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The Levels of Factors that Contribute towards Efficiency, Effectiveness and Strength of the Internal Control Systems (ICSs) With Regard to Non-current Assets Safeguard and Management in Public Institutions in Tanzania

Nsanganzelu, Amos Japhet

PhD Candidate in Finance and Accouting at the School of Postgraduate Studies, Kampala International University, Dar es Salaam Constituent Collage

E.mail: nsanganzelu@yahoo.co.uk

Dr. Jagero, Nelson (Ph.D)

Senior Lecturer School of Postgraduate Studies, Kampala International University Dar es Salaam Constituent Collage.

E.mail: jagero66@yahoo.com

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Abstract

This study was to find out the level or extent of the safeguard and appropriate management of the tangible non-current assets in Public or Government Institutions in Tanzania. This objective aimed at facilitating the determination of the relationship existing between the level or extent of the safeguard and management of the non-current assets in these institutions and the level of effectiveness, efficiency and strength of the relevant Internal Control Systems in these institutions. The sample used in this study was the Ministry in the Tanzania Government (Ministry of Infrastructure Development) and the study also directed its attention to different Departments, Institutions and Agencies (Surface and Maritime Transport Authority-SUMATRA, and The National Institute of Transport) as the organs of the ministry, as well as at the Ministry Headquarters. The selection of the ministry followed the purposive sampling technique or procedure while the sampling technique for the organs under it followed the random sampling procedures. Various methods of analysis were employed in this study; these included statistical methods like frequency tables, charts, percentages, tables etc. The analysis established and concluded that: the situation shows unfavorable or unsatisfactory opinions or responses to the study/research question.

Keywords: Internal Control System (ICS), Non-Current Assets (NCA), ICS Components, Financial Management.

Introduction

The importance of a strong and properly functioning Internal Control System (ICS) cannot be overemphasized or understated. It plays a major important role in the safeguard of non-current assets in any organization. A slight failure of any element within or the whole of Internal Control System can lead to devastating losses and operational problems to an entity and the society as a whole. It is apparent that the poor functioning of the internal Control System in an entity will be the sole cause of a lot of organizational problems and itself is a result of the failure of a number of contributory factors affecting or having a direct impact on it.

Thus, there is a clear need for determination of the outcomes and extent of the properly functioning Internal Control System due to its numerous important advantages, and, there is a necessity to show, empirically, whether the extent of the safeguard of non-current assets is satisfactory. There is a big room to improve the current state of affairs with regard to properly functioning Internal Control System (ICS). This is a clear focus of the researcher, to find the current state of affairs and, thus, find ways to resolve any worsening situation.

The Internal Control System (ICS) in many organizations and public institutions especially those with regard to Non-current Assets have always been the focus of many stakeholders and auditors due to the fact that tangible fixed assets form an important part of the financial structure of any firm, organization, institution or entity and since many of the tangible non-current assets are quite expensive, they require higher levels of management care and proper recording, protection or custody and handling.

The operational standards (Guidelines) define Internal Control System as being “the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records”. The interplay between strengths and weakness of the Internal Control System with regard to the Non-Current Assets safeguard and appropriate management were evaluated by reference to: their materiality in relation to the system (and, ultimately, the accounts as a whole; and the existence of related “compensating controls” which minimize (if not eliminate) the effect of identified weaknesses.

The effectiveness of the Internal Control System (ICS) on tangible non-current assets has a profound assistance to the audit process and its importance can therefore not be over emphasized. In today’s need for sound and efficient, strong as well as effective Internal Control Systems (ICSs) on tangible non-current assets, there has resulted a great need for this study.

Literature Review

Sekarani (2006) proposes that business research is a systematic and organized (i.e. well thought out and carefully executed activities) effort to investigate a specific problem encountered in the work setting that needs a solution. It comprises a series of steps designed and executed, with the goal of finding answers to the issues that are of concern to the manager in the work environment.

Tangible non-current assets have been widely defined by various works. Bautista and Assad (1993 p. 225) define non-current assets as assets "held with the intention of being utilized in the process of earning revenue, rather than for the purpose of sale in the ordinary course of business". The work further points out that, assets which are tangible and non-current or fixed have the following characteristics: They are acquired for business purpose, to be used in generating revenue in the normal operations of the business; they have a life of more than one accounting cycle (i.e. life of usually more than one year) and that they are not items acquired with the intention of being sold: although they may be sold as scraps but that is not a normal activity. In this case, thus, the tangible non-current (fixed) assets, which are sometimes termed as plant assets, include land, buildings, machinery, motor vehicles, equipment, furniture and fittings etc.

The Texas Education Agency (TEA) defines "fixed assets" as purchased or donated items that are tangible in nature, have a useful life longer that one year … and may be reasonably identified and controlled through a physical inventory system (Texas Education Agency, 2006). The Texas Education Agency's Financial Accountability System Resource Guide presents its fixed assets as land, buildings, furniture, equipment and vehicles.

