

KAMPALA INTERNATIONAL UNIVERSITY

TOPIC : EFFECTS OF INTERNAL CONTROLS ON INVENTORY
MANAGEMENT

CASE STUDY : TANZANIA NATIONAL PARKS AUTHORITY (TANAPA)

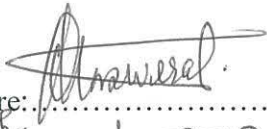
A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF
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FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF
BACHELOR'S DEGREE IN INTERNATIONAL BUSINESS
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DECLARATION

I, Maswera, Omary Mufungo declare that, this research report is my own work which nowhere else it has been submitted for the award of Bachelor's Degree of International Business Administration (BIBA) for award of any similar to such. I solemnly bear and stand to correct any inconsistency.

Signature: 
Date: 11th December 2010

SUPERVISOR. RUTEGANDA MICHEAL

Signature: 
Date: 11/12/10

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Preparation of research report is a teamwork, which involves many people. Because it is not possible to mention the names of all who offered assistance to the researcher, gratefully, I say thank you all.

However, on behalf of the rest, I would like to mention few contributors whose contribution deserves credit for this paper.

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ABBREVIATIONS

BIBA	-	Bachelor of International Business Administration
FM	-	Finance Manager
PSM	-	Purchasing and Supplies Manager
DF	-	Director of Finance
DG	-	Director General
DN	-	Delivery Note
GRN	-	Goods Received Note
LPO	-	Local Purchase Order
PR	-	Purchase Requisition
TANAPA	-	Tanzania National Parks
NBAA	-	National Board of Accountants and Auditors
CSP	-	Corporate Strategy Plan
CPW	-	Chief Park Warden
FIFO	-	First in First Out

Note: the researcher interchangeably with same meaning uses the words “stock” and “inventory”.

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ABSTRACT

Inventory is said to be an idle resource of a firm because about 75% of the assets of a firm are in this form, which cannot be used for immediate commitments compared to cash. Poor management especially when the stocks are ordered, received, recorded and stored, many firms or organizations experience losses. It is on the basis a research is intended to be conducted citing TANAPA as a case study.

Internal control has been defined as the whole system of control, financial or otherwise, established by the management aimed at carrying out the business of enterprises in an orderly and efficient manner by safeguarding the assets of the organization, encouraging adherence to the management policies and securing as far as possible the accuracy and reliability of its records. There are three types of internal controls over inventories, namely, administrative control, accounting controls and physical control.

The aim of this study is to assess the internal control system over inventories at the Tanzania national parks.

There is no internal control system, however elaborate, that can itself guarantee efficient administration, completeness and accuracy of records. Either it cannot be proof against fraudulent collusion.

The study was cross- sectional, prospective organization – based study, which was carried out from October to December 2010.

The study population comprised of personnel involved in keeping records of stocks and establishing internal control policies, that is administration, supplies, and stores sections. A sample of 70 respondents was picked from departments.

Self- administered questionnaires were used for interviews:

Documentary sources were used to assess the existing procedures of internal control while observation method was applied to assess visual implementation of the procedures.

Data was analyzed manually with the help of a scientific calculator and narratively presented.

There is fair control on stock according to research questions of study. Weaknesses noted included delays in posting of bin cards and stock ledgers, no stock-checking system and few trained personnel.

CHAPTER ONE

1.0 INTRODUCTION INFORMATION

1.1 HISTORICAL BACKGROUND OF THE CASE STUDY

The Tanganyika National Parks Ordinance CAP (412) of 1959 established the organization now known as Tanzania national parks (TANAPA), and Serengeti became the first National park. In this document, TANAPA is also referred to as “the organization or institution”. By February 2007, the organization has grown to 15 national parks. Conservation of eco-systems in all areas designated as national parks is the core business of the organization. **“Conservation”** *The term embeds protection or preservation or management and rational utilization of natural resources.*

Nature based or wildlife tourism is the main source of income that is ploughed back for management, regulation, and fulfillment of all organizational mandates in the national parks.

Recent history

The institution continued with its mandate to manage and regulate use of areas designated as national parks by regular patrols to curb poaching against wildlife and forest products, to promote and monitor tourism activities so as to avoid overuse of the areas. Ecological and wildlife health monitoring were carried out. Collaboration with local communities living adjacent to the national parks and other relevant stakeholders was enhanced through the outreach programme. **“Local communities”** *This terminology embraces all villages, wards, divisions, and district authorities sharing boarders with national parks.*

Ecological changes occurring inside and outside the parks are of consequential influence to wildlife resources in the parks. Both natural and man-made impacts were recorded and where necessary mitigated. Climate changes, which are resulting in extensive disturbance to ecological processes in the parks, were closely monitored in collaboration with both national and international institutions. The organization continue to place higher priority on protection of natural resources, park facilitate and safety of visitors. The resources protection and operation were strengthened in collaboration with surrounding communities and other relevant stakeholders. **“Stakeholders”** *The term, in its broad sense, refers to anybody with legitimate interest to national parks and or is affected by its presence either negatively or positively.*

On the tourism front, the organizational goal has always been to enhance visitors experience and enjoyment in the parks to match with the changing and diverse demands and tastes. In order to enhance visitor experience, the institution progressively improved its services, facilities and infrastructure for tourists visiting the national parks. Production of information materials indicating potential recourses was given due emphasis. Marketing programmes were carried out aiming at luring more tourists to visit the parks.

