

ADFJ ISSN 2522 - 3186.

African Development Finance Journal

VOLUME 8 (III)

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Performance in Local Government Authorities,
Tanzania*

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Date Received: March, 03, 2025

Date Published: February, 25, 2025

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Abstract

According to the Controller and Auditor General's reports, many firms suffer financial losses as a result of their internal control systems. This puts into doubt the effectiveness of the different internal control measures employed by several businesses. As a result, the purpose of this study is to look at the linkage between internal control components and performance in Tanzanian local government authorities. The study used a descriptive research approach. This technique was acceptable since it examined and explained the relationship between variables in their natural condition without modifying them. The research involved 130 staff members from the Singida Municipal Council, Singida District Council, and Ikungi District Council. The researcher selected the sample using simple random and selective sampling techniques. SPSS was used. Correlation and regression analysis were used to show the relationship between variables. Statistics were given as figures and tables. According to the paper, local governments may enhance their performance by including internal control components such as risk assessment, monitoring, control actions, information and communication systems, and control environments. The results show a statistically significant relationship between control activities, risk assessment, information and communication, and performance in local government units. Furthermore, the study discovered no statistically significant link between the monitoring and control environment and the performance of local governments. The study focuses on internal control components such as risk assessment, monitoring, control actions, information and communication, and control environments. The study recommends that management commit to assisting all employees in developing internal control systems through interaction and training, allowing them to be guided on issues related to the proper implementation of accounting policies and procedures, thereby improving their professional skills and expertise. It is necessary to take legal action against individuals who abuse local government funds, and recovery must be achieved.

Keywords: *Internal Control Components, Performance, LGAs, Tanzania*

1. Introduction

Internal controls are rules and procedures created and executed by a company's board of directors and management to increase operational efficiency, financial reporting, compliance goals, and key stakeholders' expectations of asset and investment protection (Chindengwike, 2024) Internal controls are procedures and protocols that offer logical security for attaining a company's goals through efficient, trustworthy financial and administrative reporting, as well as the use of proper standards to preserve the company's reputation (Bawole and Ibrahim, 2016). Internal control is

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crucial for an institution's successful risk management since ignoring it might hinder progress towards its goals. Internal control is also important because it helps with risk management, supports effective and efficient operations, protects assets, guides against fraudulent acts, conforms with relevant laws and regulations, authorises and approves documents, and reports (Rapani and Malim, 2020). Zahari *et al.*, (2024), defines internal controls as the steps a company takes to guarantee that its goals, mission, and objectives are met. The rules listed above apply to accounting and reporting, as well as internal and external communication standards inside a business. Preparing relevant and accurate financial reports, managing the money received and increased by the firm, doing a yearly audit of the company's financial accounts, and keeping inventory records for the location of real and other assets (Koeswayo *et al.*, 2024). Management executes certain processes, resulting in an effective internal control system. International Accounting Standards (IAS) define internal control types as organisational plan, segregation of duties, document control, asset safeguarding, staff competence, arithmetic and accounting controls, recording and record keeping, supervision, authorisation and approvals, and vocation (Purnamasari *et al.*, 2024).

Some commercial frauds are the consequence of a fault in the system, such as insufficient control over purchase order placement. Other scams are the result of ineffective control mechanisms. It might be a failure to execute the check (Rachmad *et al.*, 2024). It is likely that too much trust has been placed in one individual, with no defined separation of responsibilities. Frauds conducted in cooperation may be more difficult to detect. Because transactions do not require human authentication, a machine can be used to commit fraud. The lack of human participation may enable transactions that would have been difficult to perform in a manual system (Minaryanti, and Mihajat, 2024).

Organisations should provide an overview of data disclosures. However, domestic control mechanisms have a significant impact on high-level reports. There is a widespread belief that building and implementing adequate internal control systems will nearly always result in better performance. Another assumption is that well-placed internal control procedures enhance reporting systems and provide relevant information, hence helping the accountability role of the company's administration (Vafaei *et al.*, 2024).

In Tanzania, the internal audit role was housed inside the accounting department of government businesses. The Public Finance Act of 2001 and its accompanying regulations mandated all government entities to establish internal audit units that reported functionally to audit committees and administratively to accounting officers. The change was made to improve the independence of internal auditors (Vafaei et al., 2024).

