

**EXTERNAL AUDIT ON THE WORK PERFORMANCE
OF PUBLIC FINANCIAL INSTITUTION:
A CASE STUDY OF PEOPLE'S
BANK OF ZANZIBAR**

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In Partial Fulfillment of the Requirements For the Degree
Master of Business Administration

By:
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DECLARATION A

"This thesis is my original work and has not been presented for a Degree or any other academic award in any University or Institutional of Learning".



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DECLARATION B

"I confirm that the work reported in the thesis was carried out by the candidate under my supervision."


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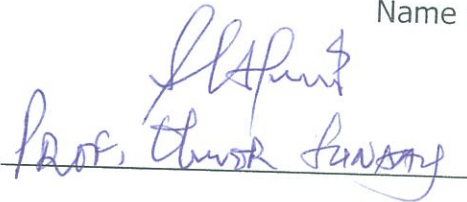
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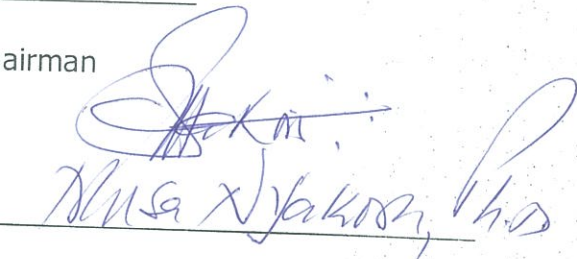
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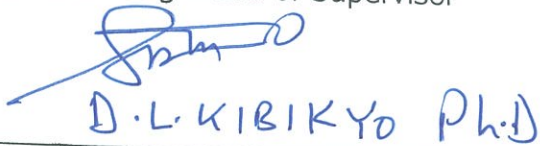
This thesis entitled "External Audit on the Work Performance of the Public Financial Institution " prepared and submitted by Suleiman Ali Suleiman in partial fulfillment of the requirements for the degree of Master of Business Administration has been examined and approved by the panel on oral examination with a grade of PASSED.

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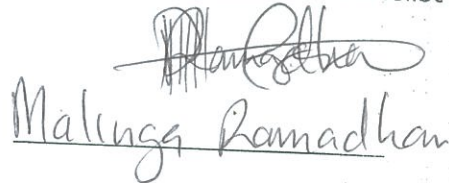

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DEDICATION

To my beloved parents, Moza Suleiman Dadi and remembrance of my late father Ali Suleiman Omar, for their concern to impart in me moral values and lay a solidified foundation for my education. Also this piece of work is dedicated to my lovely sons Ibrahim and Ali and my wife Saada, for their patience during the time of my studies when they missed me a lot.

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“Thank you and God bless you”

ABSTRACT

This research investigated the effect of external audit to the performance of People's Bank of Zanzibar (PBZ) from 2004 to 2008. The specific objectives of the research were to determine the relationship between work performance and PBZ, external audit performance and PBZ and independence of external audit and efficiency and effectiveness of PBZ. The study was conducted at People's Bank of Zanzibar (PBZ) situated along Benjamin Mkapa Road, Western Region, Town District, Zanzibar and it covered period of one year that is, from April 2009 to April 2010.

In the literature review, theories were used to support the study and concepts linked and analyzed to bring a conceptual framework. In the research methodology, the study employed a simple descriptive survey design where both qualitative and quantitative approaches were employed and study population consisted of management of the bank, bank employees, bank's clients and 45 respondents were sampled through simple random and purposive sampling techniques. Both questionnaire and interview methods were used to collect data and the researcher followed all the research procedures on ground besides respecting all the ethical and logistical considerations of research. Both qualitative and quantitative approaches were also used to analyze data.

The findings of the study reveal that the effect of external audit work performance, competence, and independence at PBZ have led not only to improved performance of the bank but also its growth and development. Due to some of the areas of weaknesses

in external auditing, the study recommended that financial institution managers should develop the necessary audit practices and take into considerations the effective internal control procedure to achieve sufficient comfort level from the stakeholders as well as maximum profit levels.

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LIST OF ACRONYMS AND ABBREVIATIONS

EA	External Audit
EAF	Appraisal Functioning
FT	Further Training to external auditors
FI	Financial Institution
IA	Internal Audit
LPM	Laying Preventive Measure
MFEAZ	Ministry of Finance and Economic Affairs Zanzibar
OCAGZ	Office of Controller and Auditor General Zanzibar
PBZ	People's Bank of Zanzibar
QSC	Qualitative Standard of Constraints
SBPV	Seeking Signatories before Vouchers
SCT	Strict Conformity to Truth

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Audits have been performed at least since the fifteenth century. The exact origin of audits of financial reports is in dispute, but it is known that as early as the fifteenth century auditors were called on to ensure the absence of fraud in the records kept by the stewards of wealthy household estates in England. Although its origins are ancient, development of audit functions has occurred most rapidly in the last century (Carmichael et.al 1996).

The origin of audit functions in North America is decidedly British. Accountancy as a profession was introduced in North American continent by the British during the second half of the nineteenth century. North America accountants adopted the British form of audit report for carrying out examinations.

The absence of statutory requirement for audits to be submitted to stockholders resulted in nineteenth century audits that varied from audits of only balance sheet account to full, detailed examinations of all accounts of corporations. An auditor was engaged usually by management or the board of directors of a corporation, the report was addressed and directed to these insiders rather than shareholders. Reports to shareholders on the representation of management

were not common. Instead the corporate managers were interested in being assured by the auditors that fraud and clerical errors had not occurred.

In the first half of Twentieth Century, the direction of audit work moved away from fraud detection toward a new goal of determining whether financial statements gave a full and fair picture of financial position, operating results, and change in financial position. This shift emphasis was a response to the increasing number of shareholders and the corresponding increased size of corporate entities. In addition to the new shareholders, auditors become more responsible to government agencies, stock exchanges representing these new investors, as well as to other parties who might rely upon the financial information (Whittington et.al 1992).

As of recent, external audit control system was welcomed by many nations including African countries as it was finally found to be more effective and efficient in detecting financial misappropriations and loses in financial institutions as well as in large organization both public and private. As per now, many organizations in Africa and government bodies employ external auditors to verify their financial reports.

In Tanzania for example, financial reports of financial institutions, large government institutions and big Non-Governmental Organizations are closely monitored by external auditors. This research therefore explores the effects of

external audit standards to the performance of Peoples Bank Zanzibar, in Tanzania.

1.2 Statement of Problem

Most of the organizations have realized the vital roles of the External Audit to performance of their organizations. An audit involves searching and verifying the accounting records and examining other evidence supporting those financial statements (Whittington et.al 1992) .However, the effect of external audit to the best performance of the organizations and other institutions have not yet been pronounced as compared to the Internal Audit.

The researcher established that a problem existed in the process of external auditing where the Deputy Financial Comptroller of People's Bank of Zanzibar (PBZ) in 2008 stated that some external auditors connived with their counterparts to approve distorted financial statements. This research therefore investigates the effect of External Auditing to the performance of organizations while taking Peoples Bank Zanzibar as a case study.

1.3 Purpose of the study.

The study is aimed at investigating on how weaknesses in external audit quality discourages growth and development of financial institutions due to poor work performance in terms of efficiency and effectiveness.

1.4 Research Objectives

1. To determine how work performance in external audits affect efficiency and effectiveness in PBZ from period of 2004 to 2008.
2. To establish the relationship between external audits competence and efficiency and effectiveness in PBZ from period of 2004 to 2008.
3. To find out how independence of external audit influence efficiency and effectiveness in PBZ from period of 2004 to 2008.

1.5 Research Questions

The study sought answers to the following research questions

1. How does work performance in external audits affect efficiency and effectiveness in PBZ from period of 2004 to 2008?
2. What is the relationship between external audits and efficiency and effectiveness in PBZ from period of 2004 to 2008?
3. How does independence of external audits influence efficiency and effectiveness of PBZ from period of 2004 to 2008?

1.6 Scope of the study

The research was focused on Peoples Bank of Zanzibar located at Benjamin Mkapa Road, Western region, Town district, Zanzibar. The study involved selected employees, management of PBZ and a sample from the accessible Bank Clientele who represented the survey population. The study was gender sensitive

in the selection of respondents to ensure that both men and women participated equally.

The content scope dwelled on how work performance in external audits affects efficiency and effectiveness of FIs, the relationship between competence in external audits and efficiency and effectiveness of FIs, the objectivity of external audits to effective and efficient performance of FIs and determining how independence of external audit influence effectiveness and efficiency of FIs. The coverage time for this study was between the months of April 2009 to February 2010.

1.7 The Significance of the Study;

This research may be significant to external auditors since it may help to illustrate their significant roles and limitations in the financial appropriations of the companies and institutions they are dealing in.

Exposing the performance of external audit to different organization in this research may also enable different organizations that have not yet employed it to pay keen attention to it since they may come to understand that external audit quality improves the financial performance of organizations.

