losses such as those resulting from theft, fire, improper or illegal activities and exposure to the elements.
- Internal auditors, when verifying the existence of assets should use appropriate audit procedures.
- Economical and efficient use of resources.
- Internal audit should appraise the economy and efficiency with which resources are employed.



- Management is responsible for setting operating standards to measure, an activity's economical and efficient use of resources.
- Internal auditors are responsible for determining whether
- Operating standards have been established for measuring economy and efficiency.
- Established operating standards are understood and being met.
- Deviation from operating standards are identified, analyzed and communicated to those responsible for corrective action if they have been taken.

These facts holds with saying that, "Internal audit is an independent appraisal function established with the organization to examine and evaluate its activities as a services to the organization." And remember only auditor with independence will give true and fair presentation of financial statement.

## **2.2 LITERATURE REVIEW FROM EMPIRICAL STUDIES**

Kileo (2002); explain the role of internal audit of adding value to the organization by strengthening the control environment and specify control work. It helps directors to identify and control weakness and performed problems. Also, head of departments to corrects those problems which will affect the effectiveness and efficiency of their operation. It enhances the quality of the management process and improves director's understanding of internal audit control.

Henry (2000); from Lebanese American university explains that it is the responsibility of internal audit department to test, value, analyze of internal control employed by the management to safeguard organization's assets and to ensure accuracy of financial records.

Saria (2004) explains the role of internal audit as long standing function and effective tool to the management in many organizations. It has been recognized component of organization in both public and private sector and most industries for many years. Internal audit therefore reviews, appraises and reports on; the suitability, accuracy, reliability, and other management information and the means used to identify measure, classify and report such information. In addition, the extent to which the assets are acquired economically, used efficiently, accounted for and safeguard from losses of all kind.

Garnet (2000); student from Durham university comes with the following ideas on the roles of internal audit, thus it provides an independent and objective opinion to the accounting officer on risk management ,control and governance, by measuring and evaluating their effectiveness in achieving the organization `s objectives. Internal also provide an independent and objective consultancy service especially to help line management improve the organization risk management control and governance, so contributing to the achievement of corporate objectives. Such advisory work contributes to the opinion which internal audit provides on risk management, control and governance.

## **CHAPTER THREE**

### **3.0 RESEARCH METHODOLOGY**

This chapter discusses the research process and the nature of research design used.

Research process involved identifying a problem and translating it into a research problem, and research design specifies the procedure for collecting and analyzing data necessary in solving the problem identified.

Research methodology refers to the method used by the researcher for conducting practical research programmed. Under this heading, the researcher will concentrate more on matter concerning areas of study.

### **3.1 RESEARCH DESIGN**

In conducting the research, a case study approach was used, this which make the reseacher to obtain all the required data within a short period with less expenses. The case study was adopted for this study due to the following qualities outlined by Kothari, (2002);

- ❖ It is fairly exhausted method, which enables the researcher to study deeply, and thoroughly, different aspects of the phenomenon;
- ❖ It has suppleness in respect to data collection method; and
- ❖ It saves both time and cost.

### **3.2 RESEARCH TECHNIQUE**

Both qualitative and quantitative techniques was used in conducting this study. The quantitative technique based on numbers and uses statistical measure. On the other hand a qualitative technique use explanations and used to answer questions like, what factors impair the role of internal auditing in an organization.

### **3.3 POPULATION**

This population study comprises staffs working in internal audit department and sub departments who links with the effectiveness of internal auditing like finance department, salaries department, clearing department and post and validation department.

Also top management, supervisors and ordinary rank workers from different department while the main area of concentration was internal audit unit. The sample size is twelve (12) members from the following departments; internal audit, cash, accounts, and credit control.

### **3.4 SAMPLING TECHNIQUE;**

The study used convenient or judgmental sampling in order to obtain appropriate information. In this type of sampling items selected according to their suitability in relation to the study.

### **3.5 SAMPLE SIZE;**

A reasonable sample was selected randomly out of the population. In this case study a sample size comprise four (4) head of department. Internal audit two (2), cash two (2), accounts (6), and credit control two (2). This gave a sample size of twelve (12) respondents.

