

The Effectiveness of Internal Audit Procedures in Identifying Revenue Leakages in Local Government Authorities: A Case Study at Morogoro Municipal Council, Tanzania

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Abstract: The effectiveness of internal auditing procedures in the detection of revenue leakages within Morogoro Municipal Council (MMC) has been evaluated in this study. A mixed-methods approach was used to collect data from 87 participants by means of questionnaires and interviews. The findings indicate that internal audits are generally viewed as effective mechanisms for the detection of revenue losses, highlighting problem areas in need of corrective action. Nevertheless, under-resourcing, inadequate auditor expertise, and weak implementation of audit recommendations hinder the full potential of the internal audit function. Recommendations made include enhanced training for internal audit staff, greater application of technology, more stringent follow-up mechanisms, and instilling a better culture of accountability in order to promote the internal audit function to optimize revenue collection in MMC.

Keywords: Internal Audit, Revenue Leakages, Financial Accountability, Audit Effectiveness, Audit Recommendations, Financial Management.

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I. INTRODUCTION

Internal audit is widely recognized as a critical function for promoting good governance, enhancing financial accountability, and safeguarding public resources. According to the Institute of Internal Auditors (IIA, 2017), internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations by engaging a systematic, disciplined approach to evaluating risk management, control, and governance processes.

In LGAs, internal audits are expected to have a role in very significant areas like revenue leakage detection, financial transparency, and sound decision-making. This is the core function of public funds management efficiency and ultimate service delivery to citizens.

Many studies, both in developed and developing countries, have given evidence that the efficiency of internal audit functions greatly improves the financial performance of

an organization. Arena and Azzone (2009), for example, assert that a strong internal audit system is generally linked to good revenue performance in multinational corporations. Mihret and Yismaw (2007) found that internal auditing has positive impacts on financial management in public institutions, especially when the independence of the auditor is ensured and the requisite resources are provided. Besides, Alzeban and Gwilliam (2014) state that effective internal audits add value towards financial transparency by reducing incidences of misuse in the public sector.

Nevertheless, major constraints face internal audit functions in sub-Saharan Africa that limit their effectiveness. Enofe et al. (2013) and Erasmus and Coetzee (2018) have found limited resources, inadequate training, and weak enforcement of audit recommendations as the major barriers. Also, in Uganda, Katushabe (2017) noted that auditors were constrained in their activities due to the interference of political bodies, leading to compromises in auditing quality; Bogale (2023) echoed the same in Ethiopia, with a lack of

financial independence and management support for performance auditing.

East Africa has increasingly begun appreciating internal audits more, while continuing institutional and political challenges have suppressed these benefits. For instance, while internal audits improved financial performance in county governments, they were also weakened by bureaucratic delays in Kenya. It was similarly noted in Rwanda, where, according to Mberabagabo (2013), internal audits did help strengthen financial discipline and revenue collection with the benefits of an audit function well-supported.

Most of these challenges are reflected at the regional level in Tanzania. CAG Reports frequently cite shortfalls in revenue collection, non-implementation of audit recommendations, and internal controls weaknesses at the LGA level. Research by Mzenzi and Gaspar (2015) as well as Mbogella et al. (2024) indicates that internal auditing units are relatively established in most LGAs in Tanzania but are marred by such problems as an inadequate number of staff, poor training, and limited autonomy or independence, which have been a hindrance to the effectiveness of the audit functions.

Such national issues are observable within the Morogoro Municipal Council (MMC) at the local level. The Council has always dismally performed in terms of revenues collected, despite having an established internal audit unit. Between 2021/2022 and 2023/2024, a total of TZS 30.77 billion was collected against an intended TZS 36.07 billion, giving an achievement of only 85.3% of the goal (MMC, 2025). Furthermore, the annual shortfall on revenues collected keeps increasing at intervals, raising doubts regarding the internal audit's performance in identifying revenue leakages and in ensuring corrective measures or action.

