

**THE ROLE OF INTERNAL AUDIT FUNCTION ON THE REVENUE GROWTH. THE CASE
MOROGORO URBAN WATER SUPPLY AND
SANITATION AUTHORITY (MORUWASA)**

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Abstract

The study examined the Role of Internal Audit Function on revenue growth. The study employed both qualitative and quantitative research approaches. A sample size of 80 respondents were purposively selected from the study area and the data were gathered through questionnaires and interviews. Analysis of data was done through descriptive statistics for quantitative data and content analysis for qualitative data respectively. The findings revealed that MORUWASA revenue collection were affected by internal audit functions and the study recommended that internal audit needs to understand the expectations of its primary stakeholder's senior management and the audit committee and align its activities accordingly. Internal auditors need to deal with more and more financial data, developing new auditing procedures and using the new technology and evaluation methods are clearly in need, such as: sampling audit, feasibility study, and computer-assisted audit.

Keywords: Revenue growth, Internal Audit, MORUWASA, and Internal auditors

1.0 Introduction

Internal Auditing (IA) function in any organization is a key important element in the system of corporate governance alongside the audit committee, executive management and the external audit (Djordjevic & Dukic, 2016). Internal Auditing became very important to world businesses since the industrial revolution resulted in factory systems that were financed by stockholders. Internal auditing is very important inside the organization and the internal audit is regarded as the key element in the application of accounting systems, which in turn, helps in evaluating the work of the organization. The internal audit is considered the backbone of business accounting as it is the section that records all businesses related to the sector. The efficiency of internal audits helps develop the work of the organization because the financial reports reflect the internal audit department's efficiency. Moreover, an internal audit is a significant part of the Organization's structure and encompasses oversight activities taken by the board of directors and audit committees to make sure that the financial reporting process is credible (Al Matarneh, 2011).

The contribution of effective IA to the quality of management has raised the interest of researchers to explore into this matter. Effective IA strengthens the internal control system of the organization as a whole. The findings and recommendations are crucial to the management of Local Government Authorities (LGAs) to follow through and immediately rectify the problem in the unit (Baharud, 2014). The issues of transparency, accountability and improvement in managing public resources in developing countries are other areas that effective internal audit function can address in management of government and corporate resources to unity together in order to achieve the intended audit function. (Tackie, Marfo-Yiadom and Achina, 2016). As a result of these concerns and the need to improve financial management and accountability in order to provide value for money on public spending, following modifications to the Public Finance Act CAP 348, the Tanzanian government established the office of the Internal Auditor General (IAG) within the Ministry of Finance. The division was fully operational from July 2011 with five sections: Quality Assurance, Budget and Payroll Audit, Technical Audit, Local Government Authority Audit, and Risk Management Systems and Control. The first IAG was appointed in April 2011 and the division was fully operational from July 2011 (Manyama, 2020)

Despite of the important of auditing system in the water supply authorities in Tanzania, most of the organizational internal auditing unit are not seems to be effective for the best performance. The internal audit staffs are organized inefficiently with low technical staff proficiency that does not prepare strategic plans to conduct their activities to produce effective internal audit output to their organization and their recommendations is generally not adequate as the result the organization performing poorly in presence of internal audit unit. Internal auditing system did not acquire the effectiveness of evaluation of audit function, due to inadequate number of staff, lack of sufficient resources/budgets, lack sufficient training and capacity building plan, and non-maintenance of working paper files allocation of more resources to support recruitment of auditing staff as well as support periodic auditing (Manyama, 2020).

2.0 literature review

2.1 Theoretical Review

Much of the theory underlying internal auditing is derived from management consulting and public accounting professions. With the implementation in almost all nations around the globe, the profession's growth seems to be tremendously accelerating as many internal auditors possess the skills required to help companies meet the requirements desired to undertake the related tasks. In the other hand, this precise that there must be a number of theories which provide ideas particularly for better understanding the concept of internal auditing (Martha, 2013).