As part of corporate social responsibility, the organization through its outreach program department continued to carry its function of creating awareness to local communities living adjacent to the parks on the importance of conservation and benefit sharing from revenue accrued from tourism. **“Benefit sharing”** *TANAPA Contributes to the well being of the local communities according to the ability of the parks. This sharing of benefits includes sharing of infrastructure and services, cash or in-kind contributions to local projects, and assistance in setting up sustainable income generating enterprises based on non-park natural resources.*

However, emphasis is now being put into supporting income- generating projects such as bee- keeping, community conservation banks, poultry and livestock keeping. Despite the above achievements, the organization faces a number of challenges including the following:

- Poaching
- Habitat degradation
- Blockage of wildlife corridors
- Unclear demarcation of most of national parks boundaries.
- Lack of buffer zones
- Inadequate resources (human, financial and physical)
- Inadequate business skills among communities.

1.2 Organization's legal mandate

The organization's mandate is "to manage and regulate the use of areas designated as National Parks by such means and measures to preserve the country's heritage, encompassing natural and cultural resources, both tangible and intangible resource values" including:

- Fauna and Flora, wildlife habitat, natural processes, wilderness qualities, scenery therein, and
- Provides the same for human benefit and enjoyment in such manner and by such means as will leave them unimpaired for future generations.

1.2.0 Existing Organizational Vision and Mission

1.2.1 Vision

The vision of the Organization in the previous corporate strategy plan (CSP) is to "Ensure sustainable conservation of parks resources and values for the benefit and enjoyment of the present and future generations of man kind".

1.2.2 Mission

Likewise, in the previous CSP of 2001 to 2006, the mission was to, "Sustainably conserve the parks resource and values for the benefit of all humankind" through:

- ◆ Protecting and regulating use of areas designated as national Parks;
- ◆ Selecting and recommending for gazette ment areas of ecological, cultural and scientific significance;
- ◆ Strategically managing a national system of parks that protect outstanding example of key ecosystems in collaboration with local communities, and
- ◆ Developing, managing and promoting tourism and other revenue generating activities for the benefit of all Tanzanians, the African continent and the World at large.

1.3 Recent Initiative and Developments

1.3.1 Macro and Sectoral Initiatives in Tanzania.

a) Tanzania's Development Vision 2005

During 1980's the government realized that the past development policies and strategies were not adequately responding to changing

market and technological conditions in the world economy. In response, beginning mid- 1986, the Government adopted various socio- economic reforms and during their implementation, it became apparent to the government that those socio-economic reforms were not adequately informed by a national long-term development philosophy and direction. Realization of this led to the formulation of the Tanzania Development Vision.

The Vision is an articulation of a desirable future condition or situation which Tanzania envisages to attain and the plausible course of action to be taken for its achievement. The Government in 1999 adopted the Vision and its implementation started in 2000.

The objective of the vision is to awaken, coordinate and direct the people's efforts, minds and national resources towards those core sectors that will enable us to attain our development goals.

The Vision envisions that Tanzania will have the following attributes by the year 2025:

- **High quality livelihood:**
- **A strong and competitive economy:**
- **Good governance:**
- **A well educated and learning population:**
- **Peace, stability and unity:**

In order to attain those aspirations, determination and discipline in planning and implementation is important. TANAPA therefore will direct her effort to contribute to the realization of the Vision 2025.

b) Fourth Government's vision on conservation.

The inaugural speech by His Excellence the fourth President of United Republic Jakaya Mrisho Kikwete delivered on December 30th, 2005, in the parliament in Dodoma, shows clearly that the central theme of the fourth government is conservation of natural resources to its original state as well as responsible tourism development and promotion. By responsible tourism it means, that Tanzania needs to develop the kind of tourism that gives direct benefits to Local communities adjacent to tourist attractions while at the same time caring for the environment. This inaugural speech by the Head of state clearly shows where Tanzania is heading to in relation to conservation of natural resources. Therefore existing Vision of TANAPA have incorporated the central theme of the President's speech.

1.4 STATEMENT OF THE PROBLEM

Due to poor management or control over inventories especially during receiving, storage transfer of materials within the organization there has been less a problem of fraud, theft and misstatement of profit.

Accounting for inventories requires proper records, control and stock valuation as per accounting guideline and policies of the organization. The use of those guidelines and policies enable an accountant to arrive at inventories balances, which in turn will entails true and fair view of organization financial statement.

This study therefore aims at surveying and evaluating the effectiveness of internal control over inventories, and finding out if inventory transactions are being conducted in accordance with management policies, regulations, and in accordance with generally accepted accounting principles and adheres of IFRS's.

1.5 RESEARCH QUESTIONS

This research study seeks to answer the following questions that formulated for the study: -

- a) Are the accounts records kept to ensure prompt and accurate recording of materials receipts, issues and balance?
- b) How internal control over inventories can minimize losses or fraud?
- c) How stock checking is conducted?
- d) Is the departments have qualified staff in terms of their qualifications and experience? What the optimal amount of inventory to carry?
- e) What types of goods are mostly stored to store?

1.6 OBJECTIVE OF THE STUDY

The general objective of this study was to find out if really there is a need for inventory control.

Specific objectives are as follows: -

1. To describe the causes of poor inventory accounting and control and suggest measures to be taken to remedy the situation.
2. To examine how financial procedures may contribute towards internal control over inventory.
3. To recommend on measures that should be taken to develop a strong system of inventory function.
4. To identify many categories of inventory.
5. To enlighten the organizations on the importance with the principles, rules and guidelines for inventory management and enhance good inventory control.
6. To come up with the research paper to be submitted to the Kampala International University, Kampala as a partial fulfillment for the award of the Bachelor's Degree in International Business Administration(BIBA).

