**ASSESSING THE EFFECT OF INTERNAL CONTROL EFFICIENCY ON PERFORMANCE OF MICROFINANCE INSTITUTIONS**

**The case of PRIDE and EFC in Dar es Salaam**

**By**

**EVANCE TIMOTHY MEMBER**

**A Research Proposal Submitted in Partial/Fulfillment of the Requirements for Award of the Degree of Master of Science in Business Administration in Corporate Management (MBA-CM) of Mzumbe University**

**2017**

# CERTIFICATION

We, signatories, certify that we require read and hereby commend for acceptance by Mzumbe University, thesis entitled “**The impact of internal control efficiency on performance of microfinance institutions”. The** evidence fromMicrofinance Institutions in Dar es Salaam**,** in partial/fulfillment of the requirements for award of the degree **Business - Corporate Management of Mzumbe University**.

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Internal Examiner

Accepted for the Board of

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# ABSTRACT

The reading wanted to regulate the effect of internal control efficiency on presentation of microfinance organizations. The population chosen for this study was 50 microfinance institutions from Dar es Salaam. The study selected sample of fifty microfinance institutions from a target population of fifty microfinance institutions. The sample was drawn using stratified random sampling technique. The study trusted on all primary data also secondary data, stayed composed spending structured questionnaires this is primary although the secondary was collected from commercial statements grounded on obtainability and suitability of data.

The findings revealed that microfinance institutions took a controller atmosphere as single of functionality of inside controls that importantly influences the economic presentation of organizations. It was also recognized that the management had placed in place tools for extenuation of serious risks that may outcome after fraud. Also study examined the outcome of control activities on the economic presentation of microfinance institutions.

It was decided that microfinance institutions that took capitalized on actual interior control systems consumed extra enhanced financial presentation as linked to those microfinance institutions that taken a weak internal control system. Most large scales microfinance institutions that fully capitalized in tough internal control systems. The reading additional recommends that the governing body, probably maintained by the audit committee, must certify that the internal control system remains occasionally monitored and assessed. Therefore these findings may not be used for generalizations on all microfinance institutions. It is therefore important for a study to be conducted using wider scope and coverage then, the findings can be compared and conclusions drawn.

# DEDICATION

Dedicated my classmates for their support for all study time and finally to my parents.

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# ABBREVIATIONS AND ACRONYMS

MFI - Micro Finance Institution

NGO - Non Government Organization

ACCA - Association of Chartered Certified Accountants

APB - Auditing Practices Board

CE - Control Environment

COSO - Committee of Sponsoring Organizations

IC - Internal Controls

ICS - Internal Control Systems

INTOSAI - International Organization of Supreme Audit Institutions

SOX Sarbanes - Oxley VFM Value for Money

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# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the study

The fall of Enron, WorldCom and large portions of different organizations as of late has increased the interest for sound accountability practices on general and convenient premise. Internal control systems have turned out to be exceptionally famous and imperative as of late in the wake of these false sound accountability practices in various nations around the world. Also, the quickly altering commercial condition remains placing huge weight on shared pioneers toward establish sound also powerful internal controls seems to light purposes. It’s noticed that execution of sound and compelling internal control systems determination guarantee that aims are met. These variations and does are dominating in incomes making organizations like Microfinances. Given the key roles that Microfinance Institutions (MFIs) in empowering the grassroots businesses especially those in the informal sector, it is vital that they (MFIs) are protected against the rigors of fraud and other inefficiencies that might cause MFIs to go bankrupt. Fairly inappropriately, judging by the new flood of commercial malfeasance stated amongst MFIs, it seems this is not elastic the wanted results.

Bongani (2013) said that internal control events assistance to residence dependence on money related revealing enhances operational proficiency and viability whiles in the meantime guaranteeing consistence with controls and laws. Mawanda (2008) affirmed that internal control systems don't really give outright confirmation especially when they are described by inborn constraints which influence the probability of accomplishing destinations. This view does not block the MFIs. Abdulkadir (2014) watched that MFIs are confronted with rivalry in acquiring stores from benefactors. To guarantee trust which is point of reference to assets being discharged by most givers, MFIs must show that they have the fundamental con and skills control systems sticking to the social and formative projects. In perspective of this, numerous MFIs outline and actualize powerful inward controls to help accomplish operational productivity, objectives, defend assets and furthermore agree to the significant rules.

Entirely concurs through accommodation then extended the beginning that a sound and powerful internal controller ended the regulatory, operational, budgetary, acquirement, frameworks and strategies contribute fundamentally to the success of the organization. However, he conceded that shortcomings and internal failures leads to misrepresentation, blunders, and characteristic misquotes of money related reports and said couple of cases that incorporate the instances of Enron, WorldCom and Global Crossing. Regardless of this contention, Bongani (2013), certified that establishing and executing great control frameworks some way or another guarantees that benefits and assets are protected, business are done in a methodical and productive way. Any association without compelling controls will probably experience more abnormalities and mistakes, more inclined to deceitful exercises and bound to miss its targets (Ndungu, 2013). Apparently, most associations can't meet goals effectively because of shortcoming and innate constraints of internal control systems as of now said. Greatest period’s events not occupied seriously and consequently the validity of the controls is in uncertainty.

Ali (2013), Presentation, rendering single exertion otherwise collection of societies donate growth of several movement important to whichever confident or undesirable results. In concern, governments stand probable to usage incomes sensibly besides professionally for proposed resolve toward increase existing values of populaces intended toward advantage. Mawanda (2008) argues presentation as the skill to work professionally, continue and increasing with possible of answering the intimidations and chances in his atmosphere. Explanation obviously establishes the detail that effectiveness intended for substance presentation has not remained given the consideration it merits in more than a few MFIs. Greatest often, assets are unfocused to serve other attention outdoor the scope and effort plans of contributors. It is in this favor that Ali (2013) noted that sound leadership and finest organization practices need that key ideas and values such as transparency, sustainability and accountability are essential when decent and strong interior control actions are in place to encourage administrative and operational effectiveness. Likewise agrees that, good submission of internal control measures and policies increases on the performance of an organization.

Since the preceding discussion, it might be determined responsibility remained of main apprehension for MFIs. Ayom (2013) experimental in malice of sustenance after donors, most MFIs are not accomplishment fine as predictable. Intended for illustration, Management Sciences for Health (MSH); might not explanation for $17,788 planned for susceptible people of South Sudan owing to evidence of fraudulent activities. A key comment was that greatest of presenter funds to MFIs for project execution required accountability. Ayom (2013) stated that a report showed by MSH between 2001-2013 showed credible suggestion of fraudulent activities mostly inflated workshop activities/expenses, fake receipts and inadequate support documentations. The report additional indicated that management misunderstanding responsibility, a key control measure was unsuccessfully carried out.

The Sarbanes – Oxley Act requires all establishments to intermittently assess and reveal the efficiency of the internal control systems put in residence. Furthermore, the law mandates auditors to demonstrate to the revelations to keep users of the report well and better knowledgeable. But, most MFIs do not observe fully with this Act. Shim (2011) approves to this fact but extra that although MFIs help in talking a wide variety of social needs worldwide, the fall in working efficiency has pretentious MFIs to achieve far less than its proposed strategic objectives. Moreover, he was of the view that the inability of MFIs to attain their intended objectives was mainly because of the presence of weak and unsuccessful internal control systems. Even though, implementing sound, useful and real interior control system deter and detect errors, fraud, and theft and guarantees the consistency of accounting records, Jenna (2012) competitions the fact that there are the essential limitations that affect its credibility.

Most MFIs functioning in Tanzania be contingent frequently on foreign funding. Most of the better MFIs working in Tanzania are either foreign or have foreign associations that serves mainly as the source of funding for the various activities. All funding conventional; whether local or foreign must be put to well-organized use to enable achievement of organizational objectives. Any disappointment could challenge the efforts at helping the relegated. If effective internal control could ensure achievement of objectives as unproven by Shim, (2011), then any effort at it will be a valuable undertaking. This study therefore pursues to inspect the functional effectiveness of the internal controls and how it impacts performance of NGO, particularly in achieving its desired objectives. Specifically, the study assesses the current state and functionality of internal controls in the organization of MFIs and how it impacts on the achievement of organizational objectives..

## 1.2 Statement of the Problem

The emergence of microfinance in Tanzania has helped to bolster the economic development especially by empowering small and medium scale enterprises (SMEs) are the backbone of the economy since they employ majority of Tanzanians. Owing to this great importance, any problems on the part of the microfinances is likely to create the economy on its knees. It is hence important that the microfinance institutions be managed efficiently and effectively (Masare, 2016).

However, despite this important and indisputable recognition, microfinance institutions in the country are plagued by rampant acts of fraud, corruption among staff, overpricing, mismanagement, and other multiple banking malpractices, something that has left the management and shareholders in an uncertain situation (Mirungi, 2016).