According to Anand (2016), the evolution of auditing is a complicated history that has always changed through historical events. Since the beginning of human civilization, auditing has been around. (Even the Bible (between 1800 B.C. and A.D. 95) explains the basic rationale for instituting controls rather straight forwardly: "...if employees have an opportunity to steal, they may take advantage of it." Investments started flowing in the corporations during late 1800's and early 1900's. Followed by the series of the events like the stock market crash of 1929 and Great Depression clearly emphasized the fact of various problems with the functioning of capital markets, business practices, and apparent deficiencies in accounting practices prevalent at that time. When industrial expansion started in 1930s, it became difficult for organizations to maintain control and operational efficiency. The need of independent audits can also be traced back to the requirements of the Government of Babylonia, Greece, the Roman Empire, the City States of Italy, etc., which were worried about incompetent officials prone to making bookkeeping errors and inaccuracies as well as corrupt officials who were motivated to perpetrate fraud whenever the opportunity arose. They wanted to develop a detailed system of checks and counter checks to address such fallacies. To the worst, the World War further enhanced and aroused the concern for the officials of the organizations for scheduling and managing the limited resources complying with regulations in order to control cost. It was decided to appoint a special staff to report on happenings in the company who later came to be known as "Internal Auditors".

Mosha (2014) noted that the objectives of internal auditing are to assist the organization, in particular managers and members of the board of directors, to discharge of their responsibilities effectively. Internal audit furnishes them with analysis, appraises, recommendation, advice and information concerning the activities reviewed. Further explained that internal audit can be regarded as the means by which management learns if its internal control systems are appropriately designed and in fact working. The cornerstone of internal control is the internal auditing. It is the responsibility of internal auditors to ensure that the top management and employees comply with the internal control systems and any weakness of the system should be identified and corrected. Therefore, internal audit is essential tool for ensuring the operations and appropriateness of internal controls.

Shamimuh (2017) is also on the opinion that internal audit measures, analyses and evaluates the efficiency and effectiveness of other control established by management in order to ensure smooth administration, control cost minimization, ensures capacity utilization and maximum benefit derivation. Effective internal audit undertakes an independent evaluation of financial and operating

information and of systems and procedures, to provide useful recommendations for improvements as necessary. If internal audit quality is maintained, it will contribute to the appropriateness of procedures and operations of the auditor, and there by internal audit contributes to effectiveness of the auditee and organization as a whole.

2.2 Empirical Review

Promise (2018) gathered various perceptions regarding the role of internal audit in organizational performance focusing on Diamond Bank. The study used simple survey. The population of study was management and staff of Diamond Bank Plc with a total population of 79 staff while the simple size was 72. Table and percentage were used for analysis while the hypotheses were tested with chi square. The study found that internal auditing improves the credibility of banks, internal auditing has aided in managerial decision making in Diamond Bank and internal auditing has improved the profitability of Diamond Bank. The study recommends that banks should endeavour to keep to professional codes of conduct and ethical considerations as it enhances the activities of internal auditor and in so doing eliminate cases of fraud in the banking sector. The study also concluded that internal audit has helped in eliminating weaknesses in the audit plan and also the frequency of fraud has reduced as a result of internal audit in the bank. Strict surveillance by both internal and external auditors has reduced the extent of money laundering in the bank. Further, there should be audit education among the stakeholders of diverse organizations.

Mwenda (2012) conducted research on the effectiveness of internal auditing in improving public sector management in Tanzania. The study was conducted in Institute of Adult Education in Dar es Salaam. The sample population was 68. The study concludes that internal auditing in IAE play an effective role in helping management in financial management. Despite this achievement internal auditing is facing numerous challenges. Including lack of appreciation of internal auditing function by management, inadequate funding, and lack of effective internal auditing committee and absence of risk management framework. Most of these problems stemmed from the fact that internal auditing was not independent organ and rather was operating under management.