1.7 SIGNIFICANCE OF THE STUDY

The significance of this study includes: -

- i) The study findings will equip the researcher with the additional knowledge of inventory control in practical approach.
- ii) After this research it may reveal the new areas uncovered for further research.
- iii) The results of this study will suggest the reasons for attention of organizations management on the question of inventory control.
- iv) The findings of the study will explore the causes of poor performance and hence provide base for corrective measures to the organizations and other bodies at large.
- v) It will enhance other researchers to evaluate the findings and make further findings on the topic of inventory control and hence inviting more challenges and contributions.

1.8 SCOPE OF THE STUDY

In order to get the data, which are relevant to this study, the study will cover all areas of department concerned with the inventory where the study will be conducted. This will enable the researcher to draw up his suggestions, which can enable the organization to improve the control system over inventory.

As a researcher is the third year student at K.I.U, the research methodologies to be used in this study are expected to correspond with his professional skills and knowledge up to this stage. This is in accordance with the institute syllabus. The study has also based in one organization.

1.9 LIMITATION OF THE STUDY

This research study aims at coming up with possible alternative solutions to the problem as well as providing useful suggestions. These goals may not be effectively attained possibly due to the following limiting factors: -

a) Time factor.

The time given to conduct the research is approximately short so that it will be difficult to gather relevant information enough for the study. This causes the study not to be scientific enough because the researcher will be based more in theoretical part rather than practical one

b) Inadequate financial resources

The researcher may not be exhaustive due to financial constraints since the amount of money provided by the sponsor is not sufficient to meet all necessary cost of the study. So due to the above reasons, the study will be narrowed down.

c) Problem in source of data

The researcher will expect to have the problem in the collection of data because in the organizations the providers of data always are busy. Also some sources of secondary data were not accessible to the researcher e.g. Files, as they were moving irregularly from one office to another, this delayed the exercise to some extent, given the time frame provided.

d) Lack of cooperation.

Some staff, due to one or other reasons, was reluctant to provide necessary cooperation to the researcher. This hindered the whole exercise in a way leading to acquiring less data/information than intended.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Nature of internal control

Internal control has been defined as the whole system of control, financial or otherwise, established by the management aimed at carrying out the business of enterprises in an orderly and efficient manner by safeguarding the assets of the business, encouraging adherence to the management policies and securing as far as possible the accuracy and reliability of its records.

There are three types of internal controls over inventories: -

2.1.0 Administrative control.

This ensures that, the policies of the organization are correctly implemented.

2.1.1 Accounting control,

These are concerned with safeguarding the assets and ensuring the accuracy and reliability of accounting records through efficient accounting system.

2.1.2 Physical control,

Deals with protective devices such as iron safes for cash offices. Also physical access to assets either direct or indirect through document should be limited to authorize personnel. For the computerized organizations the passwords are to be used to limit unauthorized person to access the information. (NBAA Tanzania Auditing Standards, 2002).

2.2 The meaning of inventory

Inventory is any stored resource that is used to satisfy a current or a future need. Raw materials working progress and finished goods are the direct function of demand.

Inventories may include finished goods which are ready for sale or use, raw materials, semi-processed materials, consumables goods or other assets purchased for resale, long term contract balances, farm crops or livestock both with exceptions (Lucey T. (1996))

2.3 The importance of maintaining stock

- i. Because it is difficult to anticipate or predict an exact future demand, enterprises keep stock for smooth running of business especially to the manufacturing firms, which enable them to maintain uninterrupted production process. Again to the firm dealing with merchandise, that is, buying and selling, maintaining stock will control the seasonal and fluctuating demands.

Inventory control serves several importance functions and adds a deal of flexibility to the operation of the firm. Consider the following five users of inventory:

- a) *Decoupling function.*

One of the major functions of inventory is decouple manufacturing processes within the organization. If you did not store inventory, these could be delays and inefficiencies. For example, when one manufacturing activities has to completed before a second activity can be started, it could stop the entire process

- b) *Storing resources.*

Agricultural and seafood products often have defined seasons over which they can be harvested or caught, but the demand for these products is somewhat constant during the year. In

these and similar case, inventory can be used to store these resources

c) *Irregular supply and Demand.*

When the supply or demand for an inventory items is irregular, storing certain amounts in inventory can be important. If the greatest demand for Diet-Delight beverage is during the summer, you will have to make sure that there is enough supply to meet this irregular demand. This might require that you produce more of the soft drink in winter than is actually needed to meet the winter demand.

d) *Quantity discounts.*

Another use of inventory is to take advantage of quantities discounts. Purchasing in large quantities can substantially reduce the cost of products. These are however, some disadvantages of buying in large quantities. You will have higher storage costs due to spoilage, demand stock, theft and insurance. Furthermore by investing in more inventories you will have less cash to invest elsewhere.

e) *Avoiding stock outs and shortages.*

Another important function inventory is to avoid shortages or stock outs. If you are repeatedly out of stock customers are likely to go elsewhere to satisfy their needs. Lost goodwill can be an expensive price to pay for not having the right item at the right time.

2.4 Economic Order Quantity.

The economic order quantity is the one of the oldest and the most commonly known inventory control technique is still used by a large number of the organization today. It is relatively easy to use but it does not make a number of assumptions. Some of the more important assumptions are:

- i) Demand is known and constant.

- ii) The leading time, that is the time between replacement of the order and the receipt of the order, is known and constant.
- iii) The received of the inventory is instantaneous. In other words, the inventory from an order arrives as one batch at one point time.
- iv) Quantity discounts are not possible.
- v) The only variables costs are the cost of placing an order, ordering cost and the cost of holding or storing inventory over time, holding / carrying cost.
- vi) Orders are placed so that stock outs or shortages must be avoided completely.