The Local Authority Financial Memorandum of 2009, Order No. 13, cited Section 48 of the Local Government Finance Act, which requires each Council to appoint its own internal auditors to examine and analyse the effectiveness of financial management in local government authorities. Internal auditing is an unbiased, objective assurance and consulting activity that aims to provide value and improve an organisation's operations. It helps a business achieve its objectives by applying a rigorous, disciplined approach to assessing and enhancing the effectiveness of risk management, control, and governance systems.

Vafaei et al., (2024) described internal auditing as a component of an organisation's internal control system that ensures adherence to certain work standards and aids management. Conforming to Vafaei *et al.*, (2024), the internal auditor "measures, analyses, and evaluates the efficiency and effectiveness of other management controls established in order to ensure smooth administration, control cost minimisation, capacity utilisation, and maximum benefit derivation." Internal auditing, according to Vafaei *et al.*, (2024), is a component of an organisation's internal control system implemented by management. Minaryanti, and Mihajat (2024), an internal auditor's stated goal is to evaluate the efficacy of financial and operational controls, confirm compliance with corporate policies and procedures, safeguard assets, and assure the correctness and consistency of the organisation's external and internal reports. According to Minaryanti, and Mihajat (2024), the goal of an internal audit is to review a significant number of the organisation's reports for correctness and usefulness, as well as to make modifications to the control system. According to Rachmad et al., (2024), the internal auditor is responsible for evaluating the effectiveness of the accounting system as well as monitoring the efficacy and efficiency of different internal procedures.

Competent internal auditing that follows management standards and practices is a significant difficulty in the public sector. The argument is simple: the government is the largest commercial entity, and its spending patterns, through multiple parastatals, agencies, and commissions, support a wide range of economic activity (Rachmad *et al.*, 2024). They went on to state that the public sector accountant is in charge of creating methodical procedures to help management provide the institution's services, whereas the public sector auditor is in charge of assessing, among other things, whether management is running efficiently. Methods and techniques for establishing performance targets and ensuring that all workers work towards them are part of organisational control functions. Establishing an effective internal control system appears to be a critical component of fraud prevention (Rachmad *et al.*, 2024).

Despite the vital role that internal control systems play in Tanzania's public sector, the Controller and Auditor General's reports for 2018/2019 and 2019/2020 demonstrate that these systems cause many enterprises to lose money. The Controller and Auditor General's reports highlight instances of inadequate or insufficient internal control systems in a number of companies. This puts into doubt the effectiveness of the different internal control measures employed by several businesses. A strong control system must enable managers to make decisions, establish performance objectives, and compare results against expectations. As a result, this study investigated the impact of internal control systems on performance in Tanzanian local governments, with an emphasis on internal auditing, communication, and reporting. Recognizing the significance of internal auditing, the Government of the United Republic of Tanzania established an internal audit function as a separate body inside the public sector, formerly part of the finance and accounting department. The purpose was to provide the internal audit function greater autonomy so that it could provide independent, objective assurance and advice services to improve the operations of public organizations (Minaryanti, and Mihajat, 2024).

Despite the government's efforts to strengthen the internal audit function through various laws and regulations, such as the creation of the Internal Auditor General Department, the government's operations remain insufficient, particularly in terms of financial management controls. Recent discoveries by the Controller and Auditor General point to money misappropriation, notably in large-scale development projects. According to research, local government authorities are a

significant source of financial mismanagement. Internal audit units, according to the Public Finance Regulations and CAP 348, are to review and report on the appropriateness of management's response to internal audit reports, as well as to assist management in implementing recommendations based on those findings and, where required, recommendations from the Controller and Auditor-General.

2. Literature Review

Agency theory is an economics-based control system design that has been widely utilised to portray the many internal control system options accessible to businesses. Its major focus is the connection between investors (principals) and managers (represented as agents). Because of the anticipated aim incongruity and divergence of interest between the principal and the agent, this relationship is formal and contractual in big modern corporations (Chindengwike, 2024)

According to control theory and experience, persons who abuse control systems are more inclined to act alone rather than collaboratively. Minaryanti, and Mihajat (2024), internal locus of control (ILOC) differs from external locus of control in that it refers to how people regard their own behaviours as influencing life outcomes. Persons with an internal locus of control believe that occurrences are the result of their own actions Chindengwike (2024), whereas those with an external locus of control blame external environmental elements such as strong persons or chance (Minaryanti, and Mihajat, 2024). When consider the concept of ILOC in the context of a company or entrepreneur running a business in a competitive environment, we can imagine that an organisation or entrepreneur with a strong ILOC believes that they have the ability to make things happen and that their company's success or failure is the result of their decisions. In contrast, an organisation with an external locus of control may believe that the external environment is the primary reason for its success or failure.