The Internal Control System with regard to tangible non-current assets have also been extensively explored by different works: The following citation from the internet (Internal Control System 2007) is valuable: "An Internal Control System (ICS) is the process that an administration uses to provide reasonable reassurance that the unit's goals and objectives will be achieved. The system includes organizational design, written policies and procedures, actual operating practices, physical barriers to protect assets …" The system should be designed to discourage occurrence of errors or irregularities and to identify, within a reasonable time frame, errors or irregularities that may occur.

The Internal Control System, thus, provides for safeguarding of assets, proper recording of transactions and the efficient and effective accomplishment of any organization's goals and objectives including compliance with the state, and the relevant rules and regulations. Poor or excessive internal controls reduce productivity, increase the complexity of processing transactions, increase the time required to process transactions and do not safeguard assets in an organization. Good Internal Control System helps ensure efficient and effective operations and safeguard and appropriate management of assets.

It is, thus, a responsibility of the management to safeguards the entity's assets and to keep accounting records in respect of the existence and value of all the assets, including non-current (fixed) assets of the entity. Tangible non-current assets should therefore be recorded in sufficient detail to enable regular physical checks of existence to be carried out and the

acquisitions and disposals of all significant items should be made only on Board authority or in accordance with specific authority delegated by the Board.

From (Internal Controls, 2007), it has been pointed out that internal controls are to be an integral part of any organization's financial and business policies and procedures. Internal controls consist of all the measures taken by the organization for the purpose of: Protecting its resources against waste, fraud and inefficiency; Ensuring accuracy and reliability of accounting and operating data; Securing compliance with the policies of the organization; and evaluating the level of performance in all organizational units of the organization,

Internal controls are, thus, simply, good business practices. From the **"**Standard for Internal Control in the Federal Government" (1999) produced by the United States General Accounting Office (GAO) it is said that "federal policy makers and program managers are continually seeking ways to better achieve agencies' missions and program results, in other words, they are seeking ways to improve accountability". A key factor in helping achieve such outcomes and minimize operational problems is to implement appropriate internal controls. Effective internal control also helps in managing change to cope with shifting environments and evolving demands and priorities. "As programs change and as agencies strive to improve operational process and implement new technological developments, management must continually assess and evaluate its internal control to assure that the control activities being used are effective and updated when necessary".

Methodology

Population

The study has been restricted to an appropriate sample of Ministries, Departments and Agencies (MDAs) in the Government of the United Republic of Tanzania. Dar-es-salaam has been the key research area due to the availability of the elements under study. The Ministry that was ultimately selected and used in this work was the Ministry of Infrastructure Development (MoID), its organs were the Surface and Maritime Transport Regulatory Authority (SUMATRA) and the National Institute of Transport (NIT). The later two organs represented the Agencies or Authorities and Institutions respectively.

Sampling

Sampling is a process of selecting sufficient number of elements from the population so that the study of a sample and an understanding of its properties or characteristics would make it possible for us to generalize such properties or characteristics to the population elements. This study adopted a probabilistic sampling technique called simple random sampling.

From the population of Public institutions and Government departments, a sample of some Ministries of the Government were selected and, from these, some departments and relevant Headquarters were to be examined for the case of this research work. Not all MDAs (Ministries, Departments and Agencies) in Tanzania were covered. Initially, they were selected through purposive sampling technique which is non-probabilistic. Thus, the selection based on some key variables which included the amount of funds received from the Government budget, the number of appropriate staff available for data collection etc. This technique has been ideal with the nature of this study or research since it allows for the variations and enables choices to be made relative to research situations (Brian, 2000).

Further more, Brian (2000) said: ''… this technique allows the researcher pick the sample he/she thinks will deliver the best information in order to satisfy the research objectives in question…''. Then, from the sample frame of 5 elements in each of the category of the MDAs, a probability sampling technique was used. In order to affect the generalizability of the study results, the researcher employed the probability sampling technique where a simple random sampling technique was employed. The elements under each group were, thus, selected using this technique as well.

Thus, the study has been restricted to an appropriate sample of Ministries, Departments and Agencies (MDAs) in the Government of the United Republic of Tanzania (URT). Dar-es-salaam has been the key research area due to the availability of the elements under study. The Ministry that was ultimately selected and used in this work was the Ministry of Infrastructure Development (MoID), its organs were the Surface and Maritime Transport Regulatory Authority (SUMATRA) and the National Institute of Transport (NIT). The later two organs represented the Agencies/Authorities and Institutions respectively.

The simple random sampling technique was appropriate here since it provides an opportunity for each and every element in the target population or sample to get an equal chance of being selected or included in the final sample and thus increasing the objectivity of the results of the research. The sampling design so selected resulted in cost effectiveness, rendering a possible small sampling error, truly represented the population (true representative sample), minimized and controlled the extent of biasness and the one which presented a good generalization of the findings for the population that was understudy.

Plan of Data Analysis (Data Coding, Analysis and Interpretation)

After data had been collected, the task that followed was that of analyzing, thoroughly and carefully, the data for the study. This involved the establishment of categories, the application of the categories to the raw data through coding, tabulation etc, which led to drawing statistical references. In this case, therefore, raw data was classified into some purposeful and usable categories.

It has been in view of this study that the different approaches of data analysis that were employed have given a better feel and findings that are credible (i.e. findings which are reliable, valid and generalizable).