All these things are happening in the presence of internal control systems and other operational measures aimed to protect these microfinances against such acts that might derail them from achieving their main objectives for which these microfinances were established. This continues to lead to erosion not only of the customers but also the shareholders who invest huge sums of money in these microfinances only to be told that they are operating under losses, instead of harnessing profitability (Mrindoko, 2016). Moreover, with the continued increase in the spread of these microfinances throughout the country, it becomes vital to interrogate whether these microfinances institutions do adhere or comply to these internal control systems, or whether such documents are just cosmetic (Sisay, 2017). It is therefore the main aim of this study to try as much as possible and examine the extent to which these internal control systems are being effectively used.

## 1.3 Research objectives

## 1.3.1 General Objective

The main objective of this study is assessing the impact of internal control efficiency on performance of microfinance institutions in Tanzania, with reference to selected Microfinance Institutions in Dar es Salaam.

## 1.3.2 Specific objectives

1. To assess the extent to which internal control systems are applied in the Micro-Finance Institutions in Dar es Salaam
2. To find out whether the established control activities are adequate and effective
3. To establish if there is a connection among internal control efficiency and financial performance of Micro-Financial Institutions

## 1.4 Research questions

The reading is based on the following research questions.

1. What is the extent to which internal control systems are applied in the Micro-Finance Institutions in Dar es Salaam?
2. Are established control activities are adequate and effective in these microfinances?
3. Is there a relationship between internal control efficiency and financial performance of Micro-Financial Institutions?

## 1.5 Significance of the study

The study intends is to evaluate the impact of internal control efficiency on the performance of micro finance institutions in Tanzania, with reference to selected microfinance institutions in Dar es Salaam. The study will help to act as a guide to all those people elaborate in the day to day running dealings of these microfinance institutions, especially the managers so that they take due care with a view to ensuring the profitability of these microfinance institutions given the vital role played by these internal control systems. The study will aim at assessing the extent to which staff at these microfinances adheres to the important elements of internal control systems, and where there problem; provide corrective measures aimed at steering these microfinances to better performance in terms of liquidity.

Further, the study will be a yardstick for key stakeholders and professionals involved in the business of microfinances such as auditors, lawyers Accountants in measuring the level of legal and regulatory compliance by this microfinance, which will can eventually create a trustful and creative environment for investors to trust these microfinances.

The study will also help the world of academia, especially in research to further understands issues pertaining to internal control systems and how they are applied and utilized in Tanzania. Finally, at the end of the study, key recommendations will be given to the stakeholders in these microfinances with a view to improving the operational environment.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter diagrams out the key educations that have remained lead in orientation to the effect of microfinances on the presentation of microfinance institutes in Tanzania, with location to nominated microfinance institutions in Dar es Salaam.

## 2.2 Theoretical Literature Review

The Board of Supporting Organisations (COSO), (2013) defines interior controller as a procedure, effected by an object's board of directors, managing and other workers, intended to deliver sensible pledge concerning the success of objects in the following classes: 1. Efficiency and efficiency of processes. 2. Reliability of monetary reportage. 3. Compliance with appropriate rules and principles. Mawanda (2008), defined interior controller as measures and procedures instituted by organization of governments generally to deliver truthful pledge on how the government’s objects are attained with specific respects to working competences, effectiveness and the level of obedience with appropriate laws, rules and protocols.

They are events that offer trustworthy monetary reportage (Gray, 2008). Ndungu (2013) additional that sympathetic the idea of interior panels is very dominant for emerging a structure for its influence in the association. Inner panels are recognized to accomplish aims that are interweaved to the overall purposes of the organization; public or private. Internal Regulator offers a standard against which commercial and other entities--large or small, in the public or private sector, for income or not--can measure their control schemes and control how to recover them. Mawanda (2008) reflects the essentials of efficiency, competence of processes and obedience with rules and regulations as crucial purposes of internal regulator system. In other arguments, interior controller includes all the whole methods and procedures founded by management to confirm that its possessions are endangered, resources are effectively consumed and that activities are directed in accord with the organization’s placed down rules and ways Mawanda (2008). Interior controls welfares managements only if they are purposeful and operative as intended. Bongani (2013) therefore asserted powerfully that actual complete and useful control systems assist as first line of protection in safeguarding assets, avoids and somewhat contribution in noticing fake activities. To guarantee that interior controls are effective and useful, they must be intended with the organizations physiognomies in mind. Administration or those emotional with the accountability to scheme internal control systems must prudently plan it to reply to the organization’s interior and exterior vicissitudes when the classification is put to operative and effective operations. At finest, it must form part of the complete enterprise risk management structure of the association.

Tongo (2012) decides to the declaration that sound interior controller eases the success of objects. However, to brand more meaning he branded the panels into two main methods. First kind is the accounting panels which are controls of protection possessions which finally warrants correctness in financial records. The second type accordingly, is the operative or administrative controls and they are primarily intended to deliver and recover operating competence and obedience to rules, laws and procedures. On the conflicting, it is renowned that the presence of the controls unaccompanied cannot safeguard the success of wanted consequences unless it is joint with implementation and episodic assessment to judge the efficiency. Ming and Wang (2009) wholly decide with this declaration but further recognized that the effectiveness of interior control systems in organizations sanctions dependability of accounting records. In totaling to the above stated urgings, a real internal control system has the possible of stopping fake doings, decrease mistakes and thus guarantee authenticity of financial intelligences providing sensible pledge to stakeholders. However, the attendance of characteristic limits in the interior control systems affects the trustworthiness. It is against this background that (Ming and Wang, 2009) suggest that management of MFIs should attempt to put in well systems to attaining goalmouths while, Bongani (2013) emphasized that MFIs could only offer good responsibility to contributors and stakeholders when they start real internal control system.

## 2.2.1 Components of Internal Control

Interior control contains of five unified components (COSO, 2013). These are derivative from the way management runs an organization. The five elements of internal control that need to be implemented and combined into the business procedures to safeguard that the general business purposes are met must be combined in the management process. The five elements are Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring.

## 2.2.1.1 Control Environment

The controller situation is the foundation of all the other apparatuses of inner control and sets the tone of an organization, swaying the controller awareness of its societies. Control environment influences comprise the integrity, moral values and competence of the entity's people; management's philosophy and operating style; the way organization assigns authority and accountability, and systematizes and grows its people; and the care and way provided by the board of directors (COSO, 2013). Mawanda (2008) declared that the switch environment is measured as the best important element everywhere which all the others operate. His advices stemmed from the detail that control environment troubles on factors such as integrity, ethical standards, commitment and capability which form the base of the control awareness of organization and all workers performing their responsibilities assigned them. Moreover, he refers that the control environment portrays management’s working style and philosophy. Many writers approve these declarations and also add that the control environment assistances to control the danger level and the type of organizational structure in place with obviously defined roles. It therefore offers the outline inside which the extra apparatuses are constructed. On the conflicting, though, these arguments are faulty by influences such as insufficient supervisory roles and supersede of controls which all lead to weakened panels.

## 2.2.1.2 Risk Assessment

All organizations expression variety of dangers from outside and inside sources that must be measured. A precondition to risk valuation is the founding of purposes, linked at diverse levels and within consistent (COSO, 2013). Risk assessment constituent agreements with the grave valuation of aims that affect the choice of not accomplishing required importance (Ndungu, 2013). It is the identification and examination of related risks to accomplishment of the objectives, creation a foundation for conclusive how the risks must be accomplished (COSO, 2013). Because financial, industry, regulatory and operating conditions will continue to alteration, mechanisms are required to recognize and deal with the superior risks associated with the change. It is therefore vital for management to control and assess the risk level it can accommodate and for those matter assurances it attain its objectives. In line with this, organizations designs and operate passable internal control to warrant well-organized and effective use of resources and comply with rules and regulations.

## 2.2.1.3 Control Activities

The COSO structure (2013) describes control activities as the rules and procedures that assistance ensures organization directives are approved out. Manwada, 2008) defines control activities as mainly policies, ways and general rules an organization put in place to authorize that all orders set up by management are dully followed. They help ensure that necessary actions are taken to address risks to accomplishment of the entity's objectives. Control activities occur throughout the organization, at all levels and in all purposes. They contain a range of activities as varied as endorsements, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and separation of duties. In theory, it is argued that one single person should initiate and complete transaction all by himself or herself.