Chindengwike (2024), examined the effectiveness of internal control levels in Nairobi's small businesses. The study took a quantitative approach and included 30 small businesses from the NSSF directory between September 2007 and June 2009. The interview technique was utilised to collect primary data from small company managers via document examination and interviews. Internal control systems were found to have a variety of weaknesses, varying in severity. The

majority of the companies studied lacked the following internal control components: risk analysis and insufficient information flow. The study also found that the sample population was unaware of the components of an effective internal control system. The study also discovered a negative association between organisational size and the effectiveness of internal control systems, as well as a negative relationship between enterprise-owned resources and internal control system deficiencies. The research concluded with a proposal to educate small business operations on how to implement effective and efficient internal control systems. Minaryanti, and Mihajat (2024), studied the role of internal control in establishing good corporate governance in Iraqi commercial banks. The particular objectives were to examine the influence of work experience, positioning, amount of independence, and risk assessment, measurement, and prioritisation approaches employing management assistance tailored to the internal audit function of commercial banks in Iraq. The study shows that the internal audit function in commercial organisations is an important part of corporate governance reporting because it directly affects the interests of all stakeholders, such as customers, suppliers, employees, customers, creditors, and government agencies. It also highlights the need for a change in the outlook of the organisation's team towards the internal audit function, bearing in mind the need for a strong internal audit function in the expansion of commercial banks, which are crucial to Iraq's economic development.

According to Minaryanti, and Mihajat (2024), investigation of the efficacy of internal control in Kenya's public sector, risk is considered critical to corporate governance and is associated with the notion of internal audit. However, the importance has shifted. Internal control was in the spotlight due to the documentation of business problems and the tendency towards professionalisation of the internal audit function. Chindengwike (2024) looked into the internal control system and financial accountability in Nigeria's south-west public sector. The study focused on the importance of evaluating the effectiveness of internal control systems in government ministries (units). The study examined the performance of the internal control system in Nigeria's south-western region. Despite internal issues such as poor communication, it was discovered that the organisation rapidly creates an annual budget and has enough spending tracking in place to mitigate financial risk.

Minaryanti, and Mihajat (2024), performed research in Uganda to investigate how internal control and firm performance were associated at Midpoint Industries Limited. According to the findings,

the business implemented inadequate and unsatisfactory interior control, resulting in insufficient performance. Furthermore, there was a favourable relationship between communication and company performance. Minaryanti, and Mihajat (2024), did research in the Saudi County government in the Kenya sector to assess the effectiveness of computerised accounting information security controls. According to the findings, most Saudi banks had adequate security measures in place, allowing bank managers to maintain the security of their computerised accounting information systems and push for such if their institutions were to succeed.

Minaryanti, and Mihajat (2024), utilised an analytical technique in his study of monitoring and control operations to investigate the effects of fines and other types of internal controls on the likelihood of employees engaging in fraudulent activities. Data gathering was conducted using both management and non-managerial staff. The study's findings revealed that separation of roles and the existence of control actions raise the cost of fraud committed. This means that the advantages of committing fraud must outweigh the environmental cost of performing various activities that lead to an employee committing fraud. It was also discovered that division of responsibilities serves as a cost-cutting deterrent. According to Chindengwike (2024), internal controls play a vital role in guaranteeing successful revenue collection processes. The research procedure used both qualitative and quantitative approaches. In order to obtain primary data for the study, questionnaires were distributed to 38 respondents. The findings of data analysis revealed that the five components of risk assessment control activities, control environment, communication and information, and monitoring are crucial for the successful operation of internal controls. It was also discovered that insufficient internal controls enable fraud, collusion, and misappropriation of the income gathered, as well as loss of revenue fraud for employees who are not participating in the management process but rather managerial staff. This means that the least-cost fraud disincentives raise the penalty levels. These findings suggest the necessity for developing effective preventative control measures (control activities) that rely on appropriate controls (monitoring).