When these assumptions are not met, adjustment must be made to the economic ordering quantity model. (Render Barry (2003),

2.5 Function that inventory performs.

The many functions that inventory performs can be summarized as follows;

- i) Smoothing out irregularities in supply.
Sugar beets are harvested during the late summer months, but the manufacturer of products from them such as sugar and cattle feeds continue through out the entire year. In cases like these, sufficient raw material must be purchased during the beet- producing period to last the entire year; this forces the manufacturer to carry an inventory.
- ii) Buying or producing in lots / batches.
When the demand for an item would not support its continued production throughout the entire year, it is usually produced in batches or lots on an intermittent basis. During the time when the item is not being produced, sales are made from inventory, which is accumulated while the item is being produced.
- iii) Allowing organizations to cope with perishable materials.
The packers of frozen lobster's tails operation at peak production only a few months each year; they too must store up or inventory, a supply sufficient to last them through a year's anticipated demand until the next lobsters. The entire production process which deals

with freezing fresh fruits and vegetables must also give throughout the peak production and sales period each year.

iv) Storing labor.

Although it may be conceptually difficult to think of inventory labor it is routine practice to do just that. The peak demand of the installation of replacement heating units comes in the fall, just after the old units have been operated for the first time. Even if demand exceeds the current productive capacity, a manufacturer can supply the difference out of inventory at that time. **(Levin Richard I. (1992))**

2.6 Reasons for holding inventory.

The main reasons for holding stocks can be summarized as follows: -

- ii. To ensure that sufficient goods are available to meet anticipated demand.
- iii. To absorb variations in the demand and production.
- iv. To provide a buffer between production process. This is applicable to work –in –progress stocks, which effectively decouple operations.
- v. To take advantage of bulk purchasing discount.
- vi. To meet possible shortage in the future.
- vii. To absorb seasonal fluctuations in usage or demand.
- viii. To enable production process to flow smoothly and efficiently.

In this case because inventories account for greater percent of the firms asset, there is a need for careful accounting for, especially in the preparation of financial statement, because misstatement which is material will bring about an effect on total assets, cost of sales, gross profit and net profit, so an inventory control is of greater significance to a firm and as well as owners. **(Lucey T. (1988))**

2.7 Objectives of inventory.

The main objectives of inventory management and control are to provide services to the customer but at the same time at a very minimum cost.

- i. Financial objectives.

The availability of fund makes the management's requirement on how much is needed for investing in inventory so that cash will not be tightened in a stock and leaves other needy areas with no working capital.

ii. Property protection objectives.

Inventory represent money, so this objective gives the inventory controller the obligation to ensure that inventories are safeguarded and protected against all possible hazards, that is theft, wastage, misappropriation of the inventory, thus there should be proper inventory control of stock.

iii. Operating objectives.

The objectives therefore is to find the point of compromise between customer service level and economy of the operation in terms of inventory level to the support of manufacturing process.

To ensure that organizational objectives are achieved, policies should be established to make available materials and when required with regard to ordering cost, holding cost, and working capital by considering three questions: What to order, How to much to order, and When to order. (Dobbler (1996).

2.8 Characteristics of good internal control

2.8.0 Separation of Duties

If the duties won't be separated, the individual will be hindered to record and process a complete transaction alone. Separation of duties will reduce the risk of internal manipulation and simply the exercise

of checking the functions that are to be separated including recording, authorization, execution and custody

2.8.1 Planning Organization

If the organization will be properly planned, the responsibilities will be clearly defined and allocated to the personnel by identifying the lines of reporting for all aspects of the enterprise, and their qualifications that suit their positions/posts.

2.8.2 Authorization and Approvals

Relative to the case of separating duties, all transactions require authorization and approval by an appropriate person, where the limits to the extent of authorization should be specified/ defined:

Example: -

- a) Credit control department must approve all credit sales.
- b) The production manager must approve all overtime. Thus, all transactions require approval by an appropriate responsible person at predetermined levels or value.

2.8.3 Arithmetic Accuracy and Accounting

This control checks and ensures that transactions have been correctly processed and recorded after been authorized. It is also ensured that, all transactions have been included while arithmetically correct by the preparation of trial balance and checking by reconciling totals.

2.8.4 Personal competence

Necessary procedures have to be observed to ensure that the employees employed are skilled capabilities to conduct their responsibilities.

In setting up any control which will enable proper functioning of any system, the competence and integrity of personnel should be observed based on qualification, training and personal characteristics.

2.8.5 Supervision

All actions by all levels of staff should be supervised. The responsibility for supervision should be clearly laid down and communicated to the person being supervised.

2.8.6 Management

- a) These are controls exercised by management that are outside and over and above the day-to-day routine of the system. They include overall supervisory controls review of management accounts, comparison with budgets, internal audit and other special review procedures. (Lucey T, 1992)

Example:

Senior management must be aware of day-to day activities.

2.8.7 Budgeting

A common technique employed in the business is the use of budgets,

Benefits of budgeting:

- b) There is positive act of planning.
- c) There is co- ordination of activities and making plans compatible with each other (production with sales)
- d) Authority to act such as spending to a certain limit to be delegated.

2.9 The purpose of internal control

If prevention is better and easier than curing, then internal control in a firm is the prevention or precaution covering assets of a company against possible losses, which may arise through frauds, carelessness brought in by either staff members or out of natural calamities like earthquakes, fire and floods.

