The Effectiveness of Internal Controls System over Cash Management in Local Government Authorities: A Case of Morogoro District Council

Christina Mfuse

P. O. Box 1878, Morogoro, Tanzania.
Email: *christinamfuse[at]gmail.com*

Abstract: *The study aims in examining the effectiveness of the internal control system over cash in LGAs in Tanzania, a study of Morogoro District Council. This study used a case study research design. A sample of 30 respondents was drawn from a population of 64 respondents. Purposive and random sampling techniques were used to select respondents. The study conclude that, risk assessment and information and communication have a statistically significant relationship with the dependent variable, indicating their substantial impact potential. Conversely, control environment, control activities, and monitoring activities lack such significance, suggesting that changes in these variables are less likely to affect the dependent variable significantly. The relationship between independent and dependent variables was tested using Ordinary Least Squares. On the basis of the findings in this study, it is recommended that as risk assessment and information and communication are more influential in explaining the variation in the dependent variable compared to control environment, control activities, and monitoring activities council's should make improvement in risk assessment and information and communication to enhance effectiveness in cash management. On the other hand, control environment, control activities, and monitoring activities were determined to be insignificant. This implies that these variables did not show a statistically significant relationship with the dependent variable in this analysis. Changes in these variables are less likely to have a substantial impact on the dependent variable.*

Keywords: Internal Controls System, Cash Management and Local Government Authorities

1. Introduction

In light of the pressing concern surrounding the effectiveness of internal controls over cash management in local government authorities, it is imperative for these organizations to take proactive measures. The Controller and Auditor General reports have shed light on unusual cash management transactions in local government authorities, emphasizing the urgency of the situation. To address this issue, local government authorities, exemplified by the Morogoro District Council, must establish and enhance their internal control systems (CAG, 2021). The COSO framework from 2013 provides a robust foundation for this endeavor.

To understand the research objectives and assess the current state of internal controls, this study conducted interviews with Morogoro District Council staff from various departments. These interviews revealed the presence of some internal controls, but they also exposed weaknesses in the internal control system, particularly concerning cash management. This deficiency is of paramount concern, as effective internal control over cash management plays a pivotal role in enabling the council to achieve its strategic objectives and safeguard its valuable assets, aligning with the insights of Meigs et al. (1995).

Integral to internal controls is the process of cash planning, encompassing cash budgeting and the analysis of cash inflows and outflows. The overarching goal is to manage these financial elements effectively, eliminating redundant surplus cash balances that can impose unnecessary costs on the organization, as highlighted by Kakuru (2000). This financial landscape in Tanzania saw significant policy shifts in 1996, with the adoption of cash budgeting policies, followed by the introduction of the Public Finance Act and related regulations in July 2001. These developments aimed to instill stringent budgetary discipline and stricter controls across various government departments and agencies.

However, the complexity of effective cash management necessitates collaboration among multiple stakeholders at various levels within an organization. The board of directors and the chief executive officer bear the responsibility for establishing strategic direction and fostering an environment conducive to efficient cash management. The Controller and Auditor General reports from the 2010/2011 government financial year underlined persistent weaknesses in internal controls within Local Government Authorities, which not only compromised operational effectiveness but also increased the risks associated with corruption and fraud.

Despite the implementation of internal controls within local authorities to provide reasonable assurance regarding operational, reporting, and compliance objectives, the recurring weaknesses cited by the CAG underscore the urgency for further improvement. One of the paramount objectives of internal controls is to ensure operational efficiency and effectiveness, a principle recognized by Arens, Elder, and Beasley (2012) and the COSO framework (2013). It is essential to acknowledge that, like any business process, internal control systems can occasionally fail, as acknowledged by the International Finance Corporation (IFC) in 2021.

According to COSO (2013), even well - designed and meticulously implemented internal controls can offer only reasonable assurance of achieving an entity's objectives.

Furthermore, the effectiveness of internal controls is intrinsically tied to organizational culture, as elucidated by Chalmers, David, and Khlif (2019). In contexts characterized by high levels of individualism, there may be an inclination for managers to act in their self - interest, potentially resulting in unauthorized payments for unbudgeted activities and revenue collection lapses.

Nonetheless, internal control remains a vital safeguard for an entity's assets, and its significance cannot be understated. Effective internal control over cash management, in particular, is critical due to the centrality of cash as the most vital working capital component. Regrettably, within the Tanzanian context, there is a conspicuous scarcity of studies pertaining to internal control over cash. Therefore, this study aspires to bridge this gap by thoroughly examining the effectiveness of internal control over cash in local government authorities, with a specific focus on the Morogoro District, and proposing necessary improvements based on the COSO framework.

2. Research Methodology

This section outlines the research methodology that guided the study. This study used a case study research design. A sample of 30 respondents was drawn from a population of 64 respondents. Purposive and random sampling techniques were used to select respondents. The relationship between independent and dependent variables was tested using Ordinary Least Squares.

