

THE FACTORS INFLUENCING INTERNAL CONTROL SYSTEM IN PUBLIC ORGANIZATIONS PERFORMANCE IN ARUSHA CITY COUNCIL IN TANZANIA

Onesmus Mkatale

Accounting and Finance Department
Institute of Accountancy Arusha, Tanzania
onesmusalfred@gmail.com

ACPA Richard Boniface Laswai

Accounting and Finance Department
Institute of Accountancy Arusha.
laswai2014@gmail.com

ABSTRACT

Creation of an effective internal control system is the basic instruments of corporate firm control that help organization to achieve efficiency in operations as well as competitive advantage over other enterprises. Further, the internal control system has been effective in controlling fraud in the institutions in various forms as Fraud had negative and insignificant effect on the performance of such institutions. Therefore, the purpose of this study was to assess the factor influencing internal control system in public organizations performance in Arusha City, Tanzania. The study used explanatory research design and used 85 respondents from the five public institutions in Arusha city. The study used questionnaires to collect information and data were analyzed using Statistical Package for Social Science (SPSS). The study found that to some extent the control environment play a great role in the performance of public organization. Also, the study noted that monitoring activities have played great role in the performance of public organizations. However, the study revealed that somehow the public organizations perform risk assessment before operations. Lastly, the study found that public organization use information technology to improve organization performance. Nevertheless, the study found that there is positive and weak relationship between public organization performance and internal control system. Therefore, the study recommended that the public organizations should improve internal control system to increase performance so that to promote participation of stakeholders and customer satisfaction.

Keywords: Internal Control System, Control Environment, Monitoring Activities, Risk Assessment, Information

Technology and Communication

Introduction

It is important to have effective internal control in the enterprise because this is the basic system that assist the organization to perform well (Lakis and Giriunas, 2012). An internal control system consists a set of policies, procedures, practices and organizational structures implemented to provide reasonable assurance that an organization's business objectives will be achieved and undesired risk events will be prevented and corrected based on either compliance or management initiated concerns (Alemu, 2020). However, the developed countries have been adopting and implementing internal control systems in corporate governances due to its significances in improving corporate firm's performance. For instance, in the United States, internal control procedures have been observed to reduce the process of change, leading to more predictable results and are therefore believed to be an essential component of the Foreign Corrupt Practices Act (AL-Mashhadi, 2021). In Africa, African countries have started to realize the economic and financial significance of internal control systems in their organizational performances. In some African countries, studies are showing Internal control systems have been effective in promoting efficiency not only in commercial enterprises but also in public sectors.

Owusu-Ansah (2019) argued that, a company will be defeated if there exist weak and inadequate internal control systems and ineffective internal Auditor as a result of challenges or limitations. Among the East African countries, internal control systems are very essential in promoting efficiency in firms' performances. For instance, according to Lily (2013), the internal control systems in most of the commercial banks in Kenya are put in place to ensure safe custody of all assets, detect, and safeguard against probable frauds. One of the main reasons for that was that Commercial banks in Kenya were observed that they were struggling with liquidity problems, untimely financial reports, and inefficient accountability for the firm's financial resources. Eton, et al. (2018) realized that eventhough the relationship between internal control systems and financial accountability in local governments of Uganda appeared to be weak, the actual contribution of internal control systems in the financial operations of the Ugandan districts is negligible. In Tanzania it has been observed that, the inadequate internal control system has led to mismanagement of public funds for a very long time. Nevertheless, Masanja and Masimba (2020) recommended that the institutions should invest, implement, and update continuously the internal control systems as a method and strategy to improve efficiency of financial management in their organizations. Therefore, this study intended to assess the factors influencing internal control system in public organizations Performance in Arusha City Council in Tanzania.

Literature Review

The study reviewed several studies on internal control system and public organization performance including the following literature.

Alemu and Gujral (2021), studied the relationship between internal control systems and organizational performance and found that internal control systems are relatively efficient and do have much effect on the performance of organizations since all internal control systems are to some extent ever elaborated and this can help to guarantee administration, completeness and accuracy of records as well, it can be a proof against fraudulent, collusion especially on the part of

those holding authority or trust. The study recommends that management should develop more effective strategies that will ensure that internal control is effective and efficient, so that fraud perpetration.