Also internal control acts as a checking and correcting point as it ensures that, the policies set by the management are implemented and that, all records are correctly kept, and particularly financial data. So generally, internal control measures the performance of the staff in the implementing the policies of the business so as attain the established objective or goal.

(Meigs Walter B. and Robert Meigs F. 1987(Pg206-207)

2.10 Means of achieving an effective internal control

The type of internal control set by the management depend on different factors like, the goals/ objectives size of the business, types of staff held such as highly skilled or semi- skilled or common men and the experience the business has.

An effective internal control will be achieved through the following ways:-

- The physical count of stocks has to be done by person other than a custodian.
- Issues from stores are made against documents which are properly authorized like requisition forms of transfers
- A responsible official who is concerned with the related duties, and certain with the required quantity and type does authorization of these documents.
- The personnel should be sufficiently skilled.

- So as to get the accurate information which will simplify the assessment of costs incurred in production in relation to that sold the perpetual stock records in accounting department and separate stores section are to be maintained.
- Perishable stocks have to be issued on FIFO basis so as to get them out before they deteriorate.
- Employees who keep stock records are to be prohibited from access to physical stock because in case of shortages or differences, an access to stock can be a loophole to fraud.
- In case, the shortages or differences are identified the investigation has to be made and where necessary the adjustments have to be approved by a responsible official.
- Before physical count is conducted, the following are to be done as a part of preparation: -
 - i) The instructions have to be set.
 - ii) Date and time are to be specified and the particular official who will conduct it.
 - iii) The stocks, which are obsolete, destroyed on transit or turn bad are to be separated.
 - iv) The stocks are to be arranged according to classes in such a way that, the members can freely move during count.
 - v) For convenience, the movement of during count is to be stopped.

2.11 Limitation of internal control

There is no internal control system however elaborates can itself guarantee efficient administration, completeness and accuracy of records. Either it

cannot be proof against fraudulent collusion especially when committed by those whom trust or authority has been vested.

Together with segregation of duties as part of control, internal control is undermined by collusion. This is when the people to whom the authority has been vested is being abused.

Human error due to errors of judgment or interpretation, misunderstanding, carelessness or distraction may undermine the effectiveness of internal control system. So internal control can make the preparation for fraud very difficult.

2.12 Procedure for exchanging stocks

2.12.0 Purchase procedures

- Orders are to be placed only when there is need to do so, and at the right quantity.
- Purchase order has to be prepared fully authorized after submission of quotations by supplies officer

2.12.1 Receiving procedures

- The invoices from the suppliers have to be verified by being compared with the purchase orders and arithmetic accuracy with quoted prices before payment is made.
- The receiving department will only receive the stock if it is accompanied by a copy of an invoice, which will be compared with purchase order in terms of prices, quantities and other provisions.
- Care should be taken when receiving the stocks particularly by ensuring if they are at the right quantity, quality, prices and condition after examining them.

- The receiving person has to be appointed, who will be responsible in ensuring that, the stocks are being recorded once they are received.

2.13 Procedure for issuing stocks

- The stores requisition form has to be completed or transfers of which have to indicate the type and quantity of stock needed while signed by the person requesting for, the storekeeper and the witness.
- If the stock to be issued is in a finished form, delivery note is used after being authorized, approved, executed and then recorded. (Morrison A (1968), Storage and stock control).

2.14 Need for stock control

- Stock has to be controlled, failure to control of stock the following may happen:
 - i. Physical stealing of stocks.
 - ii. Frauds whereby fictitious stock may be maintained and cash money taken.
 - iii. The firm may maintain too much stock which will be accompanied by the disadvantages e.g. storage expenses or too low stocks which disturb the smooth running of a business and hence losses.
 - iv. The firm will not be able to control fluctuating demands
- Control of inventories has great importance for fair presentation of financial statements. Because financial statements are required to show a true and fair view of a firm to the users of such statements. Misstatement of stock has direct effects to cost of sales, gross and net profits, and total assets, hence misstatement of tax and profit payable.

Example: If the opening stocks will be over stated the profits will be understated and the profit will be overstated if the opening stock will be understated.

The effect of either overstating or understating opening or closing stocks is that, the financial statements/ reports will not show a true and fair view of the performance of the firm which will mislead the user of such reports being the management, creditors, shareholders, tax collection authorities, and the public at large.

To the performance of a firm when the profits are overstated, means more tax will be paid and profits will be distributed to shareholders out of the companies share capital.

So control to stocks is of great importance to the management, interested parties and the public at large.

- Because there is always limited storage capacity there is need for quantities control so that overall cost to be minimized and it is important to have effective inventory policy for proper management of stocks.
- Control of inventory is needed especially when there are favorable prices because there is a possibility of maintaining excessive stocks, which may be unfavorable during, fall in prices. **(Burton J.A, (1981), Effective Warehousing, 3rd Ed)**

2.15 Demerits of maintaining Stocks.

- (a) Among the current assets of a firm, stock constitutes a significant portion, which accounts for over 60% of the assets of the business.
- (b) By this percentage, it means that, the capital is locked in the neither form, which is nor liquid enough to meet immediate demand to enterprises like manufacturing, wholesale or retail.

- (c) It's more disadvantageous when stocks are maintained in excess because the more the stock in excess, the more the capital is being locked up, hence the lower the liquidity position for immediate use.
- (d) Again maintenances of stocks are accompanied by costs, like personnel, pesticides, equipments, warehouses, insurance and transport. So as to minimize all these, the stock levels are to be observed and avoid stock in excess.

2.16 Cost valuation

Inventories are to be valued at the lower of cost or net realizable value.