Furthermore, revealing some of the weakness in external auditors' report in this research may also be useful to tax authorities in determining and measuring

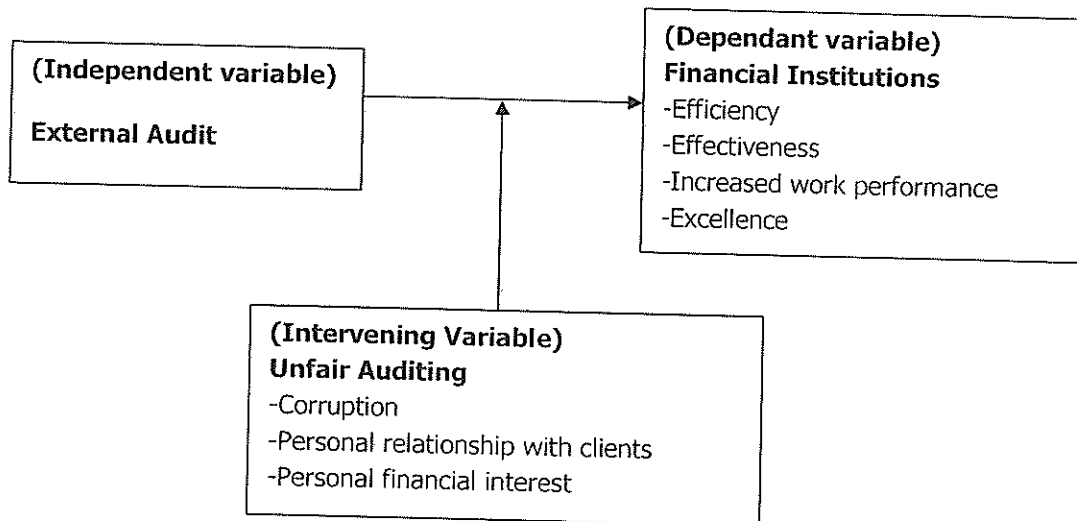
realistic tax rates since many of them have been losing big sums of money due to unrealistic audit reports. This report may encourage tax authorities to be detailed in measuring or determining tax rates in financial institutions.

This research report may also convince government system to apply external auditing policy for effective operation of public institutions. And if this is done, issues of corruption are likely to be eliminated hence transparency in financial appropriation and increased development.

Furthermore, this research may also act as a reference to other scholars or researchers who in future want to investigate the same topic.

Lastly, this research is significant to the researcher in sense that it is in partial fulfillment of the academic requirements for the award of Masters Degree in Business Administration of Kampala International University.

1.8 Conceptual Framework



Source: Arens et al 2009

1.8.1 External audit

External auditing has been implemented in order to provide an independent expert opinion as to the fairness with which the statements present financial position, results of operations and cash flows (Lehman, 2007). As it has been indicated, external auditing forms a backbone to a successful operation of financial institutions. However, sometimes some intervening factors like corruption, personal financial interests and relationship with clients undermines external audit competence, independence and work performance.

1.8.2 Financial Institution

Financial institutions are institutions which deal with financial issues and they include banks, credit companies, insurance companies and other businesses that

help finance transactions or insure against the risk associated with buying and selling of goods and or services (Price et al, 2003). For effective operation of financial institution, different internal financial appropriations need to be monitored closely and effectively and this is the role of external auditors. The effectiveness and efficiency of all these can be possible if the external auditors follow all the auditing postulates and code of conducts on ground.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Overview

This chapter seeks to address what authors revealed in relation to external auditing with regard to performance of an organization. It presents issues of external audits work performance, competence, objectivity and independence and their relationship with efficiency and effectiveness of financial institutions.

2.2 Review of Past Related Studies

2.2.1 Work Performance in External Audits and Efficiency and Effectiveness in Financial Institutions

Lehman, (2007) articulated the work performance by external auditing; and in his study he indicated that accurate work performance by external auditing enhances effectiveness and efficiency of financial institution. In his explanation, he stressed that appropriate work performance strengthens the understanding and appropriation of organizational and institutional financial statements through Statement Auditing Standard (SAS) that internal auditors prepare. This enables financial statements be explained in qualitative standards of their constituents and assists in planning for possible system changes.

Work performance of external auditing is also said to have associated with fidelity and integrity. Aldeman, (1999), defines fidelity as faithfulness or the strict conformity to truth, or fact, that is, exact correspondence to the original. The scholar therefore asserts that fidelity is essentially the loyalty, which is the faithfulness to duty, lover or obligation. Integrity as for Aldeman, (1999), is the wholesomeness, soundness, uprightness, and honesty. The author continues to conform that to ensure competence auditors need to maintain and broaden public confidence, perform all professional responsibilities with the highest sense of integrity. Leobbecke (2000) supports the view of Aldeman, (1999), by saying that in carrying out their responsibilities as professionals, auditors should exercise the sensitive professional and moral judgments in all their activities. This suggests that a member should observe the profession's technical standards and strive hard to continually improve their competence and quality of services to enable them discharge professional responsibilities to the best of member's' ability.

The credible work performance according to Sawyer (2004) also contributes to efficient and effective operation of financial information of FIs. Credibility means that information can be believed, that is can be relied upon by outsiders such as shareholders, creditors, governments regulators, customers and other interested third party. This third part use information to make various economic decisions such as decision to invest in the organization. This means that if economic

decisions are made under condition of uncertainty, there is always a risk that the decision maker will select the wrong alternative and incur a significant loss. The credibility added to the information by independent external auditors actually reduces decision maker's risk.

Financial statements prepared by management and transmitted to outsider without being audited by independent external auditor leave a credibility gap. The financial credibility gap occurs since management hardly reports their impartiality and bias in financial statements. This give appraisal to work performance by external auditors in bridging financial gap hence facilitating efficiency and effectiveness of FIs.

In the works of Whittington, (2001), indicated that the work performance of external auditing for effective and efficient operation of organization can not be achieved if the auditors themselves do not take into consideration a number of prerequisites or specific fundamental principles. In trying to be direct to the point, Whittington, (2001), outlined the aspects of integrity, confidentiality, professional behavior, technical standards as some of the core fundamental principles external auditors should ensure.

Additionally, a report by Aldeman (1999) on economic decisions also indicated that better work performance may not be achieved for an effective and efficient

running of an organization if the employer or the organizational client does not conform with the some of the basic code of conduct they are supposed to observe. This prompt Aldeman (1999) to mention issues of integrity and objectivity, confidentiality, competence and technical standards, independence as code of conducts to be followed to enable work performance reflect freshness.

Work performance by external auditing also facilitates efficiency and effectiveness in financial institutions in the sense that it eliminates the possibility of unaudited financial statements that are deliberately falsified in order to conceal theft and fraud or as a means of inducing the readers to invest in business or to extend credit.

Schneider (1985b) examined the degree of work performance among external auditors in evaluating internal auditors function. In his work, he employed an additive, compensatory. Results indicated that additive combination; a work performance strategy seemed to fit profile evaluations of 15 of the 18 auditors. Nine of the 15 auditors rated work performance as the most significant factor, with eight of the nine indicating the following ordering: work performance, competence, and objectivity.

To ensure accuracy and fairness in work performance of external auditing needs to ensure that financial statements are accordance with relevant legal requirements, professional ethical guidance of that countries auditing standards

(Schneider, 2008). To add on Schneider, (2008), point of observing relevant legal requirements, ethical guidance and those countries auditing standards, Aldeman (2000) explained that auditors' duty should also be in line with the companies Act. As for Aldeman (2000), this process will ensure effectiveness and efficiency in work performance of external auditing. Aldeman (2000), also noted this kind of approach will enable auditors detect and report in their opinion if the internal control report is inconsistent with the financial statements, if the company has not kept proper accounting records, if they have not received all the information and explanation they require for their audit or if the information specified by law regarding director's remuneration and transactions with the company is not disclosed.

Maletta (1993) investigated external auditors' work performance on performance of organization and found out that organizations that fully employ decisions made by external auditors on internal auditors' financial statements are in the right path of growth and development since issues of fraud and lowers inherent risk conditions in the organization.

Furthermore, Loebbecke (2000) in addressing some of the challenges affecting external audit work performance noted that the issue of foreign currency restriction and transfer requirements need to be looked into when ensuring the work performance of external audits for effectiveness and efficiency of an organization. According to Loebbecke (2000) this problem in most cases arises

because of inability of external auditors or complications resulting from the improper procedures for translating financial statements and recording foreign currency transactions so that reports sent to the parent in its own currency are prepared properly.

Sawyer, (2004), in his analysis articulated that the understanding and following of the underlying postulates of auditing renders better external audit work performance. The author therefore believes that truth and fairness to conform to law and best practice, clear evidence through the systematic collection of data on which judgment is based and responsibility for the prevention or detection in financial frauds or misappropriation of organizational all form basis for consistent work performance.

Cordially, Margheim, (1986), in the establishment and exploration of issues affecting external auditing noted that external auditor authentic work performance in today's world is greatly affected by the predominance of cash. According to Margheim, (1986), many organizations in modern times have the tendency of paying all their expenses by cash rather than the use of cheque. This suggests that the authenticity in record keeping of expenses and revenue is made quite difficult.

Another area to ensure better external auditors work performance in an organization according to Lehman, (2007), is by making sure that the personnel

understands the culture and the language of the organization. As for Lehman, (2007), ignorance of the local language can be a fatal handicap when the auditor deals with bilingual personnel. Lehman, (2007), illustrated having to rely on a translator may mean that the auditor is not getting the full story as in many countries or organizations, the financial information or statements are kept in the local languages and currency. Under this case for example, knowing the language can be useful for getting rightful information in touchy situations hence making the financial operation of the organization effective and efficient enough.

2.2.2 Relationship between External Audits Competence and Efficiency and Effectiveness in Financial Institutions

Arens et al (2007) establish that external auditing competence is related to efficiency and effectiveness in sense that it revises some of the unnecessary financial loses that internal control system or auditors had failed to detect and tackle due to internal organizational interest or organizational structure.

Additionally, one of the core issues affecting the competence of external auditing quality in today's world has been noted to be the inability to confirm accounts receivable. According to Leobbecke (2000) for example, this challenge results from confirmation letter itself. In trying to make himself quite clear, Leobbecke (2000) explained that many external auditors tend to rely on the customers confirmation of accounts receivable returns. However, it has been noted that some of the foreign customers are not used to the procedures of confirmation

and sometimes the mail service tend to be inefficient and unreliable, hence making it weeks longer for customers to receive it at all.