Mire (2016) studied the effects of internal control system on the organizational performance of remittance companies in Mogadishu, Somalia. The study revealed that there was positive strong relationship between control environment, risk assessment and control activity and financial performance of change as shown by strong positive correlation coefficient. The study further revealed that control environment; risk assessment and control activity significantly affects the organizational performance of remittance companies in Mogadishu. The study recommended that there is need for the remittance companies in Mogadishu to increase their control environment; risk assessment and control activity as it was founded that these variables positively affects the organizational performance of remittance companies in Mogadishu, Somalia.

Owusu-Ansah (2019) studied the effectiveness of the internal control system in the public sectors in Ghana revealed that, an internal control system is very effective in the achievement of the Assembly's goals and objectives. The study recommended that the government should employ more personnel who are members of the professional bodies such as the ICA Ghana, ACCA, and CIMA into the unit; this is because with their knowledge and in-depth study of their profession it will help to reduce the problems of internal control.

Eton, et al. (2018), investigated the role of Internal Control system in supporting financial accountability in Uganda. The study found out that the relationship between internal control systems and financial accountability in local governments appeared to be weak, and the actual contribution of internal control systems in the financial operations of the district is negligible. The study however, revealed that internal control system is inadequate in accounting for the staffing gaps in local governments and the untimely release of financial reports. Staff in the local governments investigated, particularly those handling finance related matters had low training in financial accountability. Among other things, the study recommended that staff workers should be trained on the current finance management systems to speed up financial reporting system and timely release of financial report.

Umar and Dikko (2018) in their study on the effect of internal control systems on the performance of commercial banks in Nigeria, it was revealed that there is a positive and significant relationship between the four components of internal control namely control environment, control activities, monitoring and risk assessment and bank performance. While information and communication were found to have an insignificant positive relationship with bank performance, the study recommended that future research should add other additional variables like risk culture, corporate governance. Likewise, control 22 variable (s) such as bank size, bank age, etc. can also be considered by future researchers.

Methodology

The study adopted the explanatory research design to collect information from 85 respondents using administered questionnaires. However, the sample size comprised employees from the five public institutions in Arusha city, Tanzania.

Findings and Discussion

The study assessed the factors influencing the internal control system of public organizations performance in Tanzania where each factor was assessed and the findings were presented.

Control Environment

Under this factor the mean for each attributes were computed where the highest was 5 for strongly agree and the lowest was 1 for strongly disagree as the results shown in Table 1.

Table 1: Control Environment

Attribute	Mean (N=85)
Management closely monitors implementation of Internal control systems in our organizations	4.01
Internal audit or makes appropriate recommendation for management to improve	3.05
The organization complies with all applicable laws in decision making.	2.70
The organization internal audit control is sufficiently staffed	1.88
Internal auditor performs his duties with a greater degree of autonomy and independence from management	3.02
The Organization Carries Out Proper Authorization and Approval of Transactions	4.54
Overall mean of control environment	3.20

The findings indicated that the management closely monitors implementation of internal control systems in our organizations scored the mean of 4.01 indicating that management closely monitors implementation of internal control systems. The internal audit makes appropriate recommendation for management to improve scored the mean of 3.05 indicating that to some extent the management make appropriate recommendation for management to improve performance. The organization complies with all applicable laws in decision making scored the mean score of 2.70 indicating that the organizations do not comply with the applicable laws in decision making. The organization internal audit control is sufficiently staffed scored the mean score of 1.88 indicating that the internal audit control is not sufficiently staffed. The internal auditor performs his duties with a greater degree of autonomy and independence from management scored the mean score of 3.02 indicating that somehow the internal auditor performs his duties with a greater degree of autonomy and independence. The Organization Carries out Proper Authorization and Approval of Transactions scored the mean score of 4.54 indicating that it is true the organization authorize and approve transactions. However, the overall control environment was found to be 3.20 indicated that to some extent the control environment play a great role in the performance of public organization.

Monitoring Activities

On monitoring activities the study assessed the mean of each attributes and the results was computed where the highest was 5 for strongly agree and the lowest was 1 for strongly disagree as the results shown in Table 2.