Thus, after the actual data collection had been undertaken, the actual processing and analysis of such data was given an important consideration and hence both quantitative and qualitative procedures were adequately put into use.

Findings on the Study

Data Analysis

The Key Research Question was ''What are the levels of factors that contribute towards efficiency, effectiveness and strength of Internal Control Systems (ICSs) with regard to non-current assets safeguard and management in Public Institutions in Tanzania?''

The questions were created to cover various components of the Internal Control System (ICS) structure. Within each component there was a series of questions that examine or test that

the controls are in place and functioning or not. These questions were prepared in a manner that a ''No'' response indicates a weakness in the area under examination. The various areas of the Internal Control System (ICS) that were examined and questioned for included the following: Control Environment, Effectiveness and Efficiency of Operations, The Accounting System, Reliability of Financial Reporting, Compliance with Applicable Laws and Regulations, Risk Assessment, Control Activities, Non-Current Assets Acquisition, Recording, Control, Safeguard etc., Information and Communication, Monitoring, Economy etc.

The three sets of questionnaires according to the categories of respondents (accountants, management and customers/users were classified and distributed as following: Accountants (Senior and Middle Officers): A set of questionnaire with 30 relevant questions per respondent; Management (Senior and Middle Officers): A set of questionnaire with 20 relevant questions per respondent; Customers/Users: A set of questionnaire with 10 relevant questions per respondent.

Further Analysis

Table 1: Frequency Distribution of the Responses According to Type of Sources on the Specific Research Question.

Type of Source.	Details.	**'Yes' Responses.**	**'No' Responses.**	**'Unsure or Not Always' Responses.**	Total.
Ministry.	Count.	147.	223.	20.	390.
	Percentage (%) of Ministry responses.	***37.69%.***	***57.18%.***	***5.13%.***	***100%.***
Departments/Institutions	Count.	147.	226.	17.	390.
	Percentage (%) of Dept/Inst responses.	***37.69%.***	***57.95%.***	***4.36%.***	***100%.***
Agencies.	Count.	128.	241.	21.	390.
	Percentage (%) of Agencies responses.	***32.82%.***	***61.79%.***	***5.38%.***	***100%.***
Totals.	**Overall Counts.**	**422.**	**690.**	**58.**	**1,170.**
	Percentages.	**36.07%.**	**58.97%.**	**4.96%.**	**100%.**

Source: Researcher's Own Statistics, 2009.

It can clearly be observed from the above frequency distribution table and the charts that the number of 'No' responses and their corresponding percentages by far overwhelm other types of responses. The 'No' responses for the Ministry, Departments/Institutions and Agencies percentages are respectively 57.18%, 57.95% and 61.79% respectively and the overall total percentage for the 'No' responses is 58.97% which by far exceeds the total 'Yes' response percentage which stands at 36.07%. Finding out of the level or extent of the safeguard and appropriate management of the tangible non-current assets in Public/Government Institutions in Tanzania has then been proved to be quite unsatisfactory or unfavorable due to the low levels of effectiveness, efficiency and strength of the Internal Control System (ICS) arrived at examination of its various elements or components and as presented under the research findings/data analysis presented above.

Conclusions

In this case, this study has been able to answer the research question employed earlier during the execution of the study as well as meeting the objectives of the study. Therefore, the level or extent of the safeguard and appropriate management of the tangible non-current assets in Public/Government Institutions in Tanzania has then been proved to be quite unsatisfactory or unfavourable due to the low levels of the extent of the ICS as compared to the level or extent of the safeguard of the Non-Current Assets.

The determination of the levels of the factors or elements that contribute towards the effectiveness, efficiency and strength of the internal control System (ICS) with regard to the safeguard and appropriate management of tangible non-current assets in public institutions in Tanzania was made so as to provide the appropriate levels from responses under the coded Likert scales as well as the quantification of responses by percentages, as discussed under the analysis section above, of the factors which were then checked against the level or extent of the safeguard and management of the tangible non-current assets in public institutions in order to establish the existing relation between the two aspects. The outcomes have been shown to be, thus, unfavorable or unsatisfactory thereof.

Recommendations

This study, thus, calls for immediate measures to rescue the Internal Control Systems in these public institutions in Tanzania so that they will appropriately safeguard and manage the non-current assets in these institutions which are an important part of financial management aspect in these institutions and the country (Government of the United Republic of Tanzania) as a whole. The various areas or components of the Internal Control System (ICS) should be enacted properly and made to execute their functions effectively and efficiently. These areas or components that need immediate attention include the following: Control Environment, Effectiveness and Efficiency of Operations, The Accounting System, Reliability of Financial Reporting, Compliance with Applicable Laws and Regulations, Risk Assessment, Control Activities, Non-Current Assets Acquisition, Recording, Control, Safeguard etc., Information and Communication, Monitoring, Economy etc. All the above components of the Internal Control System (ICS) should be linked together, thus forming an integrated system that should react dynamically to changing environment and conditions. The Internal Control System should be intertwined with the organisations' operating activities, and is most effective when controls are built into these organisations' infrastructures, thus becoming part of the very essence of the organizations or institutions.

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