Manyama (2020) conducted the study on the examination of the effectiveness of the internal audit function in local government authority. The descriptive design was adopted alongside qualitative and quantitative approach. The population comprised of the employees working in Arusha DC. The sample size was 120 respondents, the unit of analysis being internal auditors, District planning officers, VEO, WEO and accountants, both primary and secondary data were used. This study observed that the internal audit function is not effective since top management, inadequate internal audit staff, and lack of training on part of the internal audit staff do not adequately support internal auditors. The study recommends the allocation of more resources to support recruitment of audit staff as well as support in periodic training.

Shamimuh (2017), conducted research on the role of internal audit on organizational performance of public enterprises in Uganda. Data was collected using questionnaire and interview guide and purposive sampling was used. Both qualitative and quantitative were used to analysis data; sample size of 50 respondents was used. The study identified the role of internal audit on financial performance of public enterprise in Uganda as; reduces risk of losing funds thus increase on profit,

demonstrates accountability in use of public money, and improves organization performance and others. As regards to the role of internal audit on non-financial performance these included, helps managers in public sector to meet their responsibilities and better strategies to improve management. Examined the role of internal audit on managerial performance. The findings on this study are improvement in the process of stakeholder engagement, conformance with reporting requirement and helps management of the organization in its present and future growth respectively. The study came up with recommendations such as; There is need for allowing further training for the staff in the account sections and close supervision of the audit department on the activities of accounts and finance through regular audits and check-up, there is need for improvement in the procurement process and emphasis and there is need to emphasize the budgetary control measures to enable proper financial reporting of public enterprise in Uganda at UBC.

According to Masui (2013) on the role of internal audit in improving the performance of local government authorities; local governments in Tanzania have been featured with gross financial mismanagement to the extent that the government had decides to institute periodical restricting and reform programmers. The researcher employed simple selection techniques. A sample of 45 respondents was selected from a total population of units of inquiry. The study findings revealed that; still there some weakness in terms of enforcing procedures and principles guiding the authorization and access of organization's assets and documents. Also, the study found an increasing rate of improperly vouched expenditure year after year and improper approvals, improper documentation and attachment. The study also found existence of over expenditure on some common items like fuels and allowances, caused by insistence of a reliable computerized system for budgeting and accounting activities. On the part of the functioning of the internal audit unit, the findings revealed a weakness on reporting channel. The study finally found that, the financial management systems in local government Authorities are slightly effective, so for improvement, the study recommends the immediate computerization of the accounting and budgeting systems. Finally; the council internal auditor should report direct to councillors and to ministry responsible.

Finally, the study on the relationship between internal audit function and financial performance of mid-size manufacturing firms in Nairobi County, Kenya by Thumbi (2016) acknowledged that internal audit functions have a significant effect on the financial performance of mid-size manufacturing firms in Nairobi. There was a strong positive relationship between financial performance of mid-size manufacturing firms and internal audit aspects of functions. Therefore, the need for mid-size manufacturing firms to adopt effective internal processes and practices that address key internal auditing practices for effectiveness of audit quality. In order to implement good internal audit independence, managers need to know that they should be concerned about the interrelationships between internal audit independence and financial performance. Again, internal auditors must have sufficient proficiency and training to carry out the tasks assigned to them.

3.0 Methodology

The approach that was employed to perform the research study is described in this part. It focuses on sampling methodologies, population, data collection methods, and data processing methods, as well as the research design.