### **3.6 DATA COLLECTION METHOD;**

#### **1. Observation**

The researcher participated in daily routine works directly in various auditing activities. This involve observing the way internal auditing is being carried in various departments in case study; the information collect attitudes, behavior and perception of respondents in the problems area, collecting and analyzing various data which were significant to this study.

## 2. Interview

This is a form of verbal questioning administered by one person to another for the purpose of seeking information concerning some important matters. The researcher interviewed the internal audit unit and different departments in the case study.

In the course of participating in the day to day execution of internal audit and how to conduct internal audit instructions and directives used to be sought from the concerned personnel so as to understand properly the whole stages and procedures of internal audit. Queries that carried certain information which is considered necessary have risen continuously and technical to avoid distorted information should respondent know the reason for the same. Thus, unstructured interview, which carried out carefully and sequentially chosen so as to imprint a picture on the interview that the aim is to execute internal audit rather than identifying problems and reporting on them.

## 3. Documentary source

Such documentary sources included the internal audit manuals, which lay down the internal audit procedures, control environment, worksheet, which lay down matters to be address on the control environment. Audit planning memorandum format, which shows matters to be taken into account while planning and written down job description, which lays several duties and responsibility of every employee. The mentioned manual; and documents will be used in searching of information that will be necessary in the study.

## 4. Questionnaires

The questionnaires were distributed to all concerned person. The researcher used both open and closed ended questionnaires to facilitate coding and data analysis. All questionnaires returned dully filled.

## 5. Case study method

This helped to make analysis of what is happening in other organizations and the result is qualitative and not quantitative. Every possible effort was made to assemble information relating to this topic.

### **3.7 TYPES OF DATA COLLECTED;**

Designed to use both primary and secondary data;

#### Primary data

Primary data which consists of questionnaire, observation, and personal interview in various projects and it's surrounding, which are related directly or indirectly with the role of internal audit.

#### Secondary data

The data were extracted through reviewing various documents for example audited accounts textbooks, journals periodical, library, management report and other published information that are expected to be available. These are data that are already available. There are also unpublished secondary data examples in diaries, letters, and unpublished bibliographies.

## CHAPTER FOUR

### 4.0 PRESENTATION OF RESEARCH FINDINGS AND DATA ANALYSIS

The major purpose of this study was to observe the major roles performed by internal audit department at Arusha International Conference Centre, (AICC).this chapter revealing general observation particularly obtained in the study which helps to give conclusion to the main research objective(s) posed.

Then, it present those findings obtained from the respondents by using both quantitative and qualitative data presentation. Quantitative presentation which used includes tables, charts and pie charts. The findings observed that effective performance of internal audit roles can improve the performance of the organization.

The response of respondent from different departments concerning the study is as follows;-

Roles of internal audit in AICC; Internal audit is long standing function and effective tool to management in many organizations. It has been a recognised component in both public and private sector in most industries for many years. AICC deals with hospital services, estate service and conference service so it has to manage all the funds obtained correctly for the development of its functions. In order to make sure that income and expenditure are incurred as intended there is internal audit unit which has got the key role of understanding the key risks that facing the organization. The internal audit unit of AICC works as a team is headed by senior internal auditor.

Here, the researcher started to collect information through questionnaires based on the question that;