3. Research Methodology

The study used a descriptive research approach. This technique was acceptable since it investigated and explained the relationship between variables in their natural environment without changing them. Data on the research issue were gathered from 130 employees of Singida Municipal Council,

Singida District Council, and Ikungi District Council. The researcher selected the sample using simple random and purposive sampling techniques. SPSS was used to conduct descriptive and inferential analyses on the data. Mean, standard deviation, and frequency were utilised to interpret the data.

3.1 Model Specification;

This study will use multiple regression analysis to experimentally determine whether there is a significant positive or negative relationship between the dependent variables (performance) and the independent variable (internal audit, communication, and reporting). The models are specified as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon \dots \dots \dots (1)$$

Where: Y = Performance; X1 = Control Environmental; X2 = Communication; X3 = Monitoring; X4 = Risk assessment; X5 = Control Activities. β_0 is the model's coefficient, $\beta_1 - \beta_4$ is the beta coefficient of determination, and ϵ represents the stochastic error term.

4. Results and Discussions

4.1 Social- Demographic Information of the Respondents

The respondents' demographic and social variables include age, gender, education level, and job experience. The properties are shown in the corresponding tables.

This section describes the demographic characteristics of the respondents. In this chapter, respondents were questioned about their age, education, and gender.

The data showed that 57% of respondents were men and 43% were women. This signifies that the researcher observed gender balance throughout the investigation. This shows that the study was not biased because it included both genders; hence, the results of this study are gender representative. To eliminate age-related bias, the study included respondents of all ages. Figure 4.1 clarifies. The data reveal that 80% of respondents were between the ages of 21 and 45, 18.7% were between the ages of 46 and 55, and 1.3% were older than 56. This suggests that respondents between the ages of 21 and 45 dominated the research. The survey also enquired about respondents' educational backgrounds, as seen in Figure 4.2 below. According to the data, 9.3% of respondents

held a diploma, 77.3% a bachelor's, and 13.3% a master's degree. This signifies that the majority of respondents hold a bachelor's degree. Table 4.2 shows that 2% of respondents had been at the bank for less than one year, 40% had been there for one to five years, and 58% had been there for more than five years. As a result, this study finds that the majority of respondents had sufficient expertise and so were knowledgeable of the study topic, which helped to acquire the true scenario of the study goals This result supported by Chindengwike (2024), performed research in Tanzania to investigate how internal control and firm performance.

Table 4.1: Social- Demographic Information of the Respondents

Gender	Frequency	%
Male	74	57
Female	56	43
Total	130	100
Experience	Frequency	%
Less than 1 year	3	2.0%
1 to 5 years	52	40.0%
Over 5 years	75	58.0%
Total	130	100.0%
Age		
21-45 Years	104	80.00%
46-55 Years	24	18.46%
Above 56	2	1.54%
Total	130	100
Education		
Diploma	110	84.61
Bachelor	15	11.53
Masters	5	3.84
Total	130	100

4.4 Relationship between Internal Control Components and Performance in Local Government Authorities

The study intended to discover the connection between internal control components and performance in local government bodies. Correlation and regression analyses were used to determine the link between internal control components and performance in local government bodies.

4.4.1 Correlation Analysis

This section looks at the connection between internal control components and performance in local government entities. The study used correlation analysis to determine correlation coefficients between the independent factors (control environment, risk assessment, control actions, information and communication, and monitoring) and the dependent variable.

Table 4. 1 Correlations Results

Variables	Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
Control environment	0.6432				
Risk assessment	0.7708	1.0000			
Control activities	0.6559	0.6199	1.0000		
Information & Communication	0.7618	0.6021	0.3139	1.0000	
Monitoring	0.6376	0.5342	0.0318	0.2347	1.00

The correlation table showed a favorable association between the control environment and the other factors. This means that the variables relate favorably. Furthermore, the association demonstrated a favorable link between risk assessment and other factors. This means that the variables correlate favorably. The correlation indicated positive relationships between control activities and other variables. This implies that the variables correlate with each other positively. Furthermore, the study discovered a favorable association between information and communication and other characteristics (Bawole and Ibrahim, 2016). This suggests that the variables correspond well. The correlation revealed a favorable association between monitoring and the other variables. This suggests that the variables correspond well.