The descriptive survey research design was used in this study because it provides an accurate picture of people, events, or circumstances and allows for the collecting of huge volumes of data from a big population in a cost-effective manner. The descriptive survey research design was appropriate for this study because it assisted in gathering data that described events, then organizing, tabulating, depicting, and describing the data to aid in answering research questions the role of internal audit on revenue collections at MORUWASA. Closed questionnaires were utilized to collect data in this study, which used a quantitative research approach. Because closed surveys were utilized and they were scaled into numbers for analysis, this approach was appropriate. The study used a stratified random sampling technique to determine a sample size of 100 study participants. To identify respondents who were representative of the target demographic, a stratified random sampling technique was used. The purposive stratified sampling approaches were utilized in this study; through purposive sampling the researcher was able to collect reliable information with a higher convenience from the key responsible individual respondents in each directorate area. This provided adequate information about study, because the researcher selected only those who were able to deliver the required data. Stratified sampling involved splitting the target population into several units based on common criteria such as age, gender, and religion. The method ensured that the sample was representative of the population for the researcher. Stratified sampling was chosen because it was the most appropriate method for obtaining a sample from a population that did not form an identical group and so required comparisons between multiple sub-groups. The stratified random sampling approach was utilized for this study since the respondents were classified according to their management levels. In establishing sample size for each level of management in the business, the study used a sample size of 80 respondents. To eliminate bias, the respondents were chosen using simple random selection. The core data for this study was gathered using a standardized questionnaire. The data was gathered using closed questionnaires and open interviews as the primary method of data collection. The nature of the data to be collected, the amount of time available, and the study's goal all influenced the interview and questionnaire selection. The questionnaire was sent to the respondents via a variety of methods, including emails and hardcopies. The data from the surveys was quantitatively analyzed using descriptive statistics from the Statistical Packages for Social Sciences (SPSS). The SPSS tool was chosen because of its powerful analytical capabilities and ease of data analysis. Descriptive statistics was employed to offer frequencies and percentages to illustrate the results.

3.1 Validity Test

The Keyser Mayor test (KMO) was used to check whether data are valid. Therefore, according to argument made to different scholars realized that once the KMO approach to 1 such data was validity for further analysis also once the KMO is greater than 0.5 such data being validity. Therefore, according to findings realized that data were valid due to the fact that KMO was greater than 0.5. Consider table 1 below explain more about the validity of data.

Table 1: KMO and Bartlett’s Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.673
Bartlett's Test of Sphericity	Approx. Chi-Square	109.245
	Df	10
	Sig.	0.010

Source: Field Data 2022

3.2 Reliability Test

Reliability is about the consistency of a measure which used to evaluate the quality of the research, it indicates how well a method, technique or test measure something (Lyatuu, 2020). If the same result can be consistently achieved by using the same methods under the same circumstances, the measurement is considered reliable. Reliability can be estimated by comparing different versions of the same measurement. The resulted obtained using Cronbach alpha coefficient were presented in Table 2 below.

Table 2: Cronbach Alpha Test

Cronbach's Alpha	N of Items
0.759	3

Source: Field Data 2022

Based on the results on Table 2, all variables were above the threshold alpha value 0.7 and hence they demonstrated that questionnaire data were reliable for use by the study.

4.0 Findings

4.1 Major Findings

This presents finding as per general objective of the study to address the subject matter, on the assessment of role of Internal Audit Function on revenue growth’’ A Case of Morogoro Urban Water Supply and Sanitation Authority (MORUWASA), the section is discussed in techniques namely descriptive statistics. Whereby, percentages, table’s charts and graphs are used. The higher the percentages the higher the possibility of occurrence. Findings implies that, Internal Audit Function play significance role on growth of revenue collections. Findings and discussion are presented and discussed in table 3

Table 3: The role of internal audit function on revenue growth.

		Frequency	Percent	Cumulative Percent
Quality Assurance practices affects revenue growth	Strongly agree	30	37.5	37.5
	Agree	34	42.5	80.0
	Undecided	6	7.5	87.5
	Disagree	5	6.3	93.8