*Should the roles of internal audit be extended or not?*

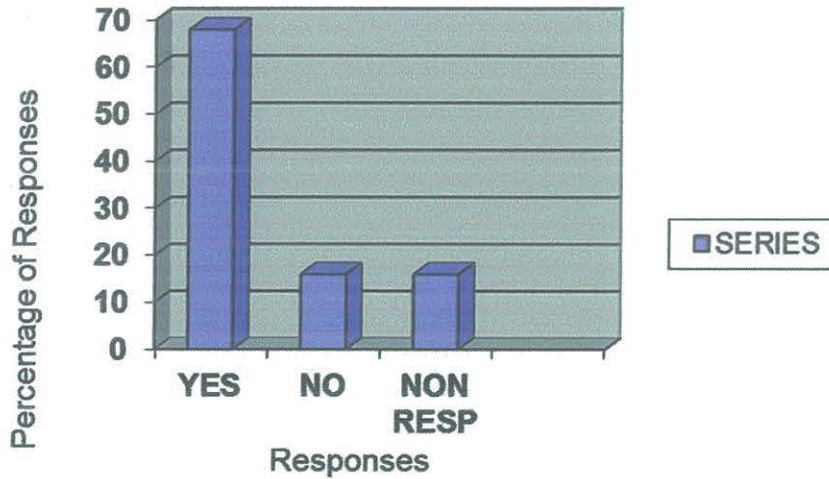
The respondents responded questionnaires concerning this statement as follows as shown on the table below:-

Table 4.1: should the roles of internal audit be extended or not?

Category	Number of respondents	Percent (%)
Yes	8	68
No	2	16
Non respondent	2	16
<b>TOTAL</b>	12	100

Source: Analysed data, 2013

FIGURE 4.1 Should the roles of internal Audit be extended?



Source :analysed data 2013



It has been observed that 68% of the population sample thinks that the roles of internal audit should be extended, while 16% of the respondent responded that roles should remain the same and 16% were non respondent to the question.

On those questionnaires distributed the respondent outlined the scope and objectives of internal audit as follows:-

- 1) The core objective of internal audit is to ascertain management with regards to economy, effectiveness and efficient;
- 2) Another objective is reviewing and appraising the soundness, adequacy and application of financial accounting, management and other operating controls and promoting effectiveness controls at reasonable cost;
- 3) Determining the extent to which assets are accounted for and safeguard from loss and misuse in another objective of internal audit unit; and
- 4) Ascertaining the extent of compliance with applicable laws and regulations established policies, plan and procedure and recommending improvements are also of internal audit unit.

The core aim of internal audit is to assist all parts of management in the effective discharge of their responsibilities by furnishing them with analyses, appraisal, recommendations and expressing an opinion on the activities reviewed. The internal audit undertakes reviews of individual systems and processes in the organization. As a result, recommendations are made to the relevant accounting officer on how internal control could be improved. These recommendations should ensure that risks to achieving the objectives of the system under review are reduced.

Most of external auditor does rely on the work of internal auditor in attestation functions. Internal auditor simplifies the external auditor's work. Where the external auditor decides to rely on the internal audit work, he should consider the extent of reliance. In order to achieve the extent of reliance of internal auditors work by external auditors the researcher asks the staff and their responses are given and analyzed below.

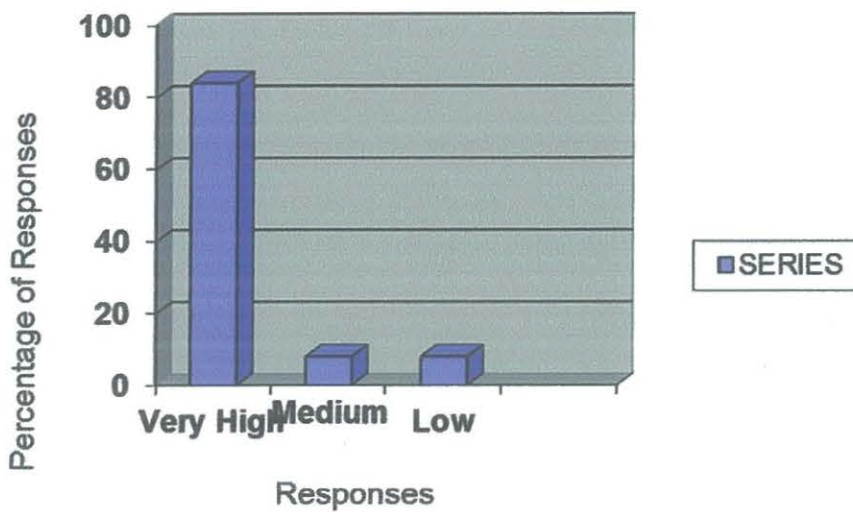
*To what extent external auditors rely on the work of internal auditors?*

Table 4.2 to what extent external auditors rely on the work of internal auditors?

category	Number of respondent	Percent (%)
Very high	10	84
moderate	1	8
low	1	8
Non respondent	0	0
TOTAL	12	100

Source: analyzed data 2013

FIGURE 4.2 to what extent external auditors rely on the work of internal auditors?