Cost refers to the expenditure, which has been incurred in the normal cause of business in bringing the product or services to its present condition. These include purchase and conversion costs, abnormal costs arising from exceptional waste of materials, labor or from operating below the normal level of activity, which should be ignored.

Cost composition can be presented as follows:

2.16.0 Cost of purchase

This includes:

- Purchase price
- Purchase duties
- Transport and handling
- Other directly attributable costs

Where you less

- Trade discounts
- Rebates

- Subsidies

2.16.1 Cost of conversion (processing)

Include:

- Direct costs, labor and expenses
- Production overheads
- Other overheads.

Production overheads incurred in respect of materials, labor or services for production based on normal level of activity, taking one year with another, should be recognized as cost of materials. For this purpose, each overhead should be classified according to function such as production, selling and administration.

Example:

The costs of general management are to be excluded from functional production management. In assessing overhead cost a fair share of costs of operating other functional areas, which support the production function may be taken into account, provide a bound basis of allocation can be established.

(Kilagane Y.S.M, Tanzania Accounting Guidelines, NBAA, DSM)

CHAPTER THREE

3.0 Research methodology

This Section describes the methods and approaches that the researcher has apply in conducting the research. The chapter contents are research design, research techniques, population, sampling procedures, sample size, data collection methods and types of data collected.

3.1 Research design

The study was carried out at Tanzania National Parks (TANAPA) as case study. It focused on a single area that allows varieties of data collection. It describes the research carried out by employing a qualitative research methodology.

3.2 Research Techniques.

Both qualitative and quantitative techniques have been used. Qualitative techniques have involved explanations and discussion of concepts, whereby quantitative technique has involved mathematical/ statistical approaches.

3.3 Population

The population of this study has comprised all staff of Tanzania National Parks. (TANAPA) however in order to get relevant data sampling has also be taken into consideration.

3.4 Sample and sampling procedures

It was not possible to obtain required information and data from all staff of the firm; hence a sample population has been randomly selected. Samples have been drawn from accounts and store departments. Judgmental sampling has been employed in both departments.

3.5 Sample size

The size of population depended on the number of staff working in the area concerned particularly accounting and stores department. Sample size of population was three staffs from each department.

3.6 Data collection methods

Different methods of data collection have been employed depending on the data sources.

3.6.0 Interview

This method was done through discussion held with the heads of departments, such as chief financial control, employees from different departments and the management. Hence it was the face-to-face contact with the interviewee; the interviewer screened the respondents to ensure that they fit with the described population.

3.6.1 Questionnaires

This method was adopted through distribution of questions to the store and accounts department employees in order to give out their views that are beneficial to the researcher in evaluating the effectiveness of inventory control. It is a convenient method as it gathers information from a large number of people with minimum cost and ensures greater secrets.

3.6.2 Documentation

This was done through examining store books, financial statement, journal and other documents appropriate for the research study. This allows the use of large sample and relatively cheap depending on how widely they are dispersal.

3.6.3 Observation

In this study participatory observation techniques were applied where by a researcher involved physically in the organization in carrying out day-to-day operations in the accounts department as well as store department. This provided reliable evidence that avoids respondent filtering or forgetting.

3.6.4 Data type

The type of data to be collected will, as well, demand the researcher's attention. These types of data are distinguished here; primary and secondary type of data.

3.6.5 Primary Data

Primary data are those data, which are collected afresh and for the first time. For this study, observation and personal interviews were applied at Tanzania National Parks so as to come up with intended data.

3.6.6 Secondary Data

This is the type of data that has been collected by someone else, i.e. the data that has not been originally collected by the researcher. In this study, the researcher has use various

Organization's documents such as annual reports, tax invoices, organization charts, requisition, and vouchers as a secondary data; also various books have been perused.

3.6.7 Analytical Methods used.

Due to the nature of the study i.e. discussion and explanation oriented, simple statistics like percentages has been used.

CHAPTER FOUR

4.0 FINDINGS AND ANALYSIS

4.1 Introduction

The subject of inventory and purchase control combines three major functions, namely; Purchasing, Issuing and Store- Keeping. It is therefore imperative that effective control measures are taken to cover these three functions.

Purchasing

Before any purchase is made, the Tanzania National Parks follows certain control and procedures. The financial implications and management of stores are determined by:

- The Tanzania national parks budget for that particular financial year which includes indications of the volume of purchases required.
- The requirements of users departments, which predetermine the orders to make purchases of stores at the right time, place and quality.

Issuing

Materials in stock can be issued to only those authorized.

Storekeepers are not, under any circumstances, allowed to make issues without a signed authority. The signed may take the form of requisition Note or Issue Note. These two documents are also known

as Materials Requisition Vouchers. For the avoidance of doubt the signatures of the authorized officers must appear on a specimen signature list, a copy of which should be in the possession of the storekeeper.

Store- keeping

The objective of store keeping in general and in particular is to store materials to achieve the following: -

- To facilitate prompt location of required materials.
- To provide speedy receipt and issue of materials.
- To provide full identification of all materials at all times.
- To give details on request of various balances in store with the minimum of delay.
- To protect materials against deterioration and loss by fire.
- To ensure economic use of storage space.

Inventory control activities at Tanzania National Parks are under Directorate of Planning, Development Projects and Tourism.