		Frequency	Percent	Cumulative Percent
	Strongly disagree	5	6.3	100.0
	Total	80	100.0	
Internal Controls practices affects revenue growth	Strongly agree	34	42.5	42.5
	Agree	31	38.8	81.3
	Undecided	5	6.3	87.5
	Disagree	5	6.3	93.8
	Strongly disagree	5	6.3	100.0
	Total	80	100.0	
Internal auditor's independence affects revenue growth	Strongly agree	41	51.3	51.3
	Agree	24	30.0	81.3
	Undecided	5	6.3	87.5
	Disagree	5	6.3	93.8
	Strongly disagree	5	6.3	100.0
	Total	80	100.0	
Internal auditor's competence affects revenue growth	Strongly agree	32	40.0	40.0
	Agree	34	42.5	82.5
	Undecided	4	5.0	87.5
	Disagree	5	6.3	93.8
	Strongly disagree	5	6.3	100.0
	Total	80	100.0	
Governance practices affects revenue growth	Strongly agree	32	40.0	40.0
	Agree	32	40.0	80.0
	Undecided	6	7.5	87.5
	Disagree	6	7.5	95.0
	Strongly disagree	4	5.0	100.0
	Total	80	100.0	
Internal audit function affects budgeting and budgetary control practices which enable to proper financial management	Strongly agree	33	41.3	41.3
	Agree	32	40.0	81.3
	Undecided	5	6.3	87.5
	Disagree	5	6.3	93.8
	Strongly disagree	5	6.3	100.0
	Total	80	100.0	
Internal audit function helps managers in to meet their responsibilities and undertake better strategies.	Strongly agree	35	43.8	43.8
	Agree	31	38.8	82.5
	Undecided	5	6.3	88.8
	Disagree	5	6.3	95.0
	Strongly disagree	4	5.0	100.0
	Total	80	100.0	

Source: Field Data (2022)

The study assessed the role of audit functions on revenue growth in water authorities. Hence, internal audit functions on revenue growth were brought to the discussion with the respondents, as

the way forward or hindrances to influence efficient and effective performance of Water Supply and Sanitation Authorities in Tanzania.

The respondents were then asked to indicate by circling the number that accurately reflects the extent of internal audit functions on the growth of revenues toward the performance of Water Supply and Sanitation Authorities in Tanzania. The suggestions were arranged on levels namely 1= strongly agree 2-agree, 3-undecided, 4-disagree and 5-strongly disagree

4.2 Quality Assurance on revenue growth

The statement aimed to know whether quality assurance as a role of internal audit functions lead to the growth of revenues at MORUWASA and from table 3 above, the study indicated the following level of respondent's response on the statement.

The findings show that, 12.6% of the total respondents disagreed that a quality assurance had any significant impact on the revenue, while 80 % of the respondents agreed with the statement This implies that a quality assurance as an integral part of internal audit function has a direct impact on the revenue growth. Revenues will increase if quality of services provided is assured.

4.3 Internal Control Practices on revenue growth

The statement aimed to know internal audit control practices has any contribution on growth of revenue collections at MORUWASA. The study indicated the following level of respondent's response on the statement.

The findings show that, 81.3% of the total respondents agreed that the organization internal audit control practices lead to the growth of revenue collections at MORUWASA, 6.3% of the respondents neither agreed nor disagreed that internal audit control practices has any contribution on growth of revenue collections at MORUWASA and 12.6% disagreed that internal audit control practices has any contribution on growth of revenue collections at MORUWASA. This implies that internal audit control practices affect the revenue collection at MORUWASA where by the majority agree with the statement. (Table 3).

4.4 Internal auditor's independence on revenue growth

The statement aimed to know whether Internal auditor's independence of the organization lead revenue growth. The study indicated the following level of respondent's response on the statement

The findings show that, 81.3% of respondents agreed that internal auditor's independence affect the revenue growth of MORUWASA, 6.3% did not have enough knowledge on the statement and 12.6% disagreed that internal auditor's independence influences revenues growth at MORUWASA. This implies that adequate availability of internal auditor's independence will results in increase in revenues collection while inadequate availability of internal auditor's independence will result in fall in revenue collections.

4.5 Internal auditor's Competence on revenue growth

The statement aimed to know whether Internal auditor's competence of the organization lead revenue growth. The study indicated the following level of respondent's response on the statement.

The findings show that, 82.3% of respondents agreed that internal auditor's competence affect the revenue growth of MORUWASA, 5% did not have enough knowledge on the statement and 12.6% disagreed that internal auditor's competence influences revenues growth at MORUWASA. This implies that adequate availability of internal auditor's competence will results in increase in revenues collection while inadequate availability of internal auditor's competence will result in fall in revenue collections.