## 2.2.1.4 Information and Communication

This aspect of the inner control basics needs that all pertinent information must be recognized, taken and connected in a form and timeframe that allow people to transmit out their responsibilities. Information systems crop reports, comprising operational, financial and compliance-related information, that make it conceivable to run and control the commercial (COSO, 2013). They deal not only with inside produced data, but also information about external events, activities and circumstances necessary to educated business decision-making and external reporting. Actual communication also requires occur in a wider sense, graceful down, across and up the organization. Ndungu (2013) argued that recording pertinent information is not enough but must be sponsored by effective communication inside the entire organization. In extra words, there should be comprehensive communication channels and medium that ensures that information streams effortlessly from top, down and across all units in the entity (Badara and Saidin, 2013). They also essential to be effective communication with outside parties, such as clienteles, dealers, controllers and shareholders. Rendering to Theofanis, Drogalas, and Giovanis, (2011), information and communication is one of the most prejudiced mechanisms of internal control because of its importance and capability to reinforce good working relationships at all levels in the association.

## 2.2.1.5 Monitoring Activities

Monitoring is the procedure that evaluates the excellence of the organizations system's performance over period. Monitoring controls are switches designed with the major aim of safeguarding that internal control systems placed in place carry on to work as planned. This is attained through constantly observing activities, distinct assessments or a grouping of the two (COSO Framework, 2013). Constantly observing must happen in the progress of actions. It necessity comprise systematic management and guiding actions, and added actions employees take in accomplishment their duties. The room and regularity of distinct assessments mainly be contingent on a valuation of risks and the use of current monitoring measures. Any shortage in the internal control should be reported to the suitable level advanced in the sequence of understanding for counteractive actions, with thoughtful matters described to top organization and the panel. Internal control is most actual when controls are made into the body's substructure and are a part of the principle of the enterprise. Useless and late counteractive reacts since management decreases the credibility of the checking exercise.

## 2.2.2 Relevant theories on Internal Controls

## 2.2.2.1 The Agency Theory

Agency theory describes that a firm or corporation, such as MFIs, is made of numerous individuals, each conferred with various duties and interests (Jensen and Meckling, 1976). On one hand, there are the shareholders of these firms (since it is a public limited company) and on the other the management of these businesses. The role of the Board of Directors is basically to act on behalf of the shareholders, overseeing them management of the affairs of the company through the Managing Director who is answerable to the board (Tanzania Companies Act, 2002). In this case, the Board of directors are responsible to the shareholders just in the similar way, the managing director is answerable to the Board of directors.

The relationship among the two is that one is placed as the principal (in this case the shareholders and Board of Directors) and the other go-betweens (management) (Jensen and Meckling, 1976). Further, the philosophy proposes that since the management is always expected the power to utilize the resources at its removal with a view to creating a income for the company. The management thus must institute thoughtful measures, which include internal control measures, to safeguard that the company does not knowledge fraud that strength have thoughtful consequences not only on the image of the company but also the being of the company (Shivdasani, 1995). The winding of the company such as what happened in the case of Enron in 2001 where the company malformed due to dishonest propensities of its proxies are several of the related samples (managers) (Robert, 2002).

Although there are continuously authorized safety measure in the procedure of predetermined associations among the proxy and the main for the sake of the investors’ welfares, more carefulness wants to be occupied by those specialists such as auditors, certified public accountant, delegated by the running to buttress the internal control procedures. Disappointment to do that would still be damaging to the welfares of the main (Jussi and Petri, 2004).

The agency theory more strengthens the necessity for each of the festivities to be responsible and performance their measure. To accomplish this finale, it is significant that present is job description between the parties. The specialists in this occasion engaged with a vision to guaranteeing appropriate internal control procedures are in place wanted to recognize their career reports and do those occupations correctly so that to make the most of earnings (Jensen and Meckling, 1976). Agency theory is widely engaged in the accounting literature to clarify and calculate the employment and presentation of auditing, one of the main features of internal controls. Agency theory also delivers a suitable theoretic outline for the study of just how the internal auditing purposes. In the situation of this study, agency theory not merely helps to clarify and prophesy the existence of internal audit then it also benefits to describe the role and accountabilities allocated to interior auditors by the association, as it prophesies exactly how the internal audit purpose is possible to be pretentious by structural change, foremost to use of internal controls in companies (Adams, 1994, pp.8-12).

2.2.2.2 Attribution Theory

Attribution theory suggestions its beginning from the scope of community consciousness theory and picture on how people understand different events then use such data in the presentation of their actions. Based on the Schroth and Shah (2000), attribution theory turn out to be related when people use data to clarify community marvel. According to Reffett (2007) while assessors have faith in like people would have operated in reverse in a given condition, they (inspectors) are motivated to characteristic accountability for a consequence to the individual. Place in additional perspective, while inspectors trust like people would have implemented equally, the inspectors are motivated to characteristic responsibility for the outcome to the condition. For authors such as Wilks and Zimbelman (2004), the first situation refers to inner or dispositional attributions however another one denotes to outside or conditional attributions.

Earlier studies shows that people know how to differentiating others’ performance to dispositional tendencies as well as to feature their individual behavior towards situational atmospheres (Wilks and Zimbelman, 2004; Schroth and Shah, 2000). Now the establishing of the education at pointer, this remains researches effectiveness of internal boards in the finding and prevention of trickery, in the time that deception occurs, these held responsibility are similar on the way to make and awake reasons to explain the way such a situation so that to ‘protect their necklines’.

In some of examples outside assessors will be encouraged to deduce the letdowns plus the obligation to identify as well as avoid fraud in MFIs on the auditors. In this situation, the auditors or accountants will be supposed to maintain account from failing implementing their skills or knowledge and because of attentiveness in saving the body such as MFIs are way of unfaithful trends(Bonner, Palmrose and Young, 1998).The auditors responsibility on the road to off fraud that happening in an organization is further assigned extra credibility by Reffetts (2007) in a study which present that when an inner auditors and accountants in the organization like MFIs, who are always responsible for managing inner control systems, acting by means of triviality, the problem of fraud possibly will be history.

This attribution theory then demands for the enlarged as well as more participation of accountants and internal auditors in safeguarding that internal controls stays in order. The principle directs that employee to be responsibly completely and give an information about the occurrences of deviation on the earliest chances to their supervisors so that for them to undergo required actions quick as far as possible. Failure on that will lead them to be answerable (Bonner et al., 1998). The attribution theory proposes that once fraud happens, recognized parties must be held responsible and auditors, are the “public guards” are most expected to takes responsibility if inspectors identifies the poor audit services will be delivered (Reffett, 2007).

## 2.2.2.3 Reliability Theory

Based on the reliability theory, the basic thrust of inner control measures of organizations is to regulator the prospect of unwanted actions resembling fraud away from destroy the firm, including such as MFIs (Stratton, 1994). In the matching perspective, it is essential that the inner control actions put in position to pass the reliability checks, as the measure put in area needed to be fraud-proof (Gavrilov and Gavrilova, 2001). Together with extra systems, it is essential to pick exact trustworthy employees to manage the internal control systems. It is so important that before the system is placed in position, significant standards are position in place to estimate the failure and success proportions of the inner control systems.

The assessment of the strong point then the fault of such systems doesn’t require to be postpone till the period external examiners; the internal staff, together with the internal assessors and accountants want to intermittently conducts assessment of the systems, and where likely find potential weak areas which can be worked earlier before a financial terrible similar to fraud has been fallen the company. If not it can became too late by the time external auditors incoming to evaluate the situation (Kinney, 2000).

The increased influence plus portability of computers as well as the necessity of the accounting profession aimed at interdisciplinary approaches towards the assessment and design of such systems have produced the essential to review the potential of the reliability approach. Furthermore, given the distinctive expertise required to understand the reliability approach exists mainly in the management science discipline, there appears to be important role one and only that being too long unnoticed. Openly, a cross-functional methodology used both the accounting and management science disciplines gives the most better benefit to the firm, particularly as soon as it reach the time of deploying reliability theory to perform efficiently checks on the internal controls (Stratton, 1994).

There is connection among Reliability and efficiency of inner controls. As already underlined that efficiency Internal controls will assist organization to attain its enactment and success objectives, and avoid wastage of resources. It can support to guarantee trustworthy financial reporting. And it can backing to guarantee that the enterprise act in accordance with laws and rules, escaping the damage to its status and other significances. In addition, it can help the body to reach to somewhere it desires to reach, as well as evade drawbacks and shocks along the way. What is crucial is to strike an equilibrium between needless control which is possible to be expensive and counterproductive in addition to also slight control which might subject the organization like MFIs preventable risk. Altogether, the choice to have effective control actions in place mostly reposes on the kind of management that conduct the organization (Lannoye, 2009). When all, placing in place efficiency internal control is basic strategy to successful economic efficiency also enhancing stakeholder self-assurance in the corporate sphere, where the investors (shareholders) have power.