This revenue gap has dire consequences. MMC is unable to provide fundamental public services, such as health

care, education, and infrastructure development, because it lacks adequate financing (Sausi et al., 2021). Moreover, the erosion of public trust is aggravated by corruption, poor financial controls, and a lack of enforcement of audit findings (Charmaine et al., 2024). While internal audits are presumed to be a watchdog over financial matters, their actual importance in revenue mobilization within the MMC is still not clear. This study, therefore, intends to evaluate the efficiency of internal audit procedures in unveiling revenue leakages in Morogoro Municipal Council.

II. METHODOLOGY

Pragmatism was the underlying research philosophy for qualitative and quantitative methods to better understand the issue under research. The research was quantitative and qualitative, where triangulated data were obtained through the use of questionnaires and interviews. The data were collected cross-sectionally at one point in time. The study was conducted in the Morogoro Municipal Council, where the target population consisted of 87 respondents (2 internal auditors and 85 staff). Census sampling was used, and data collection was done through structured questionnaires and semi-structured interviews. Validity was established by expert review and pilot testing, while reliability was determined by the use of Cronbach's alpha ($\alpha = 0.856$). Some ethical considerations during the process of data collection included ethical and legal clearance, instrument piloting, and involvement of key stakeholders. Data were analyzed using quantitative methods using SPSS and qualitative methods using thematic analysis. Ethical standards included informed consent, confidentiality, voluntary participation, and participants' right to withdraw at any time.

III. FINDINGS AND DISCUSSION

Internal control audit weaknesses and loopholes in revenue collection systems are discussed in this section. Summarized in Table 1 are the participants' views on internal audits in tracing revenue leakages.

Table 1 Effectiveness of Internal Audit in Identifying Revenue Leakages

Statements	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
1. Internal audits find revenue leakages easily.	28 (32.9%)	33 (38.8%)	7 (8.2%)	12 (14.1%)	5 (5.9%)
2. The audit team is good at spotting revenue losses.	31 (36.5%)	29 (34.1%)	8 (9.4%)	13 (15.3%)	4 (4.7%)
3. Internal audits help prevent revenue leakages.	35 (41.2%)	31 (36.5%)	5 (5.9%)	10 (11.8%)	4 (4.7%)
4. The audit process detects most revenue issues.	29 (34.1%)	34 (40.0%)	5 (5.9%)	12 (14.1%)	5 (5.9%)
5. Audit findings highlight where money is lost.	34 (40.0%)	30 (35.3%)	6 (7.1%)	10 (11.8%)	5 (5.9%)
6. Internal audits reduce revenue leakages.	32 (37.6%)	29 (34.1%)	5 (5.9%)	13 (15.3%)	6 (7.1%)
7. The audit team is thorough in checking for revenue leaks.	31 (36.5%)	33 (38.8%)	6 (7.1%)	11 (12.9%)	4 (4.7%)

Audits help identify ways to improve revenue collection.	33 (38.8%)	32 (37.6%)	5 (5.9%)	10 (11.8%)	5 (5.9%)
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Source: Field Data (2025)

➤ *Internal Audits Find Revenue Leakages Easily*

The majority, at 71.8%, agreed that internal audits find revenue leakage easily. This indicates that the audit teams are thought to be very good at identifying revenue losses without much trouble. The remaining 20% disagreed and 8.2% left it in the middle. This might suggest that the main flaws in the audit practices lie in the detection of specific leakage points before they fail to be detected, or the process was too complex. This calls for continuous improvements to audit tools, insight into risk-based audit, and possibly furthering some cross-departmental collaborations that will ease the operation process.

Besides serving to reduce information asymmetry from the perspective of Agency Theory, internal audits serve to provide the monitoring of agent activity and block opportunism. For one auditor, “In most cases, we can spot irregularities quickly, especially when controls are weak or documentation is inconsistent.” In turn, this validates the lesser possibility of agents acting in selfish interests owing to the knowledge of engaging their organizations with powerful checks and balances.

The observation aligns with the conclusion of Chirwa (2023) that substantially fewer audit queries and greater revenue collection were responsive to improving internal audit controls. Iliamupu and Kachamba (2025) found, similarly, that effective internal audits have brought out and removed revenue leakages but pointed to being underfunded with ineffectiveness surrounding slow procurement, exacerbating losses. Onay (2021) highlighted that well-set risk and internal audit procedures help to detect financial improprieties like revenue leakage, reinforcing the control mechanism embedded in the Agency Theory.