Source: analyzed data 2013

As the figure 4.2 shows 84% which is equivalent to ten (10) respondent, responded that the reliance of external auditor is very high while 8% of respondents which is equal to 1 (one) respondent, responded that the reliance of external auditors to internal audit unit is moderate. And only 8% says its low, while non respondent were non on the questionnaire distributed, which is 0%.

It has revealed that the external auditors do much relay in the work of internal auditors at AICC due to skill posses by internal audit staff. Internal audit staffs of the organization have got enough skill to perform internal audit works. The AICC has got the special programmed of training its employee including internal audit staff.

The following information where collected by the researcher from the senior internal auditor showing how the internal audit unit works, which proves its quality of the work done and why there is reliance of work from external auditor.

**(a) Auditor Proficiency:**

The internal audit unit must ensure that staffs perform internal audits with professional proficiency also have the knowledge and skills necessary for internal audits in conducting audits collectively. Auditors should also have a thorough knowledge of government auditing and specific or unique environment in which the audited entity operates, relative to the audit being conducted.

Personnel in the organization are to adhere to the principles of independence, integrity, objectivity, confidentiality and professional behavior.

**(b) Skills and competence:**

An organization is to be staffed by personnel who have attained and maintain the technical standards and professional competence required to enable them to fulfill their responsibilities with due care.

**(c) Assignment**

Audit work is to be assigned to personnel who have the degree of technical training and proficiency required in the required circumstances.

**(d) Monitoring:**

The continued adequacy and operational effectiveness of quality control policies and procedures is to be monitored.

The organization's general quality control policies and procedures should be communicated to its personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented. Further, the auditor should implement those quality control procedures, which are, in the context of the policies and procedures of the firm, appropriate to the individual audit.

### **(e) Delegation:**

There is to be sufficient direction, supervision and review of work at all levels to provide reasonable assurance that the work performed meets appropriate standards of quality. Any delegation of work to assistants would be in a manner that provides reasonable assurance that such work will be performed with due care by persons having the degree of professional competence required in the circumstances. In due course the following matters will be considered:

#### **▪ Direction**

Assistants to whom work is delegated need appropriate direction. Direction involves informing assistants of their responsibilities and the objectives of the procedures they are to perform. It also involves informing them of matters, such as the nature of the entity's business and possible accounting or auditing problems that may affect the nature, timing and extent of audit procedures with which they are involved. The audit program is an important tool for the communication of audit directions. Time budgets and the overall audit plan are also helpful in communicating audit directions.

#### **▪ Supervision**

Supervision is closely related to both direction and reviews and may involve elements of both. Personnel (Chief Internal Auditor) carrying out supervisory responsibilities performs the following functions during the audit:

(a) Monitor the progress of the audit to consider whether:

- Assistants have the necessary skills and competence to carry out their assigned tasks;
- Assistants understand the audit directions; and
- The work is being carried out in accordance with the overall audit plan and the audit program;

(b) Become informed of and address significant accounting and auditing questions raised

- during the audit, by assessing their significance and modifying the overall audit plan and the audit program as appropriate; and
- (c) Resolve any differences of professional judgment between personnel and consider the level of consultation that is appropriate.

▪ **Review**

The work performed by each assistant needs to be reviewed by personnel of at least equal competence to consider whether:

- (a) The work has been performed in accordance with the audit program;
- (b) The work performed and the results obtained have been adequately documented;
- (c) All significant audit matters have been resolved or are reflected in audit conclusions;
- (d) The objectives of the audit procedures have been achieved; and
- (e) The conclusions expressed are consistent with the results of the work performed and support the audit opinion.