3. Research Findings and Discussions

This study aim in examining the effectiveness of the internal control system over cash in Local Government Authorities in Tanzania, a study of Morogoro District Council. The results of this study are presented below:

3.1 Model Summary

Table 3.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.864[a]	.747	.732	.25527

a. Dependent Variable: Y
b. Predictors: (Constant), X5, X1, X4, X3, X2
Where: Y = Effectiveness of Cash Management
 X_1 = Control Environment
 X_2 = Risk Assessment
 X_3 = Control Activities
 X_4 = Information and Communication
 X_5 = Monitoring Activities
Source: Field Data (2023)

Table 3.1 show that, the correlation coefficient (R value) is 0.864 which suggests a high positive correlation between the dependent variable (effectiveness in cash management) and independent variables (risk assessment, information and communication, control environment, control activities, and monitoring activities). This result implies that there is a strong relationship or association between the dependent variable and the independent variables in the given data set. This mean that, as the values of the independent variables increase, the values of the dependent variable also tend to increase.

R- squared represents the proportion of the dependent variable's variance that can be accounted for by the independent variables in a regression model. Results in Table 3.1 also shows that, the R - squared (R^2) value is 0.747 indicates that approximately 74.7% of the variability in the dependent variable can be explained by the independent variables. A higher R^2 value (as 74.7%) suggests that the independent variables are better at explaining the variation in the dependent variable.

3.2 ANOVA

Analysis of variance (ANOVA) was conducted to examine the relationship between a dependent variable and one or more independent variables. In ANOVA, the F - statistic is used to determine whether the variation in the dependent variable can be explained by the independent variables or if it is due to random chance. By comparing the calculated F value to the critical value, we can assess whether the relationship observed in the data is statistically significant.

Table 3.2: ANOVA

ANOVA[a]					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	16.182	5	3.236	49.664	.000[b]
Residual	5.474	84	.065		
Total	21.656	89			

a. Dependent Variable: Y
b. Predictors: (Constant), X5, X1, X4, X3, X2
Source: Field Data (2023)

The ANOVA results indicated that at a significance level of 1%, the critical value for the F - statistic is 3.9562. The calculated F critical value, however, was found to be 49.664, which exceeds the critical value of 3.9562. Based on this information, it can be concluded that there is a significant relationship between the dependent variable (effectiveness in cash management) and the independent variables (risk assessment, information and communication, control environment, control activities, and monitoring activities) being analyzed.

In this case, since the calculated F critical value (49.664) is greater than the critical value (3.9562) at a 1% significance level, it indicates that the relationship between the dependent and independent variables is statistically significant. This means that the independent variables are having a significant effect on the dependent variable, and the null hypothesis, which assumes no relationship between the variables, can be rejected.

3.3 Multiple Regression Analysis

The Table 3.3 below presents results on the impact of independent variables (risk assessment, information and communication, control environment, control activities, and monitoring activities) on the dependent variable (effectiveness in cash management).

Table 3.3: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.298	.217		5.971	.000
	X1	- .068	.042	- .151	- 1.609	.111
	X2	.381	.086	.639	4.410	.000
	X3	- .069	.097	- .092	- .711	.479
	X4	.344	.070	.481	4.899	.000
	X5	- .019	.095	- .030	- .198	.844

a. Dependent Variable: Y
Source: Field Data (2023)

Findings in Table 3.3 indicate that, risk assessment and information and communication were found to be significant at the 1% level. This means that these two variables have a statistically significant relationship with the dependent variable. In other words, changes in risk assessment and information and communication are likely to have a substantial impact on the dependent variable being examined.

On the other hand, the variables control environment, control activities, and monitoring activities were determined to be insignificant. This implies that these variables did not show a statistically significant relationship with the dependent variable in this analysis. Changes in these variables are less likely to have a substantial impact on the dependent variable.

Nonetheless, based on the findings in Table 3.3, it suggests that risk assessment and information and communication are more influential in explaining the variation in the dependent variable compared to control environment, control activities, and monitoring activities.

4. Conclusion and Recommendations

In conclusion, the significant associations observed for risk assessment and information and communication underscore their paramount importance in affecting the outcome. These findings emphasize that alterations in these aspects are likely to exert a considerable influence on the dependent variable. Conversely, the insignificance of control environment, control activities, and monitoring activities suggests that changes in these variables are less likely to significantly impact the dependent variable. Therefore, it is evident that, in the context of our analysis, risk assessment and information and communication emerge as the primary drivers explaining variations in the dependent variable, highlighting their pivotal roles in the studied domain.

Based on these findings, it is recommended that organizations prioritize and invest resources in enhancing their risk assessment processes and improving information and communication systems. Meanwhile, while control environment, control activities, and monitoring activities may still play crucial roles in overall governance and control, organizations may consider reallocating resources and efforts to areas that have shown to have a more substantial impact. By focusing on risk assessment and communication improvements, organizations can better position themselves to navigate challenges and achieve their strategic objectives more effectively.

References

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