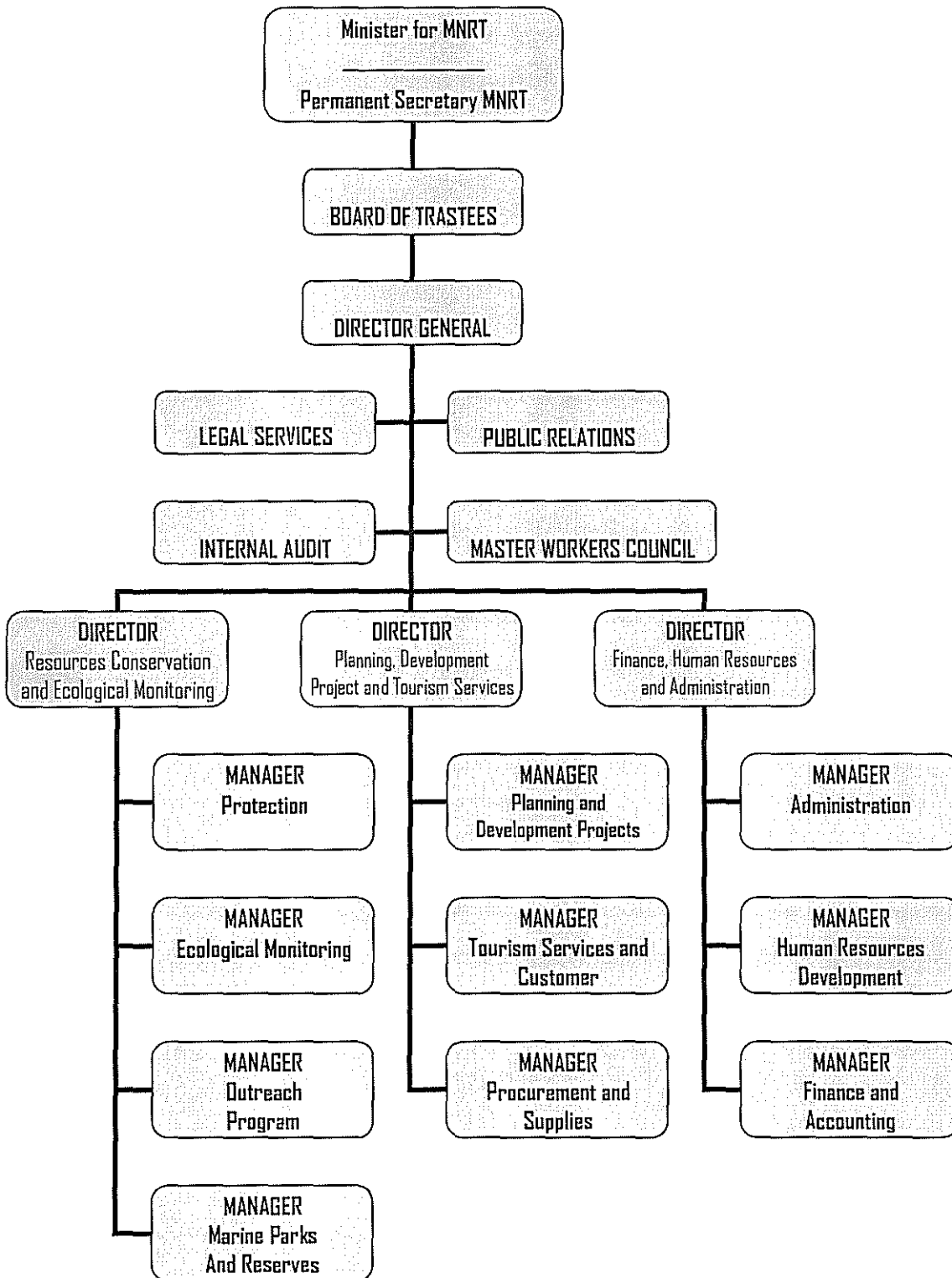
The supplies office is usually mistaken as being an independent department, but on the organization chart of Tanzania National Parks it falls under the Directorate of Planning, Development Projects, and Tourism. This is in accordance to the Tanzania National Parks Corporate Plan.

The staff requirements of a Purchasing and supplies office of Tanzania National Parks will include the Purchasing and supplies Manager, Purchasing officer, and a number of stores assistants depending on the grade and size of operation of a particular National Park.

In general, this is the office that performs all duties concerned with purchasing of the required material or equipment, storing and distributing. However, these functions shall be done in accordance with the laid down procedures as indicated in the TANAPA Accounting Manual and Procurement Act, 2004.

The main reasons for this section to use Tanapa Accounting Manual is to ensure effective control of stores purchase, storage and issuing and hence minimize the TANAPA running costs because attainment of stock means expenditure on cash.

The Organization chart of Tanzania National Parks, showing the location of the Purchasing and supplies section. (As per CSP)



For good performance there is a need of affective communication between the Director of finance and the Purchasing and supplies Manager (**PSM**) at TANAPA head office and for the case of Park level, the purchasing officers must communicate with Park Accountant. This is because the Director of finance is always aware of the financial position of an organization and hence purchase of stocks can be effectively controlled.

Any transaction to be made by the purchasing department should be passed to the Director of Finance or Director General for the case of Head office, and Park Accountant or Chief Park warden (**CPW**) at park level for approval as will be seen in the stores procedure to be dealt later.

4.2 Inventory Procurement Policy

The Tanzania National Parks as laid down should follow all procurement procedures by the procurement act 2004, “The Public procurement act, 2004” which states in section 4(1-4) that,

- (1) The public procurement policies are based on the need to make the possible use of public funds, whilst conducting all procurement with honesty and fairness.
- (2) All public officers and members of tender boards who are undertaking or approving procurement shall be guided by the Public procurement act 2004 as stipulated in (a) to (d).
- (3) The disposals of public assets policies are based on the need to achieve the best available net return when disposing of public assets by tender, whilst conducting all disposals with honesty and fairness.
- (4) All public officers and members of tender boards who are undertaking or approving disposal of public assets shall be guided by the following basic considerations of the policy on disposal of public assets by tender:

- a) The need for best net outcome and efficiency in the use of public funds and in the implementation of projects including disposal of assets.
- b) The best interests of a public authority, in giving all eligible buyers equal opportunities to compete in buying the assets.
- c) The need to insure that national social, economic and environmental interests are protected.