In ensuring competence in their professional duty, disciplinary measures are aid to have been taken strictly against non-compliance to code of conduct. In trying to be detailed, Konratu (2002), noted that the member services committee of the Board ha been empowered by the by-law, as the Ethics and Disciplinary committee. It is therefore because of such measures that many of the organizations in the country are efficiently managed.

Knechel, (1998), in his part illustrated that one of the aspects or factor that can enable competence in external auditing among others is the supply of auditors. Knechel, (1998), establishes that in some countries like Kenya and Korea for example, the number of accountants is minimal and yet the demand tends to be high. This therefore means that auditors may be in a rush when trying to appropriate financial statements and this affects the effective and efficient performance of such organizations.

In Loebbecke (2000) analysis on external auditing for example, he noted that one of the major factors affecting the competence of external auditors through the globe is the international differences in training of practicing auditors. According to Loebbecke (2000), it is not only that the numbers of auditors vary between countries but also the training of professionals that vary considerably.

In citing United States as an example, Loebbecke, (2000), noted that high value is placed on the university education of students and firms that recruit at universities with the background of students when they graduate. Loebbecke, (2000), therefore shows some concern that much as the education timeless element of formal education is essential for external auditors' competence, the aspects of experience and examination through apprenticeship approach are highly essential for better performance of an organization.

Messier and Schneider (1988) used Analytical Hierarchy Process to examine the relationship between competence of external auditors and efficiency and effectiveness of financial institutions as attributes that are considered important. In evaluating this relationship, the authors noted that external auditors seize and embrace competence as the most important attribute, hence enhancing the efficiency and effectiveness of financial institutions.

One of the central issues to audit competence according to Champlain (2003), is the external audit standards. According to Champlain (2003), many organizations in our contemporary world value the competence of external auditing by looking at the audit standards on ground. In trying to be down the earth, the author reveals that many big organizations throughout the world value the adoption and application of international auditing standards that has commonly been known for its capability in ensuring justifiable confidence in auditors' opinion.

Schneider (1985) examined the relationship between external auditors' evaluation of the internal auditor function and the performance of some organizations, the results revealed that because auditors perceived competence and work performance factors, there was proper utilization of resources in such organizations with external auditors. He therefore affirms that the competence of external auditors in an organization is significant and objective factor for the growth of organizations.

Margheim, (1986) in a similar way examined the factors that external auditors consider important in their decision to rely on internal auditors and whether such reliance results in adjustment of audit plan. Competence and work performance were treated as one factor in order to avoid unrealistic combinations such as low competence and high work performance. Results revealed that external auditors did not rely on internal auditors to adjust planned audit hours in the low competence-work performance condition. However, they did reduce planned audit hours in response to high competence-work performance.

Carmichael, & Schaller, (1996), establishes that for an audit to be competent enough to meet effectiveness and efficiency in financial appropriation of a company, they must know what types of evidence to gather, how to gather it and how to evaluate it to reach correct conclusion. In Carmichael, & Schaller, (1996), analysis, they therefore noted that auditors must understand the criteria to be used in evaluating whether the financial information conforms to the

established organizational standards. This indicates that if this condition is met, potential bias and motives of information providers (management) is likely to be minimized hence encouraging efficiency and effectiveness of such a company.

In one of the researches conducted in United Kingdom for example, it has been noted that external auditors need to read the other information contained in the annual report, and consider whether it is consistent with the audited financial statement to order to make their work more competent (Edge and Farley, 1991). In the researchers' analysis, he noted that the other information that comprises the directors' report and the chairman's statement will help in making some authenticity since it will help in considering the implications of the auditors report and help them to become aware of any apparent misstatements or material inconsistencies with the financial statements hence ensuring genuineness and competence at work place.

Similar to the above point but distinct is that external auditing should bear examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements to ensure competence and appropriateness (Aldeman 2002). According to Aldeman (2002), to make this possible, an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently

applied and adequately disclosed should be looked into so as to ensure competence for excellent performance of the organization.

2.2.3 Independence of External Audit Influence on Efficiency and Effectiveness of Financial Institutions

Champlain (2003) indicated in his research that the independence of external auditing enables misstatements by internal auditors to be encountered and proposes adjustments of journal entries that accumulated and presents to management near the end of the engagement. Through this independent financial information process, financial institutions may perform efficiently and effectively.

Additionally, Edge and Farley (1991) noted that external auditing independence enhances efficiency and effectiveness in sense that it responds to demands and growth in size and complexity of business as a way to shift from detailed verification of accounts to sampling or testing as basis for rendering an opinion on fairness of financial statements, development of practice of linking the testing to be done to auditors' evaluation of companies internal controls and de-emphasis of the detection of fraud as all as audit objectives.

Furthermore, results of an experimental study conducted by Schneider (1984) revealed that external auditor's independence in the financial appropriation of various organizations bears significant efficiency and effectiveness. According to

Schneider the independence of external auditors enable further growth and development since financial aspects are based on integrity and evaluation of internal auditor functions are followed by competence and objectivity factor.

Marching, (1986) establishes the objectivity of external auditing for efficiency and effectiveness of financial institutions. According to his study, he pointed out that external auditing has been adopted in order to find areas of balance sheet accounts and the stunning growth of fraud associated with increasing phenomenon of professional managerial absentee owners. In his further analysis, the author therefore noted that the stunning growth of frauds associated with a company especially in the balance sheet may not be detected if the element of independence is lacking in external audit quality hence failing to meet efficiency and effectiveness in such organization.

To add on, Boynton and Kell (1996) noted that independent opinion in financial statements ensures that audited statements are more reliable than unaudited statements. In through more lights to their point, Boynton and Kell (1996) revealed that an independent opinion encourages channeling of investment funds to the genuinely most profitable opportunities, thus improving the allocative efficiency of financial markets.

Further still, illustration by Champlain (2003) on external audit quality also noted that the independence of external auditors in routinely evaluating the strength of

internal audit (IA) function of client organization is very essential. In establishing a concrete background for his point, Champlain stressed that the ultimate objective of understanding and evaluating internal control structure of clients needs a greater space to ensure efficiency and effectiveness for better financial information.

Abdel-khalik et al. (1983) examined the effects of three electronic data processing (EDP) audit techniques and two organizational variables relating to external auditor objectivity to the extent of planned testing. Results indicated that there is significant growth in general performance of organizations where external auditors exercised higher freedom from internal control structures.

Rittenberg and Schwieger, (2007), also established objectivity and independence in external audit quality and as for them, objectivity and independence in external auditing is all about a state of mind. The author therefore establishes that maintaining objectivity and require a CPA to be imperial intellectually honest, and free of conflict of interest and not to subordinate his or her judgment to others. From Rittenberg and Schwieger, (2007) view, independence in external audit quality is essential for effective performance of an organization since an attestation without external audit quality add no credibility to a client assertion.

According to Aldeman (1999), external auditors realistically need to be independent in appearance, which means that they must avoid unnecessary relationship that appears to impair their objectivity. In trying to outline some of the manifestations of unnecessary relations, Aldeman mentioned having a financial interest in a client or a business relationship with a client as some of the examples.

Additional information on the independence of external audit quality was also undertaken by Aldeman (2000), and in his illustration, the author noted that external auditors need to plan and performed duty so as to obtain all the information and explanation which they can consider necessary in order to provide the organization with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. The author therefore asserts that, ensuring competence through this method can also be done by forming audit opinion that can also help in evaluation of the overall adequacy of the presentation of information in the financial statement hence ensuring external audit competence.

In the analysis of different authors in the literature, there seem to be some connection or relationship between work performance, competence, objectivity and independence of external auditing for efficient and effective operation of financial institutions hence recommending the work done by external auditors.

2.2.4 Audit Quality

In his work on principles of auditing, Whittington et.al. (1992), establishes that audit quality is the process of systematic examination of a quality system carried out by an internal or external quality auditor or an audit team. This means that audit quality is an important part of organization and quality management system is a key element in the International Standard Organization (ISO) quality standard.

In a similar way, Rittenberg and Schwieger, (2007), indicated that quality audit is typically performed at a predefined time intervals and ensure that the institution has clearly defined internal systems monitoring procedures linked to effective action. From this statement by Rittenber and Schewieger, it can be noted that quality audit can help to determine if the organization complies with the defined quality systems process and can involve procedural or results based assessment criteria hence ensuring efficiency and effectiveness of an organisation.

As it has been noted by Konratu, (2002) that audit is an essential management tool to be used for verifying objective evidence of processes to assess how successfully process have been implemented for judging the effectiveness of achieving any defined target levels to provide evidence concerning reducing and eliminating of problem areas. The author continues to stress that for benefit of an organization, quality audit should not only report non conformance and

corrective actions but also highlight areas of good practice. This suggests that other departments may share information and amend their working practice as a result also contributing to continual improvement in the work performance of an organisation.

Audit quality has also been cited to be instrumental in ensuring safety. Evens & Parker (2008) for example indicated that auditing is one of the most powerful safety monitoring techniques and an effective way to avoid complacency and highlight slowly deteriorating conditions especially when the auditing focuses not just on compliance but effectiveness.

Sawyer, (2004) on his part based himself on the principles of audit and according to him, it is necessary for every financial institution to observe the principles of audit quality that are based on the style of quality standards used in several formal national and international standard for effectiveness and efficiency. The principle is that each organization should create thorough, controlled procedures, for each of its processes and the procedures should deliver the quality that is sought. Through this it can be noted that quality audit only need to ensure that procedures have been defined, controlled, communicated and used since processes will be put in place to deal with corrective actions when deviation occurs. Sawyer, (2004) furthermore elaborated that this principle can be applied to continuous business process operation or recurring project work. Hence it

would not be normal to establish a set of quality control procedure for a one-off-situation since the emphasis correct.