## 2.3 Empirical Literature Review

Gupta (2015), carried out a study to study the source and perception of organizations deceptions in India also their outcome in the commerce and economic systems. An investigative study was conducted over a united mode of literature review; case studies; designed questionnaires on or after 350 example companies, and 43 interviews with the company specialists, management, shareholders, government agencies and experts having extensive experience. Based on the study organizations are made alert that weak monetary control can bring about fraud. As well the additional uncovering in the financial statements aid in stopping financial deceptions, finally Loss of money is the main significance of deception on organizations with additional impact on market valuation in addition to loss of net worth.

Bierstaker and Pacini (2006) observed the level to which accountants, internal auditors, and qualified fraud assessors practice fraud avoidance and uncovering techniques, and their insights depending on the efficiency of these approaches. A study was administered to 86 accountants, internal auditors and qualified fraud assessors. The outcomes show that firewalls, virus and password safety, internal control evaluation and improvement are reasonably regularly used to fight fraud. Out from this study organizations are recommended to put in practice the cost/benefit interchange in investing in greatly effective then potentially underutilized approaches to stop or identify fraud. Although the prices may appear unaffordable for small organizations, significant cost reserving from condensed fraud damages may also be significant.

Moreover, Länsiluoto, Jokipii and Eklund (2016), describe about inner control usefulness by means of a gathering approach. This review targets to observe and conceive the implemented internal control structure and usefulness in firms and present a typology of corporations. Control structure and effectiveness are measured through the assessment of management, slightly than by means of informed material weaknesses. The investigation data (from 741 CEOs) are gathered with the self-organizing map, a visual simulated neural system methodology. A three-dimensional usefulness commission was used. The exploration tells four alternative kinds of internal control effectiveness in organizations and visually offerings in what way the modules of the internal control structure are related with each one. A typology of internal control structure and effectiveness is now created. The study delivered empirical indication that internal control components have a unlike connection to the three modules of internal control effectiveness. The association between the components and use gets even more complicated when the groups are explored in detail.

In observing insights of fraud detection practices Howard (2005) lead a study on use of fraud discovery audit measures in a stock and warehousing sequence. The study used a self-administered survey, amended and adjusted from Owusu-Ansah et al. The model is consist of 64 auditors. The study observes the observed use of audit techniques, the impact of size of the audit firm, then the level of audit involvement in the selection of exact audit measures. The study showed an adequate to high observed use of usual audit measures in the discovery of fraud in the stock and warehousing sequence in Barbados in addition to that the mainstream of the “further use” audit measures can be categorized as arena exploration practices that are further direct in attaining confirmation. It is found that assessors from bigger firms reported higher means for audit measures. There are varied discoveries with reverence to the substantial association among level of assessing capability of auditors and observed use of fraud discovery practices. The study also specifies that males constantly regarded the level of use of audit measures higher than females

Abbott (2000), in observing the applicability of control atmosphere, passed out a study on whether audit commission doings and independence is contrariwise linked to duplicitous financial reports. To attain this end, Abbot used 156 companies subject to SEC Accounting and Auditing Enforcements Releases (AAERs) among 1980 and 1986. However, in the study, Abbott (2000) swapped the adjustable audit committee appearance used in formerly studies through audit committee doings and independence, ever since the earlier studies described varied outcomes around the connotation of audit committee and probability of fraud. The study presented that organizations with self-governing directors and with the slightest activity level are fewer probable to be connected with dishonest activities.

The significance of control surroundings is more underlined via studies approved out in Belgium, while learning internal auditing practices. Investigators Sarens and Beelde(2006) exposed that convinced control atmosphere features similar tone at the top, level of risk and govern awareness, the level to which accountabilities connected to risk controlling and internal controls are plainly demarcated and joined are deliberately joined to the role of the internal audit purpose and fraud discovery within an institute.

In his empirical study, Barra (2010) observed the effect of fines and further internal controls on employees’ inclination to obligate falsified activities. Information will be composed from both decision-making and decision-making employees. Finale, the consequences showed that the occurrence of the control activities, parting of responsibilities, increases the charges of obligating fraud. Therefore, the advantage from obligating fraud has to outshine the price in a surroundings of separated duties for a worker to obligate fraud. More, it will be established that separation of responsibilities is a least-cost fraud preventive for non-managerial workers, but for professional employees, maximum penalties are the “least cost” fraud discouragements. The outcomes propose the use of protective controls (control actions) such as separation of responsibilities is dependent on investigator controls (control).

Due to the string of impacts pretentious trends had the worldwide economic crisis, there have been an outbreak of actions meant on strengthening the inner controls in organizational efficiency. Amudo and Inanga (2009) did a valuation of Internal Control Systems on the Regional Member Countries (RMCs) of the African Development Bank Group (AFDB) focused on Uganda in East Africa. The study displayed that some govern modules of effective interior control systems are lost in this venture which creates the present control configurations unsuccessful. The study recommended an improvement of the present internal control systems in the ventures.

Ewa and Udoayang (2012) conceded out an observed study to discovery out the influence of internal control project on banks’ capability to inspect staff fraud and staff lifetime style as well as fraud discovery in Nigeria. Information will be composed from 13 Nigerian banks via a Four Point Likert Scale survey and examined by means of percentages and ratios. The study create that Internal control design impacts staff assertiveness towards fraud such that a tough internal control mechanism is hindrance to work on fraud while a weak one demonstrations the system to fraud and makes opportunity for staff to obligate fraud. In adding, most Nigerian banks do not wage thoughtful courtesy to the life style of their staff participants and that most staff participants are of the outlook that actual and effective internal control design possibly will detect employee fraud schemes in the banking sector.

The study categorize that 22 effective plus efficient internal control systems are required to stalk the sickness in the banking sector. The study consequently suggested that banks in Nigeria must upgrading their internal control designs and pay thoughtful courtesy to the life style of their staff followers as this can be a red flag to identifying frauds. Amudo (2009) appraised the level of efficiency of internal controls in service in Nairobi. The study will be quantifiable and will be conducted between September 2007 and June 2009 by means of an example of 30 small productions as itemized in the National Social Security Fund (NSSF) Register of Kenya. Main information will be composed from the directors of the small business by means of interviews and investigation of documents refer to to internal controls. The study recognized that there are insufficiencies in the systems of internal controls, with the gradation of insufficiencies fluctuating from one innovativeness to an additional. The modules of internal control that will be omitted in most businesses surveyed will be: firstly, risk investigation, and secondly lack of right flow of information.

In a study on internal control purpose by the Kenya Polytechnic University College, Wainaina (2011) displays that as a supernumerary of its existence on the section of operations, running must depend on internal control practices to implement its choices and to standardize the actions for which she would eventually be accountable for. It is in this bright that usage of effective Internal Control Systems (ICS) is thought critical in the running of business resources. As outcome, the controlling of any organization designs internal control processes to assign, govern and guarantee well-organized deployment of resources, in order to attain the general corporate objectives. It will be found that Internal Control Systems (ICS) show significant role in precluding and perceiving fraud and shielding the organization's properties, both physical and intangible. This is attained through correct authorization controls and documentation.

Fraud is one of the most noteworthy risks affecting running of financial services in Eastern Africa region. In Kenya it is one of the economic law-breaking – government of Kenya piece of data report on frightening annual 45% average rise in the number of economic misconducts (GoK, 2011). The global economic law-breaking survey, a book of the PwC (PwC, 2011) report that Kenya has the maximum prevalence of fraud in the world, positioned on a global standing of 78 countries measured. In terms of occurrence fraud, white neckline robbery or asset misuse is quoted as the most mutual kind of economic law-breaking in Kenya surveyed by accounting fraud dishonesty of money legalizing, cybercrime creating from Africa is placed as one of the top crimes in Kenya. “The insight of cybercrime as a predominately exterior hazard is changing and organization are at this instant identifying the risk of cybercrime upcoming from inside as well” (PwC, 2011).

Many medium and large size organizations have lately integrated risk running functions to help categorize and discourse fraud. These functions have advanced significance energies and properties to discourse internal risk, financial risk, environmental risks, political risks, economic risks and cost-effective risks. Even so corporations are developing in size and difficulty and provide work for numerous knowledge based systems are at risk of fraud. Financial organizations top running has deputized management on to middle management and working clerks. Internal risk management is dropping ground to highly make contacts, sophisticated fraudsters (PwC, 2011).

## 2.4. Synthesis of Literature Review and Research gap

Although a number of studies have been concentrated on the banking industry, and furthermore they are outside Tanzania, little courtesy has been salaried to the outcome of internal control on fraud exposure and hindrance in the perspective of companies other than the finance industry. This has missing a shortage of writings on the topic, mainly in evolving economies like Tanzania, particularly with admiration to the MFIs. The little studies that have been approved out in Tanzania, for occurrence, have concentrated in other zones such on polling figures and local government (Ngopa, 2013; Badara, 2012). A number of principles associated to the matter have been underlined which also associated to the in relative the variables (independent and dependent) and the abstract framework, and the association thereon.