4.4.3 Regression

This section includes a regression study that demonstrates the association between internal control components and performance in local government units. The subjects covered in regression analysis included analyzing the model's fit, statistical significance, expected model coefficients, and the statistical relevance of independent variables. The model's primary goal is to estimate parameters to help control the link between internal control components and local government performance (Bawole and Ibrahim, 2016).

The regression findings in Table 4.2 show that the R^2 in the study is 0.6144. Which shows that differences in explanatory variables (control activities, risk assessment, and monitoring control environment, information & communication) can clarify jointly 61.44% of the variance in the response variable (performance in local government authorities). Then the paper originates that the adjusted R square of the model was 0.5278, which implies that the linear regression explains 52.78% of the variance in the data. This result supported by Minaryanti, and Mihajat (2024), performed research in Uganda to investigate how internal control and firm performance were associated at Midpoint Industries Limited.

Table 4. 2 Regression Results

Performance in local government authorities	Coef.	Std. Err.	t	P>t
Control environment	0.018	0.029	0.957	0.443
Risk assessment	.0523602	0.68000	0.828	0.012
Control activities	0.628	0.215	1.562	0.032
Information & communication	0.280	0.478	1.627	0.031
Monitoring	0.077	0.036	0.214	0.631
_cons	0.003	0.163	2.373	0.031
Prob > F = 0.0011				
R-squared = 0.6144				
Adj R-squared = 0.5278				

Furthermore, the table regression results show that the independent components are effective predictors of the dependent variable (Bawole and Ibrahim, 2016). The regression results reveal a p-value of 0.0011, which is less than 0.05, implying that the regression model correctly predicts the outcome variable. As a consequence, the null hypothesis was rejected, implying that control activities, information and communication, risk assessment, and the monitoring and control environment all have a statistically significant effect on local government authority performance. Furthermore, the results show that risk assessment, control actions, and information and communication all have a statistically significant impact on local government performance at the 5% level, although control environment and monitoring do not. The levels of internal control systems and performance in local government organizations were assessed using the following fixed regression analysis model:

Local government performance is computed as:

$$0.003116 + 0.018361CE + 0.0523602RA + 0.6282474CA + -0.280292IT + 0.0773342MON + e$$

The data demonstrated a statistically negligible relationship between control settings and performance in local government entities. The computed coefficient of the control environment is -0.018361, with a p-value of 0.443. At a 5% level of significance, we discover that the control environment had a minor effect on the performance of local governments. Furthermore, the study discovered a statistically significant relationship between risk assessment and performance in local government organizations. The estimated coefficient of risk assessment is 0.0523602, with a p-value of 0.012, indicating that the computed coefficient differs substantially from zero. At the 5% level of significance, we find that risk assessment greatly improved the overall performance of local government agencies. Furthermore, the study discovered a statistically significant correlation between control actions and performance in local government organizations. This result supported by Chindengwike (2024), performed research in Tanzania to investigate how internal control and firm performance.

The calculated coefficient of control activities is 0.6282474, with a p-value of 0.032, indicating a relationship between control activities and performance in local government agencies. So, at the 5% level of significance, we conclude that control activities had a considerable impact on the performance of local government organizations. Furthermore, the study found a statistically significant link between information and communication and performance in local government organizations. The computed coefficient for information and communication is -0.280292 at a significance level of 0.031. At the 5% level of relevance, we find that information and communication have a significant influence on municipal government performance. Finally, the study found a statistically insignificant connection between monitoring and performance in local government units. The estimated monitoring coefficient is 0.0773342, with a P-Value of 0.631. At a 5% level of significance, we find that monitoring has a minor impact on overall performance in local government institutions. This result opposed by Bawole and Ibrahim, (2016) performed research in Tanzania to investigate how internal control and firm performance.

5. Conclusions and Recommendations

The study identifies internal control components as risk assessment, monitoring, control actions, information and communication, and control environment. According to the study, management should commit to assisting all employees in developing internal control systems through interaction and training so that they can be guided on issues related to the proper implementation of accounting policies and procedures, thereby improving their professional skills and expertise. There is a need to take legal action against individuals who abuse local government funds, and recovery must be accomplished. This research looked at how internal control mechanisms affect the functioning of Tanzanian local government entities. The study recommends that future study be conducted in the following areas: Information and communication technologies provide problems and have an influence on organizational internal control systems.

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