2.2.5. Challenges facing External Auditors in their duties

In examining the challenges facing external auditors, findings reveal that the challenges of external auditing develop from both local and global sources.

Champlain, (2003), for example establishes that presentation of inadequate and unrealistic financial statements or information by the management or sometimes by the internal auditors is one of the core issues affecting the performance of auditors work performance. This makes it quite complicated for the external auditors especially in making annual financial statements and in the working of the balance sheet.

Radebaugh and Gray (2002), also illustrated that external auditors also have challenges in their duties especially those resulting from the predominance of cash. In trying to make their point well understood, the authors articulated that the trend of organizations to pay expenses by cash rather than cheque has become a common practice in many countries particularly emerging market economies. This according to them make record keeping of expenses and revenue control difficult hence creating some difficulty in recording systems and analysis of external auditor role.

Aldeman (1999), also confirms Radebaugh and Gray (2002), view regarding predominance of cash. As for Aldeman (1999), the tendency of organizations to use cash instead of cheques cause errors and frauds sometime to take place. The auditors function is not to find fraud but he or she has obligation to prevent and detect fraud during their work.

In the research done by Maletta, (2007), it has also been mentioned that the one of the hitting challenges affecting external auditing throughout the globe is the issue of foreign currency. According to the reports of Maletta, (2007), sometimes the understanding of the corporate procedures for translating financials statements and recording foreign currency transactions are not easy thus affecting the authenticity of their competency and efficiency.

The issue of local language and currency has also been cited by Lehman, (2007), as challenge to the works of external auditing. Lehman, (2007), noted that in many countries, the financial statements are kept in the local language and currency so knowledge of language is essential. However, sometimes language barrier hits hard external auditors and prohibits getting useful information in touchy situations very difficult hence creating a challenge for the external auditors. Fail to know the local and culture of the business firms may create challenges to auditors.

The complexity and bureaucratic structures of some of the organizations coupled with large size of these organizations make it quite challenging for the external auditors in the running of the detailed verification of accounts and fairness of financial statements (Hunton et al, 2006).

Arens et. al (2007) also noted that increasing fraud or deception in the management system of different organizations makes it very challenging for external auditing in the appropriation of financial statements.

Insufficient preparation and explanation of the organizational and institutional financial statements by internal auditors or management system to external auditors. This makes it quite hard for the proper planning for possible system changes in the organization (Arens et al, 2007).

Furthermore, the role of external auditing is to encounter and confront financial misstatements by the internal auditors and the management board. However, it has been noted that encountering and confronting misstatements is not as easy as people might expect. This again makes it complicated in trying to adjust the journal entries of the organization (Hunton et al, 2006).

2.2.6 Suggested Solutions for challenges facing External Auditors in their duties

In trying to solve the challenges facing the independent external auditors in their duties there are some suggested solution by different authors

According to Power (1997) unrealistic financial information or statement prepared by management can be minimized by establishing the accounting standards that can be used to provide financial statement that give true and fair view of the company business operations.

Risk based audit as suggested by Konrath 2002 is the one in which auditor carefully analyzes the entity and its existing internal control, identifies area that pose the highest risk of financial statement errors and allocates a greater proportion of audit resources to this area. By focusing on risk based auditing external auditor can able to minimize the financial information misstatement (errors and fraud)

Since management and board of directors are responsible for preparing the financial statement that show true and fair view. It is also responsible for them also to prevent and detect errors and frauds in financial statement. Independent auditors have no responsibility of preparing financial statement of any company but have responsibility of expressing his or her opinion on whether financial statement prepared by management or board of directors' show a true and fair view of the company operation.

Independent auditor should be able to verify financial statements and financial data prepared by management. This implies that the financial data subject to audit is objective and transaction based. If there are situations that show financial data are not verifiable the external auditor is obliged to state that situation on his opinion.

CHAPTER THREE

METHODOLOGY

3.1 Overview

This Chapter highlights on the research design that was used, area of the study, population of the study, sample selection methods and size, data collection methods, validity and reliability, procedures of data collection and analysis methods that were used.

3.2 Research design

This study employed descriptive survey design. This type of design was chosen because of the nature of the topic under investigation that demanded appropriate and suitable design to give detailed or intensive account on the relationship between external audit and work performance of financial institution is properly articulated in both single structure and group studied. This method was preferred because it minimizes bias and maximizes the reliability of the data collected; the easiness of this design to administer data, money and time saving cultures made it most preferable design for this study.

3.3 Target Population

The total target population in this research was 1507 and this study population constituted the Management of the Bank, Bank employees and the Banks clients. Selected departments for this study included financial services, Equity and Loans,

Internal auditors, Management and Clients. In each department, 10 respondents were selected except in the management where five respondents were selected making a total of 45 respondents. Management was only used as informants on the effect of External auditors because they experience challenges as heads of Departments.

3.4 Sampling Design

In order to obtain representative sample, simple random sampling was employed and this enabled the researcher to give respondents an equal chance of being selected therefore minimizing bias in the research. Employees from Financial Service Department, Equity and Loan Departments, Internal Audit Department were selected by use of simple random sampling. Simple random sampling was done by using the employees register from human resource department. The researcher also employed purposive sampling technique. This allowed the researcher to use cases that have the required information with respect to the objectives of the study. Purposive sampling technique was used to select the management of the bank who had required information on the subject matter.

The researcher undertook convenient sampling whereby respondents who were the captive audience interacted and those that showed an interest in the study consequently volunteered. Bank clients were selected as they become available to the researcher. These methods ensured that correct and reliable information

was obtained from relevant respondents as supported by (Mugenda & Mugenda 2003).

Table 3.1: Target Population and Number of Respondents

Departments	Total Population	No. of Respondents	Sampling Method
Financial Services	18	10	Simple Random Sampling
Equity and Loans	15	10	Simple Random Sampling
Internal Auditors	12	10	Simple Random Sampling
Bank's Clients	1457	10	Convenient Sampling
Management	5	5	Purposive Sampling
Total	1507	45	

Source: Primary Data

3.5 Data collection methods and Procedures

Data collection was from two main sources; primary and secondary. Secondary sources included relevant documents and reports. Secondary data on income statement of PBZ for the previous five years for example was used to measure work performance in terms of profit (Refer to Table 4.8). The researcher employed this source of data to pick information that was available an from bases for findings. In using Primary sources, data was collected from selected respondents. Primary data was gathered using Interviews and Questionnaires. It involved both qualitative and quantitative approaches.

The use of the two approaches of data at the same time in basic research was recommended by Gay (1996) as the best way to get sufficient results. Both approaches were adopted to enable the researcher to get relevant information concerning the relationships between related factors that affect the impact of External auditors on financial Institutions. The qualitative method was used to gather qualitative information while the quantitative method was used to investigate people's ideas and perception on the role of external auditing in financial institutions.

3.5.1 The Questionnaire

The semi –structured questionnaire and structured questionnaire were the main instruments of the study administered to the staff and the Banks clientele. Both Open and closed ended questionnaires were administered, this was because Closed ended questionnaires were easier to analyze since they were in an immediate usable form and again each item was followed by alternative answers. Open ended questions permitted a great depth of response, where a respondent was allowed to give a personal response, reasons for the response given was either directly or indirectly included. This instrument was very vital in capturing some of the delicate information that respondents feared to mention through face-to-face interviews. Issues regarding external auditors' independence at PBZ and challenges facing external auditors were best captured through this method

since it was quite confidential and respondents needed not to write their names on the copies of questionnaires.

3.5.2. Interviews

Both formal and informal interviews were conducted with the PBZ staff and clients. Guiding questions were used for the interviews but during the course, other questions were asked depending on the responses by the respondents. This instrument was preferred because of its nature to allow clarification on some of the statements made by informants. This means that the instrument helped the researcher to obtain information that could not be easily revealed through questionnaire method, as such, results from it helped in complementing information that was obtained from the questionnaire.

This research tool was basically used to obtain information from the Management of PBZ and it helped most in addressing issues regarding external auditors' work performance, relationship between external auditors' competence and efficiency and effectiveness of PBZ among others.

3.6. Research Procedures

The researcher presented his research topic and got it approved in April, 2009 by the Head of Business Department. Then proceeded and prepared a proposal that was approved by the supervisor from the school of postgraduate study in

October 2009. Next, the researcher obtained an introductory letter from the university authority in November, 2009 that helped to introduce the researcher to the field of the study and actual administration of the instruments.

The researcher then visited the head office of People's Bank of Zanzibar December, 2009 to inform them about the forthcoming study and presented a letter introducing him and research study from Kampala International University. Before selecting the respondents from the target population, the researcher pre-tested the instruments with some members (refer to reliability and validity of instrument for details) and this was carried out in the beginning of January 2010. The employees were selected from a list obtained from human resource department, and this list was used to make a sampling frame that facilitated the selection of respondents. In January, 2010 the researcher also contacted the managing director of the bank for secondary data especially regarding the income statement for the years 2004 to 2008 (Refer to Table 4.8 for details). From February 2010, the researcher coded the questionnaire, organized, and analyzed data by using statistical techniques in order to analyze the research findings. Editing of the data was done in March, 2010 and the final work was presented in April 2010.

3.7 Reliability and validity of data collection tools

The validity of the questionnaire was established by expert judgment method proposed by Gay (1996). The research supervisor and another lecturer from the School of Business and Management from Kampala International University acted as the experts in judging the instruments reliability and validity. The researcher adjusted the materials according to the expert's recommendation and analysis. Some of the questions that were regarded as irrelevant to answer research questions were omitted from the list and those thought to be answering the research questions were added.

To ensure that all the instruments were valid and reliable, the researcher also pre-tested the instruments with some three members of internal auditors, five clients and one manager of Pride Microfinance Institution, Zanzibar Branch. The results portrayed in the pre-test result indicated that the instruments were satisfactory and were relevant to address the research instruments.