The composition of the Tanzania National Parks tender board and the method of appointment of members, and the procedures to be followed by such a tender board, shall be prescribed in regulations in adherence with Public Procurement Act, 2004.

The Tanzania National Parks tender board shall undertake the following functions: -

- Approve the issue of tender or the use of alternative method of procurement as prescribed in the regulations, receive tenders and hold tender openings in public, review tender evaluations and recommendations made on behalf and where appropriate, authorize award of contract.
- Applications for variations or amendments which exceed the laid down limits to on-going contracts has previously been approved by Tanzania National Parks tender board, in all cases where the value of goods, works or services being procured by departments of an Organization, exceed the limit of the accounting officer and is within the TANAPA authority tender board. **(The Public Procurement Act 2004 and the Regulations)**

4.3 Inventory control systems

One of the major items of expenditure in TANAPA is that of purchase of stores for its own use. If there is no proper control exercised, mismanagement of stores and theft can occur. TANAPA has established a system of stock control for purchasing, storing and issuing of stores.

4.3.0 Control during purchasing

The user department fills in a requisition for purchase of stores. This is signed by the head of department and forward to purchasing and supplies manager, then to the Director of Finance who authorizes the purchase. Purchasing and Supplies Manager issue a Local Purchase Order to supplier. The head of Department with either the Director of Finance or Director General of TANAPA signs this.

The approved suppliers of stores in order of preference are: -

- Government departments and National Institutions.
- Local suppliers tendering to TANAPA.
- Other suppliers not included above from whom quotations have been obtained to determine the lowest price and method of supply.

On the supply of goods and services, the supplier will issue an invoice attaching a copy of LPO. The supplies officer receives the goods by the use of receipt voucher. He quotes the local purchase order reference and enters the quantities in the relevant stores ledger. The original Goods received note (GRN) and Local Purchase Order (LPO) are attached to the suppliers invoice and are sent to the Director of Finance for payment. A copy (Book copy) of the Goods received Note retained at stores department.

4.3.1 Control of stores during storage.

Official approved stores records are the allocated stores ledger and unallocated stores ledger. Entries for receiving and issuing ledgers, netted off, must be equal the physical quantity of the stores in the storage room.

Only authorized officers and Board of survey personnel are allowed to enter in the storage room. Care is taken to avoid wastage due to shrinkage, fire or other abnormal losses. The Board of survey appointed by the Director General of TANAPA must do stocktaking at the end of financial year. Sensitive items like medicines, stationary, building materials e.t.c, are counted periodically and compared with ledger balance.

4.3.2 Control of stock during issuing.

Store issue voucher is used for issuing stores. The user department fills in a requisition for stores, which is signed by the Head of that department. The Director General or Director of Finance authorizes the requisition before any issue voucher is drawn. The Head of department signs the stores issue voucher upon receipt of the goods. Other controls of store issue are: -

- **Gate pass**

Here the gatekeeper checks all goods coming out of the stores by examining the requisition for stores and issue voucher. A gate pass register is maintained.

- **Stores site Ledger**

When the Tanzania National Parks undertake construction work, which requires the issue of store to sites, prior to use. For control purposes a site stores ledger is used at each site

where such stores are transferred. Store issued for use are recorded in this site ledger.

4.4 Stores accounting in Tanzania National Parks

The expenditure side of the TANAPA budget includes personal emoluments, other charges and capital expenditure. Under other charges and capital expenditure TANAPA purchase stores for its own use. These stores are classified into two categories: -

4.4.0 Allocated stores.

These are stores whose cost is charged directly to the item of account that covers the work or purpose for which they are to be used. The advantage of allocated stores is that every department incurs its costs directly taking into account the budget concerned. It also avoids excessive expenditures for a particular department where strong control is not fully exercised.

4.4.1 Un-allocated stores.

These are stores that are paid for, out of a pool of funds (advance account) and to be the appropriate account as they are issued. The disadvantage of such stores is that they require a pool of funds to maintain which might not be available when are required taking into account that the budgeted funds for Tanzania National Parks are never instantly available because they have to be collected in the first hand and then expended thereafter in accordance with the approved budget.

CHAPTER FIVE

5.0 Recommendations and Conclusions.

5.1 Strengths of Internal control over Inventory at Tanzania National Parks.

- Sourcing and ordering of stock as well as authorization procedures for it are proper conducted.
- An inspection of the incoming stock in respect to quantity and quality is properly done.
- All issues from stores are made against completed written requisition properly authorized.
- Inventories are safeguarded against loss, theft or other hazards by being kept in locked buildings, rooms and cages to which are only granted to authorized personnel.
- Physical stock counting is done by employees other than those responsible for custody of the particular item (i.e. there is segregation of duties).
- Satisfactory precautionary measures are taken at the store against fire through maintenance of adequate fire equipment and smoking in the storeroom is totally prohibited.
- Reports are made to management periodically on obsolete damaged or defective stocks

5.2 Weaknesses.

Having stayed with the Organization for about 16 weeks, the researcher did not find a serious weakness (es) that may create losses or loopholes for someone to steal or doing some maneuvering, but the only few shortcomings are as follows: -