## 2. 5 Conceptual framework

The figure in the next page high spot the abstract framework and exactly how the variables are connected with each other.

**Figure 2.1: Conceptual Framework**

**Dependent variables**

**Independent variables**

# 

**Performance of MFIs**

Risk Assessment theory

Control Environment

Information and

Communication

Monitoring

# 

**Source: Research Work 2017**

The conceptual framework as revealed in the figure directly above is resulting from the purposes of the study in relative to the concepts as chatted in the literature appraisal part. Basic elements are govern environment, risk evaluation, governing actions, Information and announcement and intensive care. Control environment as founds the basis for the internal control system by providing major discipline and organization. Elements comprise proper morals and competency (excellence) of employees, way provided by the panel and use of management. These situation permits risk evaluation workout which includes the proof of identity and examination of pertinent risks to attaining programmed intentions and how to alleviate and achieve them to inhibit fraud. Existence of Policies, measures, and performs (Control activities) guarantee administration directives and actions wanted are placed in practice with definitely not encouraging publicity to fraud. Information and communication arises in to backing all extra control modules by interconnecting control duties to workers and by provided that statistics in a form and time border that lets people to transmit out their duties. Checking, covers the external inaccuracy of internal controls by management or further get-togethers outside the progression; or the presentation of independent approaches, like personalized measures or regular checklists, by personnel within a practice.

These interconnected and liberated variables significantly donate to efficiently applying internal controls that ultimately lead to enhanced fraud deterrence in organizations a like microfinance.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

Episode three is research methodology that will be working in the field to reach the specified purposes. Amongst the relevant topographies is explanation of investigation scheme, population then area of the education, sample selection technique then example size, bases of data, statistics gathering method then finally statistics examination.

## 3. 2 Research Design

To attain the purposes, the education will use a circumstance project founded on measureable and qualitative data. Bryman and Bell (2007) situation learning plan includes full plus concentrated investigation of only or insufficient bags anywhere the difficulty of the countryside of the item remains honestly deliberate. Case study design has remained selected over other strategies because it includes fewer periods and is more appropriate, given the fact that the investigator is a student at the same time working (Bryman and Bell, 2007).

## 3.3 Study Population

The training wills a variety of workers choose from low and senior level management positions from PRIDE and EFC in Dar es Salaam. This will be completed for aims to get different views from these units that finally will help to develop the education assumed their wide-ranging involvements in control matters associated to inner panels in a business

A sample refers to collection of respondent’s haggard from a populace association. The people below the education will include those working in Finance and Accounts Department, Management (Human Resources), Legal and Communications, ICT, operations, Development and Planning, to mention..

## 3.4 The Sample and Sampling Techniques

A sample refers to group of respondent’s haggard from a population below study (Kothari, 2009). It is the particular number of substances designated from a population for determination of using it when showing a research study. Due to the expenses in terms of moneys, period and resources that will be vital in plotting the whole population, a sampling technique will be working in studying the whole population.

## 3.4.1 Purposive or Judgment Sampling

Purposive will be working in learning the complete population.or Judgment Sampling

Selected case studies of two MFIs hfave Purposive sample, judgment through respect to which article must remain involved in the example, breaks on the investigator’s decision and condition (Adam and Kamuzora, 2008). The method is suitable when what is significant is the typicality and specific importance of the sampling units to the study and not their overall representatives to the population. Investigators frequently trust that they can find a illustrative example by using a sound judgments, which will outcome in redeemable period and cash” (Black, 2010, p.225).

sammple of 50 respondents from each MFI around a combined employees o 100 eployees, the researcher will take a which will be selected as follows from the respective sections or departments: / Customer Service Dept. (8), Risk operations Management D eection departments, and human resources administration (5), Information f exposure it has to fraud higher the riskTechnology (IT) (5), Accounts and Finance pt (5), marketing and sales (7), Insp (10), and operations (10). The section criteria are based on the l evel of risks the section has in termso, the higher the number of respondents.

## 3.5 Source of Data

Data are figures, facts or additional applicable resources, historical and current, portion by way of foundations for education investigation. In communal science study, records are categorized hooked on figures connecting to human beings, governments and documents relating to regional areas. Data source can be categorized into primary sources and secondary sources.

## 3.5.1 Primary Data

Refer to kind of data which and h are composed in the to stay calm over observation, straight announcement, sending mail or finished individual talks (Mbwambo et al., 2011). They container likewise be collected over, among others, interviews or questionnaires (Kothari, 2009). However, observations, questionnaires arena of education for replying investigation queries. The primary data data. In this study, data will be collected ch tools used to collect primary. The examination using questionnaires, interviews and observations are first-hand evidence interviews are common research for answers to research questions calls for collection of Data (Mbwambo et al., 2011).

## 3.4.2 Secondary Data

They mention to the records which take already remained composed and examined by somebody else (Kothari, 2009). They are attained since statistics together by extra persons for certain additional resolutions (Adam and Kamuzora, 2008). They can be printed or unpublished. Thus, secondary data deliver next hand material (Sounders et al., 2000). Secondary data bases involved records, annual reports, census reports, periodical, articles, journalists, and magazines of numerous relatives and group as well as further written appraisals from internet connecting to MFIs. .

## 3.5 Data Collection Methods

Normally, observations, questionnaires and interviews will be used to collect data.

## 3.5.1 Interviews

Interview refers to the methodical exchange among investigator and informers, started on behalf of finding info related to a explicit training. It is head-on interaction among examiner and applicant. It can income place at home (due to do questioning), workplace (decision-making interviewing) or flat at the shopping centers contingent on the environment of respondents. In this study, this technique will be working to collect info on the defendants’ opinions about efficiency of interior controls in the detection and deterrence of company deception, with orientation to MFIs.

## 3.5.2 Questionnaires

Questionnaire is the arrangement of queries, both as long as a amount of different responses from which the defendant can choice. Therefore surveys are measured in over-all footings in which every person will be requested to reply to the similar set of questions in a programmed command. Arranged and telephone questionnaires and those in which both being is requested to reply to the equal set of questions as well as those in which the questions are replied deprived of the investigator being about are inclusive. In questionnaires, defendants fill in responses in printed form and the investigator gathers the forms with the accomplished evidence.

## 3.5.3 Documentary Review

Bases of secondary statistics involved yearly reports, books, publications, trainings and electric broadcasting that are connected to list organization. The researcher will carry available a severe counter appraisal of these booklets as shown above, then incorporate the consequences through the primary data that will be found from the arena. The information that will be collected from the secondary data concerned with inventory management in Tanzania and outside of Tanzania. This information will be used to support or even negate the findings that will be obtained from the study. In this way, the researcher will be able to come out with an objective report.

## 3.7 Data Analysis Methods

The procedure of establishing plus thoughtful around data to sympathetic what data fixes and does not comprise. As distant as this schoolwork is worried, data which will be together from the pitch will be noted, tabulated, computed and described depending on the type of information. Data will be interpreted and given relevant description. The quantitative data such as respondent’s characteristics for instance gender, education level, will be analyzed through diagram, tabulations, charts, graphs, while the qualitative data will be in coded for their validity and correctness before being subjected to the report writing

# CHAPTER FOUR

# DATA ANALYSIS AND PRESENTATION OF FINDINGS

**4.1 Introduction**

Episode four offerings analysis and results of the study as established obtainable from objective and research methodology. The study results are assessing the impact of internal control efficiency performance of microfinance institutions in Tanzania, with reference to selected Microfinance Institutions in Dar es Salaam. To achieve the impartial of the study, defendants were highly encourage and influenced to reply to the declarations questionnaire accurately to certify validity then reliability.

## 4.2 Response Rate

The study assemble facts from 50 defendants, all defendants are reply‟ responded constituting 100% of the respondent’s rates. Also study was carried out to found the impact of internal control efficiency performance of microfinance institutions in Tanzania, with reference to selected Microfinance Institutions in Dar es Salaam.

### 4.2.1 Respondents by Age

The category of respondents according to age group the aim is to known age group for all respondents who were chosen to participate in the study as sample population. The age group was composed of five groups of age, the age between 19 or less, 20 up to 29, 30 up to 39, 40 and 49 and finally 50 up to 60,

**Table 4.1: Respondents by age group**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| S/no | University/College | Male | % | Female | % | Total | % |
| 1 | 19 or less | - | - | - | - | - | - |
| 2 | 20-29 | 5 | 10% | 5 | 10% | 10 | 20% |
| 3 | 30-39 | 15 | 30% | 10 | 20% | 25 | 50% |
| 4 | 40-49 | 5 | 10% | 8 | 16% | 13 | 26% |
| 5 | 50 or more | 2 | 4% | - | - | 2 | 4% |
| 6 | Total | 27 | 54% | 23 | 46% | 50% | 100% |

**Source: Research data 2017**

**4.2.2 Respondents by educational level**

The respondents were asked education level in order to determine whether they understand the effect of internal control efficiency on concert microfinance institutions in Tanzania. Table 4.2 show respondents by education inform of sex.