3.8 Ethical consideration.

Under this study, the researcher considered all the ethics involved and informed the respondents about the purpose/ importance of the study and assured them of confidentiality. All the information that could have led to psychological torture and harm were concealed in order to protect and respect the dignity of the respondents in the field.

3.9 Data analysis

Both qualitative and quantitative approaches were used in data analysis. For qualitative approach, the researcher analyzed the information in descriptive way in order to come with useful conclusions to interpret the findings. This means that findings were presented in figures and tables, backed by frequency and percentage; and later on data presented was discussed, analyzed in descriptive methods. All information was run by use of Micro-soft Word and Micro-soft Excel.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

4.1. OVERVIEW

This chapter contains presentation of findings from primary data source and the presentation is based on the research objectives. This means that findings in relation to influence of work performance in external audits, external audits competence, objectivity of external audits and independence of external audit to efficiency and effectiveness of PBZ are all dealt with in this chapter. Data presentation in this chapter is done qualitatively and quantitatively that is to say in descriptive way, tables and charts.

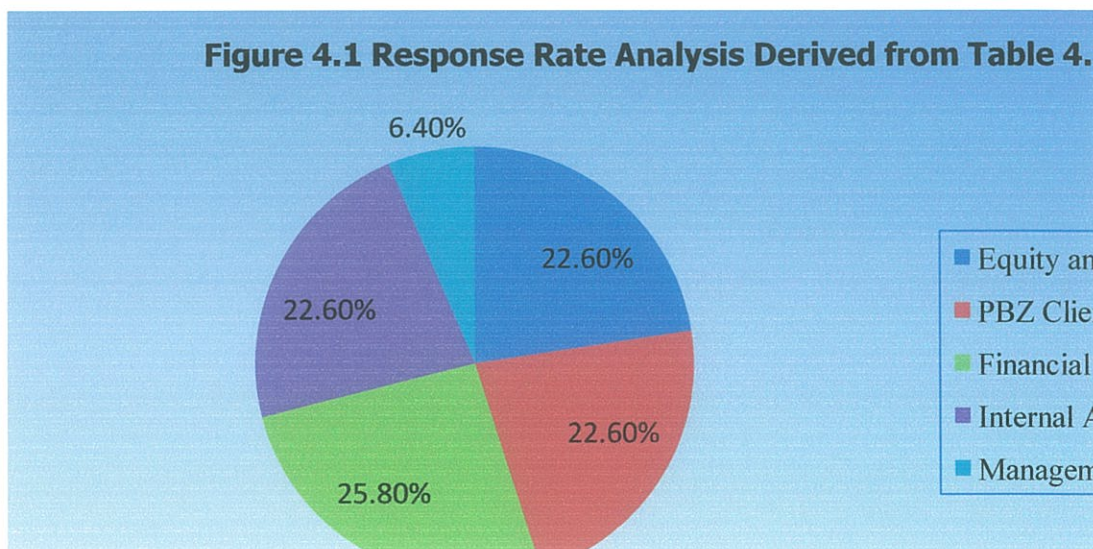
In the study, the researcher sampled and administered 45 respondents. Out of 45 respondents, the researcher administered 35 of them by questionnaire while the remaining 10 respondents were interviewed. The number administered by questionnaire in each department included 8 respondents from the department of financial services, 8 from equity and loan, 7 from internal auditors, 2 from management and 10 of them from the clients of People's Bank of Zanzibar. On the other hand, 3 of the managers, 2 of the internal auditors and 5 of the financial officers were interviewed. The researcher used the two instruments proposed in order to come up with fair findings. The distribution of questionnaires is shown in Table 4.1.

Table 4.1. Response Rate Analysis

Departments	Qns Given	Qns Returned	% of Returned Qns
Equity and Loan	8	7	22.6 %
PBZ Clients	10	7	22.6 %
Financial Services	8	8	25.8 %
Internal Auditors	7	7	22.6 %
Management	2	2	6.4 %
Total	35	31	100 %

Source: Primary Data

The above data are shown in the below figure



Source: Primary Data

From Table 4.1, it can be observed that 35 copies of questionnaires were distributed to respondents, 31 copies were returned while 4 copies remained in

the field. The researcher could not for several times meet those four respondents because they were occupied elsewhere with their own business engagements and yet the time frame for collecting data had elapsed. On the side of interview, interviews were conducted with all the ten respondents who were subjected to the method.

4.2. Demographic Characteristics of Respondents

4.2.1 Gender

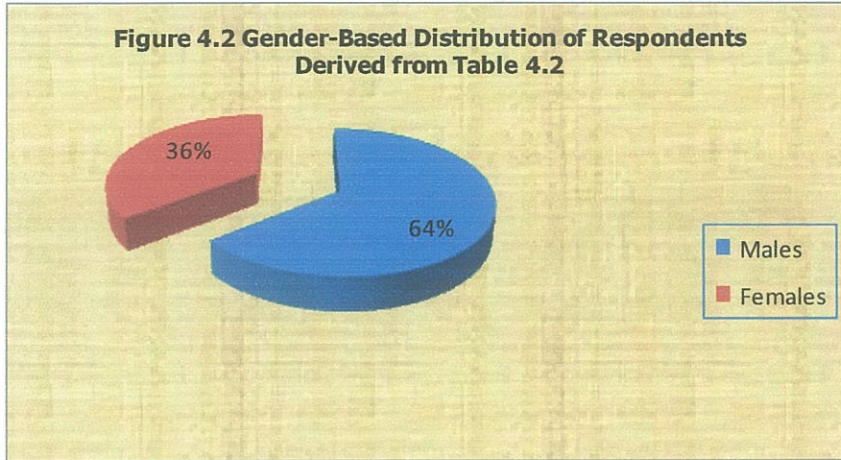
Respondents were asked to tick their appropriate gender during the study process. Table 4.2 illustrates the summary on the gender of respondents.

Table 4.2: Gender-Wise Distribution of Respondents

Gender of Respondents	Males	Percentage	Females	Percentage
Gender	20	64	11	36

Source: Primary Data

The data above of gender wise distribution of respondents are shown in figure below;



Source: Primary Data

Both male and female respondents took part in the research as shown in Figure 4.1. The percentage composition of males administered by questionnaire was 64 while that of females was 36 percent. The percentage composition of females was less because their number in the selected departments was less than their counterparts. Concerning the gender composition of respondents interviewed, 64 percent of them were males while 36 percent of them were females. Involving both males and females in the study was important in sense that information that was not well delivered by one gender would be revealed by the other.

4.2.2 Age Group

Age group of respondents was also one of the aspects in the demographic characteristics of respondents. Respondents were asked to tick their relevant age interval as indicated in Table 4.3

Table 4.3: Age Distribution of Respondents

Age Group (N=31)	F	Cumulative Frequency	Class Mark(M)	Fm
20-29	7	7	24.5	171.5
30-39	8	15	34.5	276
40-49	7	22	44.5	311.5
50-59	5	27	54.5	272.5
60-69	4	31	64.5	258
	$\Sigma f = 31$			$\Sigma fM =$ 1289.5

Source: Primary Data

From the data presented in Table 4.3, the researcher calculated the mean class of age distribution and this is shown below:

$$\text{Mean (X)} = \frac{\Sigma fM}{\Sigma f} = \frac{1289.5}{31} = \mathbf{41 \text{ years}}$$

Where

F = Frequency

M = Class mark obtained by adding upper class boundary and lower class boundary and then divide by two.

Since the mean age of respondents was 41 years it can therefore be concluded that most of the respondents administered by questionnaire had started working with PBZ when they have 29 or 30 years old. The age group of respondents interviewed was not requested since it is one of the sensitive issues to be asked of respondents in the area of study.

4.2.3. Number of Years Respondents worked in or With PBZ

Respondent were also asked to state the time interval they have been working with or in PBZ. Number of years worked in or with PBZ was significant in sense that detailed information on the influence of external audit work performance, external audit competence, objectivity and independence on affectivity and efficiency could be properly investigated. To the researcher's astonishment, those who have worked with or in the institution for longer period had richer experiences related to aspects under investigation. Below is the summary on the number of years the respondents had spent with or in the financial institution.

Table 4. 4: Number of Years Respondents Spend With PBZ

Year Group	Frequency (f)	Mid Point(m)	Cumulative Frequency	Fm	Percentage (%)
01-5	6	3	6	18	19.35%
06-10	7	8	16	56	22.58%
11-15	15	13	28	195	48.39%
16-20	3	18	31	54	9.68%
Total	$\Sigma f = 31$			$\Sigma fm = 323$	100%

Source: Primary data

From the data presented on Table 4.4, Average years in which respondents have worked in or with the respondents were calculated and the results are shown below:

$$\text{Mean} = \frac{\Sigma mf}{\Sigma f} = \frac{323}{31} = 10.4 \text{ years}$$

Since the 10.4, is the average years of respondents have worked in or with the bank and therefore is the parameter, obviously sufficient experience of the respondents enabled them to reveal rich information on the topic under study. For respondents who were interviewed, their number of years in or with PBZ was worked in percentage. As such, 40 percent of them had worked in or with the

bank for 16 to 20 years, 35 percent of them from 11 to 15 and 25 percent of them from 6 to 11 years.

4.2.4: Education of Respondents

Education level of respondents was also investigated in the field. The summary of this is presented in table 4.5.