The following need to be reviewed on a timely basis:

- (a) The overall audit plan and the audit program;
- (b) The assessments of inherent and control risks, including the results of tests of control and the modifications, if any, made to the overall audit plan and the audit program as a result thereof;
- (c) The documentation of the audit evidence obtained from substantive procedures and the conclusions drawn there from, including the results of consultations; and
- (e) The financial statements, proposed audit adjustments and the proposed auditor's report.

Independence of internal auditing is achieved through the organizational status of internal audit and the objectivity of internal auditors, the status of internal audit department should enable it to function effectively. On responding this questionnaire the following

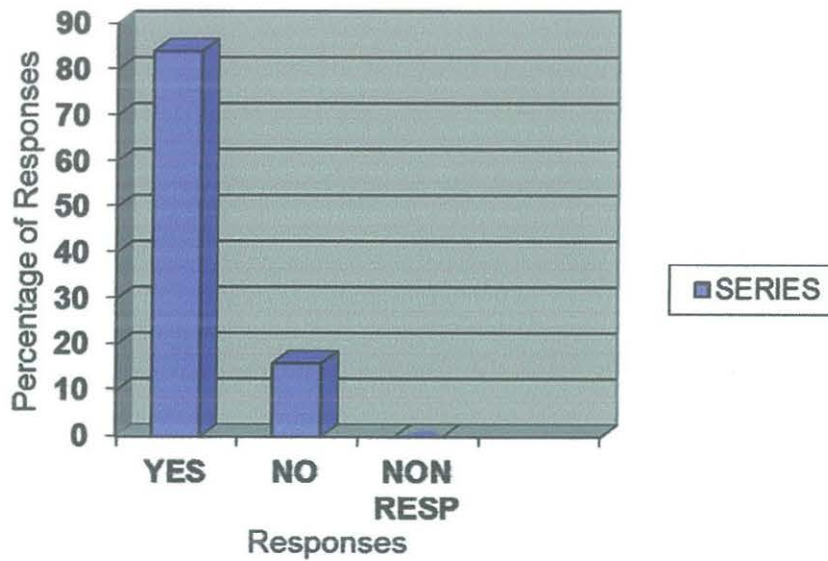
chart shows the response of the staffs that the internal audit unit is an independence function:

Table 4.3: Is internal audit unit independent?

Category	Number of respondent	Percent (%)
Yes	10	84
No	2	16
Non respondent	0	0
TOTAL	12	100

Source: analyzed data 2013

FIGURE 4.3 Independence of Internal Audit.



Source: Analyzed data 2013

As the figure above shows 84% of respondent, responded that they agree that the internal audit unit is is an independent function, while 16% responded, that it is not independence and 0% did not respond to this question.



Based on the findings, AICC organization structure(appendices 3) gives internal audit department its status as an independence appraisal of the other function. In performing its roles, internal auditors are supposed to be straight forward, honest and sincere in or bias to override objectivity and they have to impartial and free of any interest that may be regarded as being incompatible with integrity and objectivity. Internal auditors should inform their supervisor if they have observed that personal or external circumstances are likely to impede their ability to form independence and objective judgement.

#### **OTHER FINDINGS FROM OBSERVATION:**

Apart from research questionnaires distributed to the respondents there are other observations observed during performing daily activities of the organization which includes value for money audit.

Value for Money (VFM) is a concept that tries to seek the balance between the inputs consumed or deployed and the outputs produced or services provided. Hence it is important to specify the parameters for the output required the benchmarks for evaluating the quality of the outputs, the performance indicators the way towards achieving the various goals and objectives agreed to attain the planned output.

VFM can be defined as the method of achieving a specified level of output or service at the most economical cost. The most intrinsic problem in applying VFM concept is the pre-specification of the level of output or service in terms of quantity and quality, followed by the definition of the goals and objectives that can be attained given the amount of input available.

VFM audit is more common and appropriate in the public sector, because public expenditure requires more safeguards and controls as compared to the private sector entities whereby controls over the the use of resources is not a major issue in auditing.