Table 2: Monitoring Activities

Attributes	Mean (N=85)
Sensitive Duties are performed by more than one individual	4.28
The management uses decentralized method of managing the operations	3.68
There is a separation of duties and activities within the organization	4.31
Management acts with a great degree of integrity	3.04
Ethical values are upheld in all management decisions	4.01
The supervisors and managers are well skilled and knowledgeable	3.09
Our Board of governors and its committees are independent	2.96
There is appropriate supervision	4.51
Overall monitoring activities	3.74

The finding presented in Table 2 indicates that the sensitive duties are performed by more than one individual scored the mean score of 4.28 indicating that sensitive duties such as approving documents can be done by more than one individual. The management uses decentralized method of managing the operations scored the mean score of 3.68 indicating that management use decentralized method in managing operations. Presence of separation of duties and activities within the organization scored the mean score of 4.31 indicating that it is true that there is separation of duties and activities in public organizations. The management acts with a great degree of integrity in execution of their roles scored the mean score of 3.04 indicating that to some extent public workers acts with the great degree of integrity. The ethical values are upheld in all management decisions score the mean score of 4.01 indicating that there is ethical values in all decision made by public organization. The supervisors and managers are well skilled and knowledgeable in their areas scored the mean score of 3.09 indicating that to some extent supervisor and managers are well skilled. The Board of governors and its committees are independent scored the mean of 2.96 signifying that to some extent the board of governors is independent. There is appropriate supervision by senior staff on the work of their juniors scored the mean of 4.51 indicating that there is appropriate supervision by senior staff. However, the study found the overall mean of monitoring activities to be 3.74 indicating that monitoring activities has great role to play in organization performance.

Risk Assessment

The assessed risk assessment and the mean of each attributes under this factor was computed where the highest was 5 for strongly agree and the lowest was 1 for strongly disagree as the results shown in Table 3.

Table 3: Risk Assessment

Attributes	Mean (N=85)
The employee are equipped with best knowledge for risk identification and assessment	3.45
The company has risk management policy	4.51
The organization communicate to stakeholders the risk that may arise	2.72
There is criteria for assessing the risk arisen to the organization	4.32
Corrective action is taken to address risk	3.01
The company has monitoring system for identification of the risk	3.78
The organization identifies the risk that can affect operations on time	2.38
Overall mean of risk assessment	3.45

The findings indicated that the employee are equipped with best knowledge for risk identification and assessment scored the mean of 3.45 indicating that somehow employee are knowledgeable about risk identification and assessment. The company has risk management policy scored the mean of 4.51 indicating that it is true that company has risk management policy. The organization communicate to stakeholders the risk that may arise scored the mean score of 2.72 indicating that to some extent the organization communicate to stakeholders about the risk that may arise. Presence of criteria for assessing the risk arisen to the organization scored the mean of 4.32 indicating that organization use specific criteria to assess the risk. The corrective action is taken to address risk scored the mean of 3.01 indicating that somehow corrective actions are taken to address risk. The company has monitoring system for identification of the risk scored the mean of 3.78 signifying that there is monitoring system for identification of the risk in the company. The organization identifies the risk that can affect operations on time scored the mean of 2.38 indicating that it is not true that the organization identifies the risk that can affect operations on time. However, the overall of the risk assessment was found to be 3.45 indicating that somehow the public organizations perform risk assessment before operations.

Information Technology and Communication

The mean of each attributes under this factor was assessed and each attributes was computed where the highest was 5 for strongly agree and the lowest was 1 for strongly disagree as the results shown in Table 4.

Table 4: Information Technology and Communication

Attribute	N=85
The company uses management systems in their operations	3.82
There is department of ICT in your organization	3.90
There are enough systems that make work easier	3.77
The company employs up to date system to use	4.02
The company has good ICT personnel	3.50
Always you go for the training of the system	2.82
Overall mean of information technology	3.64

The findings found that the company uses management systems in their operations was rated at the mean score of 3.82 indicating that organizations uses management systems in their operations. There is department of ICT in your organization rated at the mean score of 3.90 indicating that

ICT department is present in organization. The presence of enough systems that make work easier scored the mean score of 3.77 indicating that respondents have experienced using systems to carry out their daily activities. The company employs up to date system to use scored the mean score of 4.02 indicating that it is true that updated system are useful in public organizations. The company has good ICT personnel scored the mean of 3.50 indicating that the public organization has good ICT personnel. Participation in training of the system scored 2.82 indicating that not all workers attend training on the system. However, the overall mean of information technology was found to be 3.64 suggesting that information technology are useful in public organization and improve organization performance.