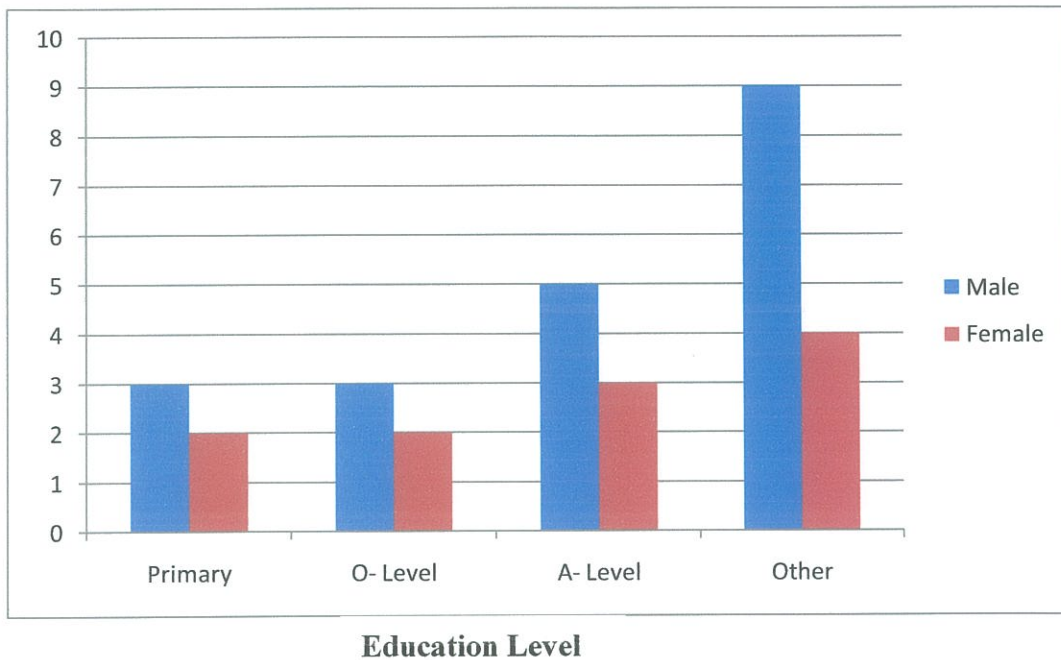
Table 4.5: Education of the Respondents

Education Level (N=31)	Male Frequency	Percentage (%)	Female Frequency	Percentage (%)	Total (%)
Primary	3	10	2	7	17
O-Level	3	10	2	7	17
A-Level	5	16	3	10	26
Other	9	28	4	12	40
Total	20	64	11	36	100

Source: Primary Data

**Figure 4.3 Education Distribution of respondent
Derived from Table 4.5**

Frequency



Source: Primary Data

From Figure 4.3, it can be observed that 40 percent of the respondents selected had achieved higher education that is other, 26 percent of them had attained A-Level while 17 of the respondents had either stopped in O-level or primary. This means that most of respondents had better education background to exploit the major concepts of external auditing and its role to the performance of financial institutions. Additionally, it is also evident that respondents of different education level were sampled and males had higher education level than their female counterparts.

80 percent of the respondents contacted through interview method had achieved higher level of education that is, they either had diplomas or degrees while 20

percent of them had attained A-level education certificates. This made the whole interview process interesting and enjoyable.

4.3 Work Performance in External Audits and Efficiency and Effectiveness in People's Bank Zanzibar from 2004 to 2008

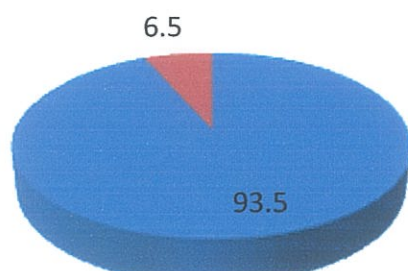
The concept of work performance was conceptualized as the act of doing something in a more genuinely, orderly, acceptable, productive, efficient and effective manner. The study investigated whether work performance in external audits affects efficiency and effectiveness of PBZ. Below is the summary of the findings.

Table 4.6: Work Performance in PBZ

Responses	Frequency	Percentage (%)
Yes	29	93.5%
No	2	6.5%
Total	31	100%

Source: Primary Data

Figure 4.4 Influence of External Audit on Work Performance in PBZ Derived From Table 4.6



According to responses on Table 4.6, it can be seen that 93.5 percent of the respondents affirm that work performance in external auditing does enhance effectiveness and efficiency in PBZ. Below are explanation on how work performance in external audit influences effectiveness and efficiency in PBZ.

Additionally, research on how external audit work performance at PBZ has been ensured and how this has helped the bank was done and summary on this is illustrated below.

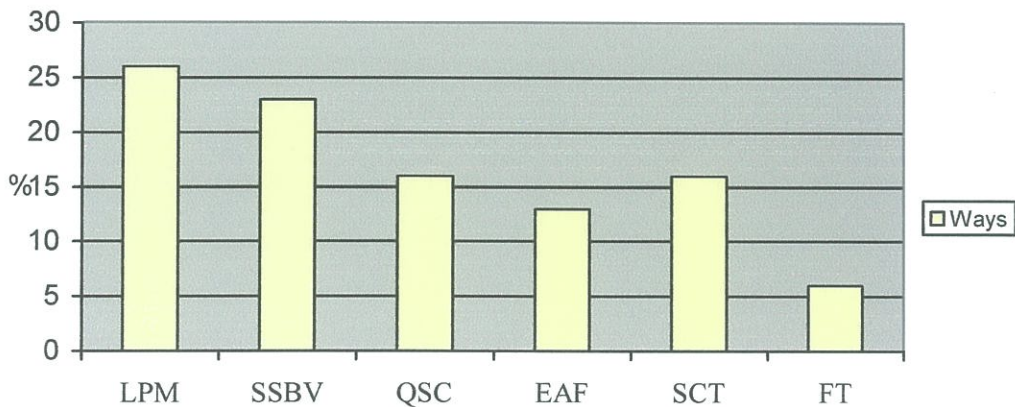
Table 4.7: Summary on How Work Performance is Ensured in PBZ

Elements in Work Performance in PBZ	Frequency	Percentage
Laying Preventive Measures	8	26
Qualitative Standards of Constraints	7	23
Seeking Signatories before Voucher	5	16
Strict Conformity to Truth	4	13
Appraisal Functioning	5	16
Further Training to External Auditors	2	6
Total	31	100

Source: Primary Data

The data on how work performance is ensured at PBZ is presented in Figure

Figure 4.5: Summary on How Work Performance is Ensured at PBZ



Source: Primary Data

Keys: LPM – Laying Preventive Measure

QSC - Qualitative Standard of Constraints

SSBV – Seeking Signatories before Vouchers

SCT – Strict Conformity to Truth

EAF – Ensuring Appraisal Functioning

FT – Further Training to external auditors

As it can be seen in Figure 4.5, different measures have been taken to ensure that appropriate and consistent work performance at PBZ. Results reveal that 26 percent of the ways to ensure work performance at PBZ is by laying preventive measures, seeking signatories before processing voucher (23 percent), ensuring

qualitative standards of constraints (16 percent), ensuring appraisal functioning (13 percent), strict conformity to truth (16 percent) and offering further training (6 percent). The details are illustrated below.

The authenticity displayed by external auditing for effectiveness and efficiency in PBZ has been one of the attributes of external audit performance from the period of 2004 to 2008 and this was confirmed by 85 percent of the investigated respondents. Findings confirmed that external audit performance is instrumental in the detection and correction of financial mistakes characterized by falsification and concealing cases of theft, fraud and misappropriation hence promoting and maintaining efficiency and effectiveness. To verify whether appropriate work performance of external auditing has been exercised in PBZ, the researcher investigated the qualitative standards of their constituents especially those assisting in planning for possible system changes and the results portrayed that it was positive from the period of 2004 to 2008.

The work performance aspect of external audit to the affectivity and efficiency of PBZ has been witnessed and praised since it is said to have laid preventive measures that have helped in controlling risks occurring. As Mr Juma, one of the management of PBZ revealed in an interview (on 20th February, 2010), through the work performance of external audit quality and recommendations, preventive controls have been designed to discourage errors or irregularities from occurring.

In deeper analysis, Mr. Juma stressed that the bank now maintains the issue of processing vouchers after signatories have been obtained from appropriate personals and it is through this that effectiveness and efficiency has been witnessed. to find out whether Mr. Juma was true or not, the researcher witnessed some of the services and found that truly the signatories of the those holding authorities were sought before vouchers were processed and this has helped to reduce cases of misappropriation and fraud hence promoting efficiency, excellence in the financial firm.

Besides laying preventive measures to control risks occurring, some of the respondents investigated reveal that work performance in external audit quality encourages efficiency and affectivity in PBZ since it has helped in the strengthening of corrective control measures which ensure that those detected problems are rectified. From this point of view, it can be noticeable that work performance has been displayed from the works of external audit quality since their recommendation has formed basis for rectification in PBZ.

Another area in which work performance has proved to be effective and efficient in the financial appropriation of PBZ as stated by management is that it has made it possible in the appraisal of functioning of entire organization department and branches. This suggests that through this process, rules, policies and

procedures have been adequately put in place and observed by the staff and internal control system.

From the analysis on work performance by external auditing and effectiveness and efficiency of PBZ, it was clear that work performance by external audit plays a vital role in building and strengthening authenticity in financial statement and appropriation since it acts as a gateway for appraisal of the functioning of entire organization department and branches, encourages and helps in the strengthening of corrective control measures which ensure that those detected problems are rectified.

Additional investigation on the issue of external audit work performance also reveals that since 2004 up to date, work performance has been greatly embraced by fidelity and integrity in the organization that has led to its growth and development. In trying to investigate how fidelity and integrity have come about, it was not that the management and the government of the Zanzibar has ensured strict conformity to truth, or fact, that is, exact correspondence to the original. As Aldeman, (1999)says in his research report, this aspect has promoted wholesomeness, soundness, uprightness, and honesty in the management of the PBZ hence ensuring broad public confidence with the highest sense of integrity. To make integrity and fidelity possible, the management has embarked on sensitive professional and moral judgments in all their activities.