In the public sector, sounds control system are lacking, and is not uncommon that the use of resources is not matched with the output planned. In addition, in the private sector it is relatively easy to measure performance and success by way of profit and turn over levels.

In the public sector, this is not the case, and it is always difficult to measure the level of satisfaction rendered.

The increased attention of parliament towards accountability of government and other agencies has been a major stimulus for the development of the concept of VFM Auditing.

#### **4.2 STRENGTH OF INTERNAL AUDIT**

The respondents states that, internal audit of AICC is strong enough to prevent risk before they occur if they will perform their roles in effective manner. The strength of internal audit unit is as follows;-

- i. Internal audit unit at AICC provides greater assurance that system of internal control are effective, efficient and economical and that its operations are performed properly;
- ii. Improve the quality of AICC management's understanding of internal control and risk management and providing assistant to management on the clear identification of risk across the total spectrum of the organization.
- iii. Internal audit unit at AICC helps to strengthen the financial displine, control environments and operational controls within departments in the organization; and
- iv. Internal audit unit enhances fraud prevention, detection and investigation, thus minimizing risk and error.

## **WEAKNESS IDENTIFIED**

During the course of study the researcher was able to identify the following weaknesses and acquired explanations from the internal auditor regarding the weaknesses;-

- Improperly vouched expenditure is one among the greatest weakness facing internal audit unit department. This refers to the organization's expenditures which were not supported by relevant document(s), such as receipts, etc. this was associated with the risk that, the amount taken was not used for the intended purpose. In the caser the internal auditor explained that there should be proper batching of the payment vouchers by making sure that relevant documents are attached to appropriate payment voucher.
- Batching of payment voucher refers to the process where the PV's of a certain period are filled together. In AICC the PV's are batched in monthly basis. Late vouching and hence late taking necessary corrections before vouchers are audited by the external auditors and the final result is the audit queries. The internal auditor explained that payment vouchers are suppose to be properly batched and reach the internal auditors office on or before 15<sup>th</sup> of the following month;
- Organizations receipts are not serially recorded in the revenue receipt cash book and therefore randomly banking this is another weakness. The result of this practice was that some receipt were omitted or late banked. the internal auditor explained that, recording and banking of revenue receipts are suppose to be done on the time as par regulations;
- The research noted that, some of the revenue were received by the bank but not yet recognized in the cash book. This resulted in having a misleading cash book balance which could lead to wrong decision making. The internal auditor explained that BOT should be notified for proper

banking practice. They should also notify organization on all entries that are credited or debited to its accounts

- Suspected loss is another weakness, in this case the amount of money collected was different from the amount banked. There was risk that the difference was used for something else or misplaced in any other way. In this case the internal auditor, recommended for proper follow up of the suspected loss.

The following are the obstacle experienced by internal audit unit in executing its planned strategies;-

- ❖ Difficult to get required documents from some department;
- ❖ Late batching of payment voucher and receipts affects the timely audit;
- ❖ Long time taken in procurement process and services affected the timely audit;
- ❖ Most of the internal control are not well defined hence difficult to evaluate ; and
- ❖ Shortage of auditors has caused some of the planned targets not to be achieved.

## CHAPTER FIVE

### 5.0 CONCLUSION AND RECOMMENDATIONS

Internal auditor is an independence unit at AICC, intended to serve as a tool of checking the efficiency and effectiveness of financial management and control system designed to add value and improve the organization's operations. It helps the organization to achieve its objectivity by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes. The effect of internal audit should be continual improvement and refinements to the internal control system as a contribution to proper economic efficient and effective use of centre resources.

### 5.1 CONCLUSION

The system of internal audit carried out by the Arusha International Conference Centre (AICC), in performing their roles seems to be effective. The internal audit unit has achieved a certain level of independence. The sense of this refers to the relationship between the auditor and the auditee. Internal audit unit has many roles in order to make sure that centre funds are managed properly as planned. In order to perform those tasks in a proper way, coordination between the auditor and the auditee is highly required. The issues surrounding the relationship between the auditor and the auditee are common to all organizations public and private organizations.