**Table 4.2: Educational Level**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| S/no | Category | Frequency | | | | Percentage | |
| 1 | Education level | Male | % | Female | % | Total | % |
| 2 | Certificate | 5 | 10% | 5 | 10% | 10 | 20% |
| 3 | Diploma | 4 | 16% | 4 | 16% | 8 | 24% |
| 4 | Undergraduate Degree | 10 | 20% | 10 | 20% | 20 | 40% |
| 5 | Postgraduate Degree | 3 | 6% | 3 | 6% | 6 | 12% |
| 6 | Masters and above | 3 | 12% | 3 | 6% | 6 | 12% |
| 7 | **Total** | **25** | **50%** | **25** | **50%** | **50** | **100%** |

**Source: Research data 2017**

### 4.2.3 Respondents by Department.

The aim is to known employee according to department. The table 4.3 shown employees from nine departments inform of frequency, percentage and gender

**Table 4.3: Department**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| S/no | Category | Frequency | | | | Percentage | |
| 1 | **Department** | **Male** | **%** | **Female** | **%** | **Total** | **%** |
| 2 | Sales and Marketing | 2 | 4% | 3 | 6% | 10 | 20% |
| 3 | Finance and Admin | 4 | 16% | 4 | 8% | 8 | 24% |
| 4 | Technical | 3 | 6% | 2 | 4% | 20 | 40% |
| 5 | Internal Control | 3 | 6% | 3 | 6% | 6 | 12% |
| 6 | Supply Chain | 3 | 12% | 3 | 6% | 6 | 12% |
| 7 | Human Resources | 3 | 6% | 3 | 6% | 6 | 12% |
| 8 | Internal Audit | 2 | 4% | 3 | 6% | 5 | 10% |
| 9 | IT | 3 | 6% | 2 | 4% | 5 | 10% |
|  | Other | 2 | 4% | 2 | 4% | 4 | 8% |
| 10 | **Total** | **25** | **50%** | **25** | **50%** | **50** | **100%** |

**Source: Research data 2017**

### 4.2.4 Working experience

The aim is to known working experience for all respondents. The table below shown working experience inform of frequency and percentage.

**Table 4.4: Working Experience**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| S/no | Category | Frequency | | | | Percentage | |
| 1 | Working experience | Male | % | Female | % | Total | % |
| 2 | 1 – 10 years | 8 | 16% | 12 | 24% | 20 | 40% |
| 3 | 11 – 20 years | 10 | 20% | 6 | 12% | 16 | 32% |
| 4 | 21and above | 4 | 8% | 10 | 20% | 14 | 28% |
| 6 | Total | 22 | 44% | 28 | 56% | 50 | 100% |

**Source: Field Data 2017**

The table above shown working experience for some employees. 20(40%) of all respondents having working experience between 1 up to 10 years old were male are 8(16%) and female are 12(24%), 16(32%) of all respondents having working experience between 11 up to 20 years old were male are 10(20%) and female are 6(12%). 14(28%) of all respondents having working experience between 21 and above were male are 4(8%) and female are 10(20%).

## 4.3 Control environment

The study required to determine the degree functionality of the internal controls efficiency performance of microfinance institutions happening Tanzania.

### 4.3.1 Codes of conduct or ethics policies exist in the company

**Table 4.5: Conduct or ethics policies exist**

|  |  |  |  |
| --- | --- | --- | --- |
| No. | Response | Frequency | % |
| 1 | Strong agree | 25 | 50% |
| 2 | Agree | 15 | 30% |
| 3 | Disagree | 5 | 10% |
| 4 | Strong Disagree | 5 | 10% |
| 5 | I don’t know | - | - |
| 6 | **Total** | 50 | 100% |

**Source: Research data 2017**

From above table, show that present perfect that most of the microfinance institutions took controls. The findings shows, 25(50%) and 15(30%) of all respondents they strongly agree and agree respectively that the microfinance institutions had controls. A good example of code and ethics that respondents agree that are exist includes accounting and commercial management system, Management is dedicated to the action of the system, ethical values are supported in all management choices and the management acts with a greater of integrity in execution of its actions.

### 4.3.2 Policies and procedures assisted to safeguard critical decisions are made with suitable approval.

The study examined the effect of Policies and procedures require helped to certify critical conclusions are completed with appropriate approval below is the results of this study in table 4.6.

**Table 4.6: Policies and procedures**

|  |  |  |  |
| --- | --- | --- | --- |
| No. | Response | Frequency | % |
| 1 | Strong agree | 20 | 40% |
| 2 | Agree | 20 | 40% |
| 3 | Disagree | 5 | 10% |
| 4 | Strong Disagree | 5 | 10% |
| 5 | I don’t know | - | - |
| 6 | **Total** | 50 | 100% |

**Source: Research data 2017**

From the above table, it shows that Policies and procedures were carried out regularly by most microfinance institutions. The findings showed that most microfinance institutions in Tanzania had Policies and procedures because the 80% of all respondents they agree and strong agree that the organization have Policies and procedures a good example of these policies includes, policies for finds risks that disturb accomplishment. These results are clear indication that most microfinance institutions in Tanzania have Rules and actions have assisted to ensure critical resolutions are made with suitable approval.

### 4.3.3 Management decisions are organized together and not organized by one main individual

Aim on this question is to known if the organization decisions are made collectively or controlled buy one individual. Table below show the results of this study in table 4.7.

**Table 4.7: Management decisions**

|  |  |  |  |
| --- | --- | --- | --- |
| No. | Response | Frequency | % |
| 1 | Strong agree | 30 | 60% |
| 2 | Agree | 15 | 30% |
| 3 | Disagree | 5 | 10% |
| 4 | Strong Disagree | - | - |
| 5 | I don’t know | - | - |
| 6 | **Total** | 50 | 100% |

**Source: Research data 2017**

Above results, it was out decisions were made by Management carried out regularly by most microfinance institutions. This is because that 30(60%) and 15(30%) of respondents they strongly agree and strong agree that decisions were made by management, a good example is organization is loyal to the process of the system, administration carefully monitors application of internal control systems by most microfinance institutions; management delivers response to the junior officers about the operation of the system, management acts with a great degree of integrity in execution of their roles

## 4.4 Risk assessment

The examiner examined the influence of internal control efficiency on presentation of microfinance institutes in Tanzania. Below are the results of the findings:

### 4.4.1 There is segregation of duties at our organization

These questions give us result if the organizations have of separation of duties. Table 4.8 show the results of this study in

**Table 4.8: Segregation of duties**

|  |  |  |  |
| --- | --- | --- | --- |
| No. | Response | Frequency | % |
| 1 | Strong agree | 30 | 60% |
| 2 | Agree | 15 | 30% |
| 3 | Disagree | 5 | 10% |
| 4 | Strong Disagree | - | - |
| 5 | I don’t know | - | - |
| 6 | **Total** | 50 | 100% |

**Source: Research data 2017**

From the above findings, it was observed that most of the microfinance institutions in Tanzania segregation of duties at our organization in order to carried out regular risk assessment procedures. 30(60%) and 15(15%) of respondents they are strongly agree that the most of microfinance institutions in Tanzania they have segregation of duties. These results are clear hint that most microfinance institutions observed segregation of duties at our organization as functionality of internal control efficiency on performance of microfinance institutions in Tanzania.

### 4.4.2 There are procedures to monitor the firm’s aptitude to re-evaluate hazards and adjust controls in response to modifications in its objectives, business, and external environment

**Table 4.9: Processes to monitor the company’s**

|  |  |  |  |
| --- | --- | --- | --- |
| No. | Response | Frequency | % |
| 1 | Strong agree | 20 | 40% |
| 2 | Agree | 15 | 30% |
| 3 | Disagree | 5 | 10% |
| 4 | Strong Disagree | 5 | 10% |
| 5 | I don’t know | 5 | 10% |
| 6 | **Total** | 50 | 100% |

**Source: Research data 2017**

From the above findings, it was observed that maximum of the manufacturing firms approved out consistent risk assessment procedures. From the results, manufacturing firms clear proper aims for the organization, this had the management classifies risks that affect objectives achievement, the management has a principles for ascertainment of which fraud-related risks to organization are utmost dangerous had the management has put in place apparatuses for justification of critical risks that may result from deception had It was also established that the management had put in place mechanisms for mitigation of critical risks that may result from fraud. These results are clear indication that most manufacturing firms observed risk assessment procedures as functionality of internal control of the manufacturing firms.