➤ *The Audit Team is Good at Spotting Revenue Losses*

From the data, 70.6% of respondents believe that audit teams do find revenue losses. Another 9.4% were undecided, while 20.0% disagreed. The returns show the audit team is largely trusted, where as much as 20% have some doubt or lack of clarity in the audit team’s effectiveness. This finding possibly suggests that either varied work experiences or performance across departments or periods might cause a little gray area in audit team performance. An intended inference is that, although generally positively predisposed, perceivers feel a need for increasing agency oversight, perhaps by providing for further success beyond capacity and providing certain performance guarantees.

In support of this position, Nanji (2024) reported that the internal audit exercise proved largely effective and well-communicated but was further marred by concerns over resources adequacy and compliance with standards. Mahyoro (2020) also found that failure to act on audit recommendations and an unassured understanding of internal audits at senior management levels detracted from the value that audits could add. Chepngeno (2017) established that

auditor qualifications were significantly related to financial performance, thus buttressing claims of the importance of high-performance individuals in the detection of revenue losses.

➤ *Internal Audits Help Prevent Revenue Leakages*

An overwhelming 77.6% of respondents contributed to the view that internal auditors, besides spotting leakages, also help to prevent funding loss in the future. Auditors, thus being able to detect and prevent leakages, present an image of being proactive rather than reactive. Only 16.5% were in favor, and 5.9% lay undecided. This shows that internal audits are perceived to drive further organizational improvement and control to mitigate future losses. Even those who rose in opposition argued for poor tracking or implementation of audit recommendations, and they believe that firm audit closure procedures are requisite.

Internal audit: It incorporates various monitoring measures to ensure that agents comply with their roles. One of the internal auditors commented that “*Our job isn’t just to find the leakages, it’s also to build systems that stop them from happening again.*” Any quest for prevention effectively establishes the role of active observation over scam potential agents requires booking affirmative results from an oversight element that can effectively thwart potential negotiation.

Alzoubi (2019) emphasizes the audit’s preventive function in transactions of income management, since the presence of an audit committee and internal audit impedes management from manipulating earnings, often seen as real earnings management, therefore suggesting a strong internal control system. Similarly, Ghaleb et al. (2020) also confirmed how internal audits owned by the internal audit function correlate with real earnings management, inferring a preventative oversight role. Recently, Murage and Mathenge (2023) confirmed this, showing a healthy relationship with their findings between auditing practices and enhanced financial performance.

➤ *The Audit Process Detects Most Revenue Issues*

Most respondents, 74.1% of respondents concur that the audit process is mainly able to cut through revenue-related issues. As for the undecided 5.9% and the remaining 20% of respondents opposing the statement, one could suggest that reputable audit processes still tend to miss some issues, possibly systemic, developing, or just invisible to normal measures. Accordingly, audit processes themselves call to continue constant mutation along with integration with data analytics and automation, thereby being able to reach broader coverage and higher precision.

The literature supports this notion, as espoused by Kasoga 2020, claiming that monitoring activities, including regular audits, are vital in improving revenue collection. Shio (2019) cautioned that a lack of independence and excessive workloads impair auditors’ capacity to detect discrepancies.

Tram et al. (2023) also noted that when group interests interfere, the audit process may not be able to expose deeper financial irregularities, calling for structural reforms and integrity.

➤ *Audit Findings Highlight where Money is Lost*

An estimated 75.3% of respondents agreed that audit findings identify areas where money is lost. This suggests that audit outputs are perceived as actionable and insightful. Still, 17.7% disagreed, and 7.1% were undecided. While the majority believe the findings were clear, the latter group may be having issues related to the style of communicating or interpreting the reports. This implies that there is room for improvement in audit report formats to be practical, visual, and business-oriented, to help non-auditors understand revenue leak points and take some action.

As one auditor noted, “*Our reports clearly show where the problems are; it’s up to management to act on them.*” This means that although audits would be shining a light on problem areas, their effectiveness is dependent on whether there is management follow-through.