Work performance in external audit in PBZ from 2004 to 2008 has also been improved by the management of the bank through organizing eternal training to the auditors especially on languages and the culture in their. Sometimes, the auditors are also asked to investigate some few things on their own such that they can deeply understand, unearth some of the most delicate financial matters surrounding the bank. This has helped to improve on the work performance of auditors and ensure some fairness in their role.

4.4 External Audit Competence and Efficiency and Effectiveness in PBZ from 2004 to 2008

Besides articulating how work performance by external audit enhances effectiveness and efficiency of PBZ, the researcher also looked keenly on how external audit competence interlinked with effectiveness and efficiency of PBZ. Competence of external audit was determined by its proficiency or capability in detecting internal control weaknesses such as management mismanagement in terms of fraud and exaggeration in spending in PBZ.

For 87 percent of the respondents administered through questionnaire and those interviewed, through external audit competence, internal financial problems at PBZ have frequently been detected since 2004 up to date and measures ensured to prevent their further occurrence. In trying to find out how this has been taking place in the case of PBZ especially from 2004 to 2008, the researcher found out

that actually strict measure against non compliance to code of conduct has been undertaken.

Additionally, the researcher noted that the bank had a strong and bold member services committee of the Board has been empowered by the by-law to ensure Ethics and Disciplinary action. This has made the appropriation of finances in the bank system efficiently and effectively run since 2004 up to date.

Additionally, external audit competence has also been tested and proved to be worthy in PBZ since its annual reports and recommendations have enabled effective bank and cash management. Through external audit competence, the branch manager has been obliged to clearly indicate and verify all documents related to cash tally with the vouchers of petty cash, receipt lists, loans, disbursed and refunds paid out hence making internal cash management solid and strong.

According to 70 percent of respondents, revision on some of the unnecessary financial loses has also been put in place due to external audit competence in PBZ. As for these respondents, external audit competence has made financial errors and irregularities been clearly checked and corrected. Clarification on revision of unnecessary financial loses, Mr. Ramathan (one of the respondents interviewed on 15th February, 2010) revealed that revision of unnecessary financial loses is done by reconciling monthly detail reports to departmental

records hence bringing about authenticity in financial statements hence eliminating distortions in financial statements.

Further test on the competence of external audit was also done and the result on ground were positive in that the external audit functioning at PBZ since 2004 to 2008 is said not to have relied entirely on internal audit reports. According to Mr. Adam one of the respondents investigated on 12 January 2010, such aspect has helped in determining fairness and integrity in audit works of the bank hence encouraging efficiency and effectiveness in the bank.

Concerning the findings and analysis on the external audit competence and effectiveness and efficiency of PBZ, the researcher contends that through external audit competence, internal control system of PBZ has been strengthened hence efficiency and effectiveness are witnessed in the financial management of the bank.

4.5 Independence of External Audit on Efficiency and Effectiveness of PBZ from 2004 to 2008

In determining the independence of external audit independence to efficiency and effective performance of PBZ, 98 percent of respondents praised that external audit independence is an important aspect in any financial institution since through it managerial role in fraud and falsification in financial statements

can be detected and uprooted hence ensuring and presenting holistic view of financial information.

Furthermore, Mrs. Zaituun had this to say, "No matter what it takes, external audits independence at PBZ has been characterized by integrity and it is through this that approval and verification of documents related to cash has been strictly based on receipt lists, loan dispensed and refund paid out and vouchers of petty cash". Through external audits outstanding independence, internal control systems do not only provide reasonable assurance but somewhat absolute assurance to PBZ management.

Additionally, 85 percent of the respondents assured that through the independence of external audit in PBZ, financial misstatements have been openly encountered and necessary adjustments of journal entries have been proposed. As a result of independent and recommendations from external audit reports, PBZ has currently shifted from detailed verification of accounts to sampling or testing as the basis for rendering an opinion on fairness of financial statements.

According to Mr. Adam, external audit independence and reports have made areas of internal control held and discussion on the findings of branches. This friendly and cordially meeting between external auditors and branch managers or

entire branch staff depending on their schedules therefore ensures corrective actions and suggestions be taken in to consideration for the betterment of PBZ.

Indications on external audit independence show that internal system controls of PBZ has actually greatly improved and as managerial roles in fraud and falsification in financial statements have been minimized, approval and verification of documents related to cash has been strictly observed, financial misstatements have been openly encountered and necessary adjustments of journal entries been proposed and areas of internal control have been held and findings of branches discussed.

4.6. Limitations of External Audit Control in PBZ from 2004 to 2008

Much as the findings presented external auditing as an effective tool in detecting financial problems or weakness in financial institution, strengthening and closing the gap of frauds and falsified financial statements, the researcher observed that external audit still had some challenges or limitation. Some of these inherent limitations which hinder effective implementation of external audit include the following:

Much as greater improvement in the works of external audit functioning in PBZ has been observed since 2004, the findings still observed that the presentation of financial statements or information is still minimal as compared to the most

desired level for better investigation on frauds and misappropriation. This still drags the expected performance of the bank.

Unfortunately, some people have greater and unrealistic expectations. They look for absolutes believing that external control systems can ensure an entity's complete success. However, it was found out that external audit system failed to change the inherently poor management into a good one. Additionally, shifts in government policy or programs, competitors' actions or economic conditions can be beyond management's control so do the external auditing.

As Radebaugh and Gray (2002), illustrated, the challenges in their duties especially those resulting from the predominance of cash is still persistent in the bank. Many of the payments in the bank are still done by cash payments rather than use of cheques and this still makes record keeping of expenses and revenue control difficult hence creating some difficulty in recording systems and analysis of external auditor role.

Although, external audit controls now tries to establish controls towards both routine and non-routine, most of the controls are still directed towards routine transactions rather than non-routine transactions. This still gives the management some gap and possibility to abuse the responsibility by over riding controls in place. This means that external audit control can only provide

reasonable measures and controls but not absolute assurance to internal control system.

However, these weaknesses of external audit control can not overshadow the benefits of external audit system in place although they need to be looked into critically.

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMANDATIONS

5.1 OVERVIEW

In this chapter, the researcher summarizes the major findings in this study, presents some recommendations on how external audit can effectively and efficiently enhance the performance of People's Bank of Zanzibar (PBZ). Lastly some conclusions on some of the major issues discussed in the previous chapters will be drawn.

5.2 Summary of the Major Research Findings

Summary of this research is based on findings on the influence of external auditors work performance, competence, objectivity and independence on effective and efficient performance of PBZ.

Finding reports indicated that work performance by external audit plays a vital role in building and strengthening authenticity in financial statement and appropriation since it acts as a gateway for appraisal of the functioning of the entire organization departments and branches, encourages and helps in the strengthening of corrective controls measures and ensure that those detected problems are rectified.

Concerning external audit competence, findings also indicated that through external audit competence, internal control system of PBZ has been strengthened hence efficiency and effectiveness have been witnessed in the financial management of the bank. The competence of external audit was measured by the proficiency or capability in detecting internal control weaknesses, ensuring attention in PBZ like branch expenditure, loans and salaries, refunds among others laying procedures to ensure that all documents related to cash tally with the vouchers of petty cash, receipt lists, loans, disbursed and refunds paid out are thoroughly verified.

As far as the objectivity of external audit quality is concerned, it has been observed from the analysis that through maintaining the quality of work, PBZ now has reduced cases of misstatements, cases of overriding internal control systems and the verification of areas of balance sheet accounts and stunning the growth of fraud associated making the internal functions of PBZ strengthened and somewhat efficient.

From the findings on external audit independence, it has come into a bright day light that the internal system controls of PBZ has actually greatly improved and as per now managerial roles in fraud and falsification in financial statements have been minimized, approval and verification of documents related to cash have been strictly observed, financial misstatements have been openly

encountered and necessary adjustments of journal entries been proposed and areas of internal control have been held and findings of branches discussed.

5.3 Conclusion

Since external audit function at PBZ is seen as a splendid instrument in detecting financial incapacitations or distortions and make appropriate corrective measures for better functioning of internal control system of PBZ, maintaining its quality of work performance, competence, objectivity and independence is therefore, very fundamental to the growth and performance of PBZ. Critical observation shows that, the implementation of external audit function results numerously advantageous to PBZ performance.

5.4 Recommendations

In efforts to tighten internal control systems and increase the effectiveness and efficiency of PBZ, external audit control function need to appraise the functioning of the entire organization department and branches. To adequately do this, rules, policies and procedures need to be in place and adequately observed by the staff.

Open discussion on external audit control findings and reports of the branch with the branch managers or entire branch staff should be encouraged. Since this will

enable corrective actions and suggestions for improvement on internal control weakness of the bank.

Additionally, external audit should continue directing its controls not only towards routine transactions, but it should also pay keen attention to non-routine transactions of the bank. This will greatly help to reduce the abuse of internal control systems especially by over riding controls in place.

The issue of language barrier that has been hitting external auditors and prohibit them from getting useful information in touchy financial situations can be solved by offering training facilities to such individuals before they are fully incorporated to their duties.

The issue of unrealistic financial information or statement prepared by management can be minimized by establishing the accounting standards that can be used to provide financial statement that give true and fair view of the company business operations.

Issues that pose high risks of financial statements errors can also be eradicated through by carefully analyzing the entity of existing internal control, identifying such areas that pose the highest risk of financial statement errors and allocates a greater proportion of audit resources to this area. This method can help to minimize the financial information misstatement (errors and fraud)

Independent auditors should also have no responsibility of preparing financial statement of any company but have responsibility of expressing his or her opinion on whether financial statement prepared by management or board of directors' show a true and fair view of the company operation.