## 4.4 Control activities

The study examined impact of internal control efficiency performance of microfinance institutions in Tanzania. Below are the results of this study.

### 4.4.1 Accessibility of suitable record maintenance which guarantees that proper certification exists for each business transaction

**Table 4.10: Proper record maintenance**

|  |  |  |  |
| --- | --- | --- | --- |
| No. | Response | Frequency | % |
| 1 | Strong agree | 15 | 30% |
| 2 | Agree | 15 | 30% |
| 3 | Disagree | 10 | 20% |
| 4 | Strong Disagree | 5 | 10% |
| 5 | I don’t know | 5 | 10% |
| 6 | **Total** | 50 | 100% |

**Source: Research data 2017**

From the above findings, state that there is a good record conservation which ensures that proper documentation be existent for each business transaction. The findings showed that 60% of all respondents they agree and strong agree that most microfinance institutions in Tanzania had good record conservation which certifies that accurate records exists for each business operation for example security system identifies and safeguards organizational assets, panels are in place to eliminate experiencing spending in excess owed funds, Our organization has a well-developed Chart of Accounts and Staff are skilled to implement accounting and financial management system. This question it was concluded that microfinance institutions in Tanzania carried out control activities as an effect of internal control efficiency on presentation of microfinance institutions in Tanzania.

## 4.5 Information and Communication

The study search for establish outcome of information and communication on economic performance of microfinance institutes in Tanzania. The results analysis are provided below in table 4.13

### 4.5.1 Managing truth is linked to employees through employee handbooks and procedural manuals

**Table 4.11: Management integrity**

|  |  |  |  |
| --- | --- | --- | --- |
| No. | Response | Frequency | % |
| 1 | Strong agree | 15 | 30% |
| 2 | Agree | 15 | 30% |
| 3 | Disagree | 10 | 20% |
| 4 | Strong Disagree | 5 | 10% |
| 5 | I don’t know | 5 | 10% |
| 6 | **Total** | 50 | 100% |

**Source: Research data 2017**

From the overhead results, it show that exposed that information and communication was carried out regularly by microfinance institutions in Tanzania. The findings discovered that information communication was conducted by microfinance institutions in Tanzania as functionality of internal control. The results means that most of respondents they agree that Organization integrity connected to employees over employee handbooks and technical manuals it means that Communication assistances to assess how glowing strategies and policies of the organization are occupied and applied.

## 4.5.2 Policies concerning the significance of internal controls and applicable conduct are linked to all staff

The aim is to known the importance of Policies concerning the significance of internal controls and appropriate conduct are communicated to all staff. The results of this analysis are as provided below

**Table 4.11: Policies regarding**

|  |  |  |  |
| --- | --- | --- | --- |
| No. | Response | Frequency | % |
| 1 | Strong agree | 15 | 30% |
| 2 | Agree | 15 | 30% |
| 3 | Disagree | 10 | 20% |
| 4 | Strong Disagree | 5 | 10% |
| 5 | I don’t know | 5 | 10% |
| 6 | **Total** | 50 | 100% |

**Source: Research data 2017**

## From the above findings, show that most of respondent’s agree that Policies concerning the significance of internal controls and suitable behavior are communicated to all operate this is very important because the communication assistances to assess how well procedures and strategies of organization are working and being executed. The study concluded that most microfinance institutions in Tanzania especially large applied information and communication in their actions and functions through well-known police and procedures.

### 4.6 Monitoring

Study required establishment outcome of information and communication on financial presentation in relation to the length of operation.

4.6.1 Audit or additional control systems occur periodically test for compliance with codes of conduct or policies.

**Table 4.12:** Audit and other control systems exist

|  |  |  |  |
| --- | --- | --- | --- |
| No. | Response | Frequency | % |
| 1 | Strong agree | 20 | 40% |
| 2 | Agree | 15 | 30% |
| 3 | Disagree | 5 | 10% |
| 4 | Strong Disagree | 5 | 10% |
| 5 | I don’t know | 5 | 10% |
| 6 | **Total** | 50 | 100% |

**Source: Research data 2017**

Table 4.15, it was establish that that monitoring was effect of internal controller efficiency on presentation of microfinance institutions. This was verified by the results of the study which showed that there were independent process checks and evaluations of controls activities in the operation of the firm. The most of respondents they agree that the existing audit or other control system are test for agreement with codes of behavior or policies because monitoring helped in measuring the quality performance of organization over time

### 4.6.1 Current processes for independent confirmation of transaction must assisted to certify integrity

**Table 4.13: Existing processes for independent verification of transaction**

|  |  |  |  |
| --- | --- | --- | --- |
| No. | Response | Frequency | % |
| 1 | Strong agree | 20 | 40% |
| 2 | Agree | 15 | 30% |
| 3 | Disagree | 5 | 10% |
| 4 | Strong Disagree | 5 | 10% |
| 5 | I don’t know | 5 | 10% |
| 6 | **Total** | 50 | 100% |

**Source: Research data 2017**

Existing practices for independent certification of transaction have facilitated to ensure integrity according to 70% of all respondents this it helps Some of the microfinance institutions in Tanzania allocate their responsibilities in timely manner and this negatively artificial compliance audit report, this is explained by This shows that straight though monitoring is an important functionality activity of the internal control of the firm in its operation period, not all manufacturing firms implemented this practice. This therefore, negatively impacted on the financial performance of some manufacturing firms.

**4.7 Ways for enhancing effectiveness of internal controls**

**Separate accounting duties**

Microfinance institutions typically be influenced by on one servant or bookkeeper to procedure entirely features of the accounting procedure, including approval, implementation, care and appointment of transactions. The dispensation of cash receipts and payments will be divided, through dissimilar people. Allowing one individual to handle cash or checks received.

**Limit admittance to commercial systems**

The different type bookkeeping software used by Microfinance institutions give its operators the ability to manage former transactions which might lead to easy suppression of theft. Microfinance institutions holders must retain user to company’s accounting system and reflect constraining user access to only zones needed for their functions.

**Rise oversight**

Check or payment registers frequently. Evaluation payroll reports for bank reconciliations and unapproved increases, days or uniform expenses. Influence upon the employee the essential to save subsidiary documents and you would periodically review specific transactions and supportive documents for validity and accurateness.

**Financial statements revised by a third party**

An individual who knows that the work performed will subsequently be reviewed is more likely to be deterred from committing fraud. Outside accountant can be related in identifying inaccuracies and inconsistencies in the financial records as well as helping business owners better understand their financial data.

**Need employees to income vacation**

Misappropriation and other types of fraud require a constant paper trail cover-up in order to go undetected. Therefore, business owners should insist that employees who perform the Microfinance institutions accounting/bookkeeping duties take a vacation every year and elect a back-up individual to cover their tasks during that permission.

# CHAPTER FIVE

# DISCUSSION OF THE FINDINGS

**5.1 Introduction**

The earlier section accessible results of the study. Current section discusses the findings presented in chapter four by involving them to the literature reviewed in part two. The major findings are discussed under headings derived from the research questions. This is intended to provide adequate answers to the objectives and realize the purpose of this study.

## 5.2 Respondents rate

According to the respondents‟ demographics, it was revealed that most of the employees in microfinance institutions in Tanzania were undergraduate degree holders. In regard to the duration in which the institution had worked, the study found that most the microfinance institutions in Tanzania had been in operation for a period of more than 10 years.

## 5.3 Control environment

The results revealed that most microfinance institutions in Tanzania took a controller situation as one of the functionality of internal controls association that significantly effects on the financial presentation of organizations.

## 5.4 Risk assessment

The investigator observed the effects of hazard assessment as impact of internal control efficiency on performance of microfinance institutions in Tanzania, it was also established that the management took place instruments for extenuation of critical risks that might consequence from deception. These outcomes are clear sign that most microfinance institutions observed risk assessment events as functionality of internal control of the microfinance institutions in Tanzania.

## 5.5 effect of information and communication

Influence of information and communication on financial presentation of microfinance institutions was originate to be a common practice among microfinance institutions; it was implemented in most of their activities and functions through established police and procedures.

## 5.6 Confident relationship between internal control and financial performance of microfinance institutions in Tanzania.

Established by the level of significance attained each of the independent variables, the independent variables have a importance of fewer than 10% apart from monitoring which has a significance of 15%.This is an indication that the variables are statistically important apart from monitoring that exhibits an inverse relationship with financial performance.

# CHAPTER SIX:

# CONCLUSION AND RECOMMENDATIONS

**6.1 Introduction**

Current chapter will draw conclusions to the study provide recommendations influence of internal control efficiency concert of microfinance institutions constructed from results and make suggestions for future research.