Supporting this ever further, Iliamupu and Kachamba (2025) testified to the fact that weaknesses in audit reporting severely undermined revenue-generating efforts. Likewise, Hanau Vuai (2014) observed that the lack of internal audit reports contributed to the persistence of revenue shortfalls. Sheriff and Ngegba (2022) further observed that, notwithstanding the policy backing, an ineffective communication mechanism with differing levels of acceptance amongst management on audit output often watered down the clarity of audit findings.

➤ *Internal Audits Reduce Revenue Leakages*

71.8% believe internal audits are actively reducing revenue leakages, indicating that the impact is beyond mere detection. Nevertheless, 22.4% of those surveyed disagreed, while 5.9% remained neutral. There, therefore, exists some skepticism about the follow-through of audit recommendations on remedial actions thereafter. They imply that to change this perception, organizations must ensure that audit findings lead to the implementation of controls and measurable outcomes.

This outcome matches the findings by Chirwa (2023), who noted the gradual reduction of audit queries as a key driver of increased audit controls and diminished revenue leakages. According to Cantù et al. (2023), internal audit tools have helped to optimize control systems within the public healthcare area, leading to better financial accountability. Likewise, Maduhu (2020) reported that control measures from internal audits were important in reducing leakages, despite the existing hurdles of systems and infrastructure.

➤ *The Audit Team is Thorough in Checking for Revenue Leaks*

75.3% of respondents firmly support the view that audit inquiries are not a routine check but indeed a thorough examination. 17.6% disagreed, while 7.1% were undecided.

Such strong positive affirmation supports a general perception of diligence amongst audit staff; the dissenting few, however, suggest that thoroughness is variable for audits, constrained by either lack of time, lack of appropriate resources, or varying scopes. Reinforcing common procedures and providing credible resources can be a way forward for achieving improvements.

This finding is backed by Onay (2021), who put audit proficiency and audit planning down as factors that are necessary for audits to be thorough and effective. Nyagura (2015), on the other hand, stressed that audits are more thorough and applicable when their personnel are professionally trained. Opposing this, Mukono (2021) warns that audits in public institutions risk being less thorough owing to a narrow focus and insufficient resources, thereby emphasizing the need to create stronger structural support systems.

➤ *Audits Help Identify Ways to Improve Revenue Collection*

76.5% agreed that audits could provide pointers towards improving revenue collection, in addition to identifying losses. This highlights the strategic role of audits in informing revenue-related policies and practices. On the contrary, 17.7% disagreed, and 5.9% were undecided. Herein lies the scenario: while audits are perceived to be valuable in providing various insights, some stakeholders seem not to fully capitalize on the insights generated in their strategic planning. Bridging this gap would involve a more harmonious interrelationship between audit functions and management decision-making.

This view is supported by Sutaryo et al. (2022), who articulate how mature and professionally competent internal audit functions enhance public service delivery—that is, including the strategic planning of revenues. Mwita (2023) found that the internal controls influence revenue collections; nevertheless, communication breakdown and minimal integration of technology impede its ideal use of audit insight. Furthermore, Amin (2018) indicated that in-house officers were more efficient in using audit information for improving revenue practices compared to external consultants.

IV. CONCLUSION

This study demonstrates that internal audit practices play a significant role in the detection and prevention of revenue leakages in the public institutions surveyed; most respondents perceive audits as effective in the identification of losses, the location of problem areas, and recommendations for the enhancement of revenue collection. Many perceive audit teams to be competent and thorough in their approach, thus having a positive bearing on financial accountability and control. Nevertheless, these challenges may include audit inconsistency, adequacy of resources, competence, and implementation of recommendations. These issues also, in a way, indicate that, for their important role, internal audits are not fully effective because of systemic and operational barriers.

RECOMMENDATIONS

To raise the internal audit effectiveness in reducing revenue leakages, efforts must be made to train auditors, invest in technology, ensure proper follow-up on audit recommendations, and improve clarity and accessibility of audit reports. The use of advanced techniques, including data analytics, and better collaboration across departments, would lead to more effective detection of issues. Raising awareness among management and staff regarding the importance of audits will also create a culture of accountability. These actions will increase revenue collections and strengthen financial management.

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