Independent auditor should be able to verify financial statements and financial data prepared by management. This implies that the financial data subject to audit is objective and transaction based. If there are situations that show financial data are not verifiable the external auditor is obliged to state that situation on his opinion.

5.5 Areas for further research

1. Role of external auditing in reducing corruption in public institutions.
2. Role of external auditing in making economic decisions in private sector.
3. Role of computerized auditing on work performance of financial institutions.

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APPENDIX A

1. INTERVIEW GUIDE

2. How would you explain work performance in external auditing?
3. How does work performance in external audits affect efficiency and effectiveness of PBZ?
4. What elements are there to show that work performance is ensured at PBZ?
5. Does there exist a relationship between external audit competence and efficiency and effectiveness of financial institutions?
6. If yes, how does external audit competence influence efficiency and effectiveness of financial institutions?
7. If no, why is there no relationship between competence in external audit and efficiency and effectiveness in financial institutions?
8. Is it true to say that the independence in external auditing influences efficiency and effectiveness in financial institutions?
9. According to your answer to question 8, explain how this independence in external auditing influences efficiency and effectiveness in financial institutions?
10. What other things would you like to say about external audits and efficiency and effectiveness of financial institutions?

APPENDIX B

EXTERNAL AUDITING ON THE WORK PERFORMANCE OF PUBLIC FINANCIAL INSTITUTIONS: A CASE STUDY OF THE PEOPLE’S BANK OF ZANZIBAR (PBZ).

Dear respondents as part of my requirements to the award of a Masters in Business Administration at Kampala International University. I am administering this questionnaire to collect information on the effect of external auditing on the performance of financial public institutions. Kindly answer as honestly as possible.

Instructions:

Do not sign your name any where on this questionnaire.

QUESTIONNAIRE FOR EMPLOYEES OF PBZ

1.1 Gender: Male Female

1.2 Age: 20-29

30-39

40-49

50-59

60-69

1.3 Number of years in the organization

1-5 6-10 11-15 16-20

1.4 Education Background

Primary O-Level A-Level other

SECTION B

2.0 Work Performance in External Auditing

2.1 How would you define work performance in external auditing?.....
.....

2.2 According to your own experience, does work performance in external audits affect efficiency and effectiveness of financial institutions?

Yes No

2.3 If your answer to question 2.2 is yes, which of the following explains how work performance affects efficiency and effectiveness of financial institutions? (Tick where appropriately)

A) By strengthening the understanding and appropriation of financial statements_____

B) By explaining the qualitative standards hence assisting in planning_____

C) By providing credibility in financial information shareholders, creditors etc_____

D) Giving appraisal to work performance and bridging financial gap _____

E) By eliminating the possibility of deliberate falsified financial statements _____

F) Other ways (specify them)

3.0. External Auditors Competence

3.1. In which ways can you determine external auditors' competence?

.....

3.2. According to your experience, how has external auditors' competence influence efficiency and effectiveness of your bank? (Tick where appropriate)

A) By revising some of unnecessary financial loses _____

B) By seizing and embracing competence as their most important attribute_____

C) By avoiding unrealistic combinations such as low competence _____

D) By other means (Specify other means)
.....
.....

3.3. What other thing would you like to say about external audits competence and efficiency and effectiveness of your bank?.....
.....
.....

4.0. Independence in External Audits

4.1. How do external auditors manifest their independence in this bank?
.....
.....

4.2 In which ways has external auditors' independence facilitate efficiency and effectiveness of this bank? (Tick where appropriate)

A) By encountering financial misstatements and proposing necessary adjustments of journal entries _____

B) By shifting from detailed verification of accounts to sampling or testing as the basis for rendering an opinion on fairness of financial statements _____

C) By basing financial aspects on integrity and evaluation of internal auditor functions _____

D) By other ways (Specify them)
.....
.....

5.3. What other things would you like to say about external audits independence and efficiency and effectiveness of financial institutions?
.....
.....

Thank you for your cooperation and answering these questions

EXTERNAL AUDITING ON THE WORK PERFORMANCE OF PUBLIC FINANCIAL INSTITUTIONS: A CASE STUDY OF THE PEOPLE'S BANK OF ZANZIBAR (PBZ).

Dear respondents as part of my requirements to the award of a Masters in Business Administration at Kampala International University. I am administering this questionnaire to collect information on the effect of external auditing on the performance of financial public institutions. Kindly answer as honestly as possible.

INSTRUCTIONS:

Do not sign your name any where on this questionnaire.

QUESTIONNAIRE FOR MANAGEMENT

1.1 Gender: Male Female

1.2 Age: 20-29

30-39

40-49

50-59

60-69

1.3 Number of years in the organization

1-5 6-10 11-15 16-20

1.4 Education Background

Primary O-Level A-Level other

SECTION B

2.0. External Auditors Work Performance

2.1 Work performance by external audits is very vital in influencing efficiency and effectiveness of financial institution, do you agree? (Please tick one)

Yes

No

2.2 If yes, in which ways does work performance influence efficiency and effectiveness of your bank? If no, support your answer with concrete

reasons.....
.....

2.3 What elements are there to ensure the effectiveness of external audit performance in PBZ?

.....
.....
.....

2.4 What recommendations do you give to improve work performance by external auditors for efficient and effective performance of financial institutions?

.....
.....
.....

3.0 External Auditors Competence

3.1 External auditors' competence has been very vital in enhancing efficiency and effectiveness of your Bank. Is this true? (Tick one)

Yes No

3.2. Explain how this happens or give reasons to justify your answer in question

3.1.
.....
.....

3.3. In which ways can external auditors maintain their competence for effective and efficient performance of financial institutions performance?

.....
.....

4.0 External Audit Independence

4.1 Are external auditors in your bank independent enough?

Yes No

4.2 If yes, why do you think external auditors need to be independent?

.....
.....
.....

4.3 If no, how do you benefit from lack of independence of external auditors?

.....
.....
.....

4.4. How does external auditors' independence influence efficiency and effectiveness of financial institutions?

.....
.....
.....

Thank you for your cooperation and answering these questions

EXTERNAL AUDITING ON THE WORK PERFORMANCE OF PUBLIC FINANCIAL INSTITUTIONS: A CASE STUDY OF THE PEOPLE'S BANK OF ZANZIBAR (PBZ).

Dear respondents as part of my requirements to the award of a Masters in Business Administration at Kampala International University. I am administering this questionnaire to collect information on the effect of external auditing on the performance of financial public institutions. Kindly answer as honestly as possible.

INSTRUCTIONS:

Do not sign your name any where on this questionnaire.

QUESTIONNAIRE FOR PBZ BANK CLIENTS

1.1 Gender: Male Female

1.2 Age: 20-29

30-39

40-49

50-59

60-69

1.3 Education Background

Primary O-Level A-Level other

1.4 How did you know about PBZ BANK?

Colleague

Newspaper

Seminar/workshop

Other (please Specify).....

1.5 How long have you been a client at PBZ BANK?

a) More than 20 years

b) 10 –20 years

c) 1-10 years

d) Less than 1 year

2.1 According to your knowledge, does PBZ employ external auditors? (Tick one)

Yes No

2.2 If yes, why do you think PBZ employs external auditors when they have internal auditors?

.....
.....
.....

2.3 If no, why do you think the bank does not employ external auditors?

.....
.....
.....

2.4. State how the following can influence or are important in enhancing efficiency and effectiveness of financial institutions?

i) Work performance:

.....
.....

ii) Competence:

.....
.....

iii) Independence:

.....
.....

What other thing would you like to say about external audit and efficiency and effectiveness of financial institutions?

.....

Thank you for your cooperation and answering these questions

APPENDIX C

TIME FRAME

PARTICULARS	DURATION
Selecting and Approval of Topic	April 2009
Doing Library Research	May 2009 to June 2009
Writing of Proposal	October -October 2009
Doing Field Research	December 2009- February 2010
Compiling the Data Collected	February 2010 – March 2010
Editing the Work	March 2010
Handing in of the Final Work	April 2010

APPENDIX D

BUDGET FOR THE THESIS

PARTICULARS	QUANTITY	UNIT COST	AMOUNT
Stationary			
Pens	2	200/=	400/=
A flash Disk	1	40,000/=	40,000/=
Rim of Papers	1	10,000/=	10,000/=
Sub Total/=			50,400/=
Travel and Communication			
Air time cards	-	-	20,000/=
Travels	-	-	30,000/=
Meals	-	-	30,000/=
Sub Total			80,000/=
Data Collection			
Library	5 days	5,000/=	25,000/=
Internet	12 hours	1,500/=	18,000/=
Sub Total			43,500/=
Typing and Printing			
Proposals	1 copy	20,000/=	20,000/=
Research Report	1 copy	70,000/=	70,000/=
Sub Total			90,000/=
Consultations			
Editing	1 copy	25,000/=	25,000/=
Miscellaneous	-	25,000/=	25,000/=
Sub Total			50,000/=
Photocopying and Binding			
Research Report (Photocopy)	2 copies	6,000/=	12,000/=
Research Report (Binding)	3 copies	3,000/=	9,000/=
Sub Total			21,000/=
GRAND TOTAL			334,900/=





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**OFFICE OF THE DIRECTOR
SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH**

June 5, 2009

The Managing Director
People's Bank of Zanzibar
Zanzibar

Dear Sir/Madam,

RE: INTRODUCTION FOR SULEIMAN ALI SULEIMAN

This is to inform you that the above named is our registered student (MBA/10014/81/DF) in the School of Postgraduate Studies pursuing a Master of Business Administration (MBA).

He is interested in carrying out research in your organization entitled " Effects of External Audit on the Performance of Public Financial Institutions: A case study of People's Bank of Zanzibar."

Any assistance rendered to him regarding research will be highly appreciated.

Yours faithfully,



Dr. Elizabeth N. Kuria

DEPUTY DIRECTOR-SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH



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