Qualification for internal audit in the ministry of finance seems not to be appropriate enough as per the standards of the professional practice of internal auditing. Most of the staff of internal audit in the department has education ranging from advanced diploma in accountancy and masters degree, most of them are not certified public accounts which is a qualification recognized by NBAA.

It has been observed that 84% of population sample knows and understands importance of playing different roles performed by internal audit unit. This really proves that this is

an important department in the centre and that is why the AICC is trying its level best to apportion budget each financial year to train their stuffs in and outside the country

## 5.2 RECOMMENDATION:

Since the centre is responsible for mobilizing resources, to control and manage the headquarter complex of defunct eastern African community and all other premises and lands in Arusha city which belonged to the defunct east African community, and to provide facilities and services in the complex for the purpose of conference meeting, and seminars, it will be better for the financial statement of the centre to be prepared and kept accordingly.

Due to these tasks which are performed by the centre, the following are recommendations which have been given by a researcher.

In order for the internal auditors to perform their roles in effective way and to be competent, internal auditors are encouraged to keep abreast of current developments in auditing standards, procedures and techniques by attending relevant seminars and reading audit literature. In order to be competent in performing audit roles, internal auditors are supposed to be C. P. A (T) holder and attending different courses offered by NBAA

Members of internal audit department must maintain high standard of conduct, independence and charter to carry out proper and meaningful internal auditing within the centre. Internal auditor is required to adhere to the institute of internal auditor's code of ethics. Internal auditor is supposed to follow the standard of confidentiality with regard to sensitive information applies to staff in the particular area.

## APPENDECIES

Appendix 1

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## Appendix 2

### QUESTIONNAIRES

**Dear Interviewee**

I kindly request you to answer the under mentioned questions as part of the fulfillment of my research for the award of Bachelor of Business Administration. The question are purely for academic demand and not otherwise against you. The questionnaires include spaces in which to indicate positive(Y) or negative (N) responses. Negative responses indicate the less practice of role of internal auditing. A “not applicable” (N/A) column is also included. Please remember to explain all “No” answers.

You are kindly requested to answer all questions and put your comment appropriately and completely so as to make this research successful. Either Kiswahili or English is appropriate language to use in filling and answer this questionnaire. Please kindly consider my request and be assured that, the information is obtained from you and should be confidentially handled, not to be disclosed, published or shared with any individual or institution.

I wish to express in advance sincere appreciation for the assistance you will extend to me in this regard.

**Questionnaires**

1. Do you have internal audit department in your organization?

- a) Yes
- b) No ( )
- c) Not applicable

2. If no is there any strategies made for implementation of internal audit department in Your organization?

- a) Yes
- b) No
- c) Not applicable ( )

3. i) Are there any specific roles performed internal audit in your organization?

- a) Yes
- b) No
- c) Not applicable ( )

ii) If yes list any four roles;

- a) .....
- b) .....
- c) .....
- d) .....

4. I) Does internal audit have objectives in performing its roles?

- a) Yes
- b) No ( )
- c) Not applicable

ii) If yes, mention any three objectives;

- a) .....
- b) .....
- c) .....

5. i) should roles of internal audit be extended or not?

- a) Yes
- b) No
- c) Not applicable

ii) If yes mention at least four objectives;

- a) .....
- b) .....
- c) .....
- d) .....

6. Does the internal auditor determine the accuracy of financial reporting systems and other management systems?

- a) Yes
- b) No

c) Not applicable

7. To what extent external auditors rely on the work of internal auditors for their attestation function?

a) Very high

b) Medium ( )

c) low

8. Does the internal audit meet the directors at least annually to discuss written reports of Auditing?

a) Yes

b) No ( )

c) Not applicable

9. i) Does internal audit department face any challenge in performing its roles?

a) Yes

b) No ( )

c) Not applicable

ii) If yes mention any challenges you know

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ii) List ways applied to overcome those challenges.

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**THANKS!**

## ARUSHA INTERNATIONAL CONFERENCE CENTRE (AICC) ORGANIZATIONAL CHART