4.6 Governance practices on revenue growth

The statement aimed to know whether governance practices affect the revenues collection at MORUWASA. The study indicated the following level of respondent's response on the statement.

From actual sample of 80 respondents, the findings show that, 12.5% of the respondents disagreed that governance practices affect the revenues collection at MORUWASA, while 80% of the respondents agreed with the statement that governance practices affect the revenues collection at MORUWASA and only 7.5% neither agreed no disagreed with the statement. This implies that governance practices have higher influence on the revenues collection at MORUWASA.

4.7 Internal audit functions on budgeting and budgetary control practices.

The statement aimed to know whether internal audit function effects on budgeting and budgetary control practices enable to proper financial management. The study indicated the following level of respondent's response on the statement.

Findings show that internal audit function significantly affect budgeting and budget control practices which subsequently have an impact on the financial management of MORUWASA. The agree rate was 81.3% while disagree rate was 13.4%

4.8 Discussion of findings

The study found that internal audit management is a significant approach on the increase in revenue collections at MORUWASA. Findings show that internal audit quality assurance practices, internal Controls practices, auditor's independence, auditor's competence, ggovernance practices affects collectively affect the revenue collections. Any positive changes on those factors would result in the growth of revenue collections at MORUWASA. Findings further show that internal audit function affects budgeting and budgetary control practices influence the growth of revenues collection and internal audit function helps managers in to meet their responsibilities and undertake better strategies.

The study findings are similar to Trumbo (2018), who observed that most of organization continuously increase revenues due to proper management of internal audit functions like fraud detections. The findings further correlate with that of Suleiman (2015), who revealed availability of competent staff and management commitment in organization improves level of creativity in organization projects.

5.0 Conclusion

Internal audit is one of the functions in an organization to review and assess activities and provide suggestions and recommendations to management on weaknesses found during the audit activities. The purpose of internal audit is to help all levels of the organization so that the resulting performance can be achieved effectively and efficiently. In this study, an effort has been made to examine the role of internal audit on the organizational performance in a case of MORUWASA. The researcher collected data with the help of interviews and self-administered questionnaire set on a five point Likert-scale from the employees working at MORUWASA. Professional competence, internal controls, internal audit standards, independence of internal audit were used as the measures of internal audit. The test results of this study indicate the role of internal audit in revenues collection, costs reduction and quality of services improvement practices are good. The independent auditors should carry out their responsibilities well and participate in helping the foundation's management by providing recommendations, as well as suggestions for improvements on the conduct of the audit carried out and also helping the auditee to complete the suggested corrective actions. Internal audit comprises the plan of organization and all methods and measures adopted within a business to safeguard operational efficiency, encourage adherence to prescribed managerial policies, and helps in achieving the objectives of the enterprise

6.0 Recommendations

Internal audit is one of the functions in an organization to review and assess activities and provide suggestions and recommendations to management on weaknesses found during the audit activities. The purpose of internal audit is to help all levels of the organization so that the resulting performance can be achieved effectively and efficiently. In this study, an effort has been made to examine the role of internal audit on the organizational performance in a case of MORUWASA. The researcher collected data with the help of interviews and self-administered questionnaire set on a five-point Likert-scale from the employees working at MORUWAS. Professional competence, internal controls, internal audit standards, independence of internal audit were used as the measures of internal audit. The test results of this study indicate the role of internal audit in revenues collection, costs reduction and quality of services improvement practices are good. The independent auditors should carry out their responsibilities well and participate in helping the foundation's management by providing recommendations, as well as suggestions for improvements on the conduct of the audit carried out and also helping the auditee to complete the suggested corrective actions. Internal audit comprises the plan of organization and all methods and measures adopted within a business to safeguard operational efficiency, encourage adherence to prescribed managerial policies, and helps in achieving the objectives of the enterprise

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