**6.2 Conclusion**

Conclude that the of microfinance institutions in Tanzania that financed on real internal control systems had more better financial performance to likened to those microfinance institutions frail internal control system. From results, exposed those microfinance institutions that experiential integrity, right values, risk assessment, control events, monitoring and information communication technology recorded great financial performance.

Furthermost of microfinance institutions in Tanzania have fully invested in heavy-duty internal control systems stayed able to alleviate deception. Based on the reading findings, the results specified that some small scale microfinance institutions confronted challenges in real implementation of internal control systems due lack of sufficient incomes to hire competent staff and to spend in present technologies for example information communication technology.

Finding result initiate that switch events took a important encouraging relationship with financial performance displays. Also extra variables for example control environment, risk assessment and information communication technology was also originate to require a positive relationship with commercial performance of microfinance institutions in Tanzania apart from monitoring that revealed a negative relationship with financial performance of microfinance institutions. From the answers of the study internal reviews of internal control units of most microfinance institutions were not conducted periodically, monitoring was not carried out regularly and untimely assigning of audit reports leading to lack of compliance of audit reports.

**6.3 Recommendations**

The reading recommends that both internal and external auditor must be continuously efficient besides well-informed on international financial reporting standards (IFRS) and ethics in directive to improve their information and skills in application of accounting applies and to retain them updated on the contemporary issues.

Tanzania Association of microfinance institutions must monitor and manage microfinance institutions to guarantee that the accountants fulfill with accounting regulations and all requirements as providing by the Institute of Certified Public Accountants to confirm proper implementation and agreement with accounting standards and principles.

Organizations should develop a mechanism to incorporate relevant feedback from the various stakeholders into their internal control system. Manufacturing firms would improve and establish perpetual seminars and workshops to train and teach auditors and accountant on substances relating proper application of accounting policies and procedures to improve their assistances and expertise in their practice as professionals.

The study further recommends that the leading body, perhaps maintained audit committee, ought to certify internal control system is periodically monitored and appraised. The actual valuation can be executed by the organization’s administration.

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# APPENDICES

## Appendix I: Authorization Letter from Mzumbe University

Dear Sir/Madam,

I am a student of Mzumbe University leading a study entitled: ***Assessing The Impact of Internal Control Efficiency On Performance of Microfinance Institutions: The case of PRIDE and EFC in Dar es Salaam*** as part fulfillment to the requirements for the award of Master in Business Administration of Mzumbe University. The evidence agreed will be preserved with maximum privacy and for academic drive only.

This reading is virtuously academic and you are here by guaranteed that whatsoever information is providing will be highly trusted. Instructions: Please kind tick the box that clearly couriers your view about a question.

Your influence will be extremely respected.

Yours Faithfully,

Evance Timothy

## Appendix II: Questionnaires for Personnel working in various departments

**PART A: RESPONDENT’S PROFILE DATA**

1. Sex: Male [ ] Female [ ]
2. Age: 19 or less [ ] 20─29 [ ] 30─39 [ ] 40─49 [ ] 50 or more [ ]
3. Which Department do you be in the right place? Sales and Marketing [ ] Finance and Admin. [ ] Technical [ ] Internal Control [ ] Supply Chain [ ] Human Resources [ ] Internal Audit [ ] IT [ ] others (mention) …………………………..
4. Which staff type do you fit? Junior staff [ ] senior staff [ ] Management [ ]
5. Working experience?

Less than 2 year [ ] 2-4 years [ ] 4-6 years [ ] more than 6 years

1. Education level

Certificate [ ] Diploma [ ] Undergraduate Degree [ ] Postgraduate degrees [ ] Masters [ ]

**PART B: CONTROL ENVIRONMENT**

1. Ethics policies and codes behavior or happen in the firm
2. Strong agree
3. Strong Disagree
4. Agree
5. Disagree
6. I don’t know
7. Procedures plus Policies assisted to guarantee serious choices are completed with suitable support.
8. Strong agree
9. Strong Disagree
10. Agree
11. Disagree
12. I don’t know
13. Administration decisions are prepared cooperatively also not skillful by one governing separate.
14. Strong agree
15. Strong Disagree
16. Agree
17. Disagree
18. I don’t know
19. Our institute usually employee’s knowledgeable personnel this assistances to correctly record accounting businesses.
20. Strong agree
21. Strong Disagree
22. Agree
23. Disagree
24. I don’t know

**PART C: RISK ASSESSMENT**

1. There is separation of duties at our organization
2. Strong agree
3. Strong Disagree
4. Agree
5. Disagree
6. I don’t know
7. There are procedures to observer the firm’s ability to re-evaluate risks and adjust controls in reply to fluctuations in its objectives, business, and external environment.
8. Strong agree
9. Strong Disagree
10. Agree
11. Disagree
12. I don’t know
13. Present procedures in residence have facilitated to certify that policy outweighs are negligible and exclusions are described to management directly.
14. Strong agree
15. Strong Disagree
16. Agree
17. Disagree
18. I don’t know

**PART D: CONTROL ACTIVITIES**

1. Around company there proper record maintenance which guarantees that good documentation is existent for each business transaction.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

1. Firm possesses enough safeguards such as locks on doors and computer software passwords which help to prevent unauthorized personnel from accessing respected company assets.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

1. .Current processes for self-governing corroboration of transaction be of assistance to make sure integrity Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]
2. There is a system in place to certify that duties are exchanged at times. Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

**PART E: INFORMATION AND COMMUNICATION**

1. Organization truthfulness is linked to employees from side to side employee handbooks and procedural manuals.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

1. Policies concerning the significance of internal controls and proper conduct are interconnected to all staff

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

1. Firm People have information, skill and tools to sustenance them in their responsibilities in directive to successfully manage risk and accomplish company objectives.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

**SECTION V: MONITORING**

1. Audit or else extra control systems happen to periodically test for agreement with codes of conduct or policies. Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]
2. Current processes for self-governing authentication of transaction have facilitated to guarantee integrity Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]
3. Management occasionally analyses policies and procedures to certify that proper controls are in place.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

1. There are continuing developments within the company’s general business operations and these are talked by senior administration to monitor the effective request of the policies, processes and activities related to internal control and risk management.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

1. Reports on important faults or faintness are reported to management on a appropriate basis.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

**PART E: METHODS FOR ATTRACTIVE EFFICIENCY OF INTERNAL CONTROLS**

1. In a scale of I to 5, what did you say actions, in your view, can be executed to successfully deter the existence of fraud within your organization? *[1=strongly agree; 2=Agree; 3=Not Sure; 4=Disagree; 5=Strongly Disagree]*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Questions** | **1** | **2** | **3** | **4** | **5** |
| 1. Allowing audit committees |  |  |  |  |  |
| 1. Resounding out serious deception risk assessment |  |  |  |  |  |
| 1. Active informer hotline |  |  |  |  |  |
| 1. Start anti-fraud policy and preparation |  |  |  |  |  |
| 1. Executable reply to fraud claims |  |  |  |  |  |
| 1. Fraud Anticipation or Accounting Performances |  |  |  |  |  |
| 1. Employee awareness of Fraud prevention plan |  |  |  |  |  |
| 1. Educational works on fraud anticipation |  |  |  |  |  |
| 1. Ethical notices |  |  |  |  |  |
| 1. Countless promotional of sanctions in fraud cases |  |  |  |  |  |

1. What kind of fraud do you trust is regularly committed in your organization/company?
   1. Asset misappropriation \_\_\_
   2. Check and credit card fraud \_\_\_
   3. Accounting deception \_\_\_
   4. Bribery \_\_\_
   5. Burglary \_\_\_
2. What additional behaviors do you think should be employed to enhance internal controls in your organization?
3. ………………………………………………………………………………..
4. ………………………………………………………………………………..
5. ………………………………………………………………………………..
6. ………………………………………………………………………………..
7. ………………………………………………………………………………..

# APPENDIX 2: WORK PLAN

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Month** | **1** | **1** | **2** | **2** | **3** |
| **TASK/ACTITIES** |  |  |  |  |  |
| **Preparing title and proposal** |  |  |  |  |  |
| **Data collection** |  |  |  |  |  |
| **Analysis of data** |  |  |  |  |  |
| **Design solution** |  |  |  |  |  |
| **Conclusion and recommendation** |  |  |  |  |  |

**Source: Research data 2017**

# APPENDIX 3: RESEARCH BUDGET

|  |  |  |
| --- | --- | --- |
| RESEARCH BUDGET | | |
| S/no | **CATEGORY** | **COST** |
| 1 | Transport | 200,000 Tsh |
| 2 | Stationary | 200,000 Tsh |
| 3 | Accessories | 55,000 Tsh |
| 4 | Development cost | 50,000 Tsh |
| 5 | Staff training | 260,000 Tsh |
| 6 | Communication | 200,000 Tsh |
| 7 | **Total** | **955,000 Tsh** |

**Source: Research data 2017**