Nevertheless, the study conducted the correlation analysis between independent variables namely control environment, risk assessment, monitoring activities, information technology and communication against the dependent variable which is public organization performance. The results of the findings were presented in Table 5

Internal Control System	Control Environment	Risk Assessment	Monitoring Activities	Information Technology and Communication
Public Organization Performance	-.263*	.513**	-.190	-.020

Correlation of public organization performance and internal control system .247

*. Correlation is significant at the 0.01 level (2-tailed)

**. Correlation is significant at the 0.05 level (2-tailed)

Table 5: Correlation between internal control system and public organization performance

According to the findings the correlation analysis indicated that the public organization performance had positive and significant coefficient value with risk assessment (.513). Also, public organization performance had negative and significant coefficient value with control environment such as organization carries out proper authorization and approval of transaction (-.263). Also, public organization performance was negatively and not significant correlated with two attributes namely monitoring activities (-.190), and information technology and communication (-.020). Lastly, the study found the relationship between public organization performance and internal control system at coefficient value of .247 indicating presence of positive and weak relationship between public organization performance and internal control system.

Conclusion

The study found that the public organization performance had positive and significant coefficient value with risk assessment (.513). Also, public organization performance had negative and significant coefficient value with control environment such as organization carries out proper authorization and approval of transaction (-.263). Also, public organization performance was negatively and not significant correlated with two attributes namely monitoring activities (-.190), and information technology and communication (-.020). Lastly, the study found the relationship between public organization performance and internal control system at coefficient value of .247 indicating presence of positive and weak relationship between public organization performance and internal control system.

Recommendation

The study recommends that the public organizations to improve internal control system to increase performance so that to promote participation of stakeholders and customer satisfaction. This will reduce different challenges in public organizations such as the poor participation, corruption which has facilitated the problem of violation of human rights and lack of sense of ownership. In line this, the public organizations should allocate and provide adequate budgetary resources to the head of departments in order to solve all the challenges facing public organizations in provision of social services.

REFERENCES

- Alemu, A. A., & Gujral, T. (2021). The effect of internal control on organization performance in reference to moha soft drinks company: a case study in hwassa pepsi cola factory. *International journal of advanced research (IJAR)* , IX (3), 204-215.
- AL-Mashhadi, A. S. (2021). Review on Development of the Internal Control System. *Journal of Accounting Research, Business and Finance Management* , II (1).
- Eton, M., Murezi, C., Mwosi, F., & Ogwe, P. B. (2018). Internal control systems and financial accountability in Uganda: A case of selected districts in western Uganda. *International Journal of Commerce and Management Research* , IV (4), 106-111.
- Lily, C. (2013). *Internal control systems and financial performance of commercial banks listed at nairobi securities exchange,kenya.*
- Masanja, N. M. (2018). The Impact of Internal Control Challenges on Organizational Financial Performance for Selected Local Government Authorities in Arumeru District, Arusha Tanzania. *International Journal of Research and Innovation in Social Science (IJRISS)* , II (XI).
- Masanja, N. M., & Masimba, A. (2020). The Effectiveness of Internal Control System on The Efficiency of Financial Management for Selected Training Institutions In Arusha Tanzania. *Contemporary Journal of Education and Business (CJEB)* , I (1), 55-73.
- Mire, H. A. (2016). Effects of internal control system on the organizatoinal performance of remittance companies in Mogadishu-Somalia. *Ijrdo - Journal of Business Management* , II (9).
- Owusu-Ansah, E. (2019). Study on the effectiveness of the internal control systems in Ghana public sector: A look into the district assemblies. Part 2. *RUDN Journal of Public Administration* , VI (4), 312-331.