

THE IMPACT OF INTERNAL SECURITY CONTROLS ON CASH MANAGEMENT
MUKWANO GROUP OF COMPANIES LIMITED.

By

Kessio Lois Jelimo

MBA/2942/61/DF

“A Thesis Submitted to Kampala International University, School of
Post Graduate studies in Partial Fulfillment of the Requirements for
the Award of the Degree of Master in Business Administration
Accounting Option”

OCTOBER, 2008

DECLARATION

I KESSIO LOIS JELIMO do hereby declare to the best of my knowledge that this research is my original work and that has never been presented to any University or any other Institution of higher learning for the award of any Degree, Diploma, and Certificate. Where work of others has been cited, due acknowledgement has been given.

Name of the candidate : KESSIO LOIS JELIMO

BIB/2942/61/DF

Signature of the candidate : ........

Date : ...20TH OCTOBER 2008.....

APPROVAL

This is to certify that, this research report entitled “The impact of Internal Security Controls on cash management in Mukwano Group of Companies”, submitted in partial fulfillment of the Masters Degree of Business Administration of Kampala International University, by Kessio Lois Jelimo, was under my supervision and guidance and is now ready to be submitted to the School of Post Graduate Studies with my approval,

Signature.....



Date.....

20/10/08

Mrs. MAUREEN OUMA

DEDICATIONS

To my family

To my son ALOYCE and my husband ABANIS of whom without them life could be meaningless.

To my parents

To my late dad, may your soul rest in peace I love you. To mum who has been my role model, you are a woman to be treasured by your children. You are a friend rather than a mother. To brothers and sisters each of whom has shaped my life in one way or another.

My parents' in-laws

I thank the Lord for if were not for you then my family could be not in existence. Thanks for your son and for taking me as part of the family.

To my grandmother

To Mrs.Climentina Korir, (Kogo) May God Bless the work of your hands. I will always remember you wherever I go.

To Mr.Mutwol

To a man who has always stood on my side as a father. Mr. Mutwol may God bless the support you given to me.

ACKNOWLEDGEMENTS

I wish to express my sincere appreciation to my supervisor Mrs. Maureen Ouma who has guided and advised me throughout my work and Dr. Musiime. Thanks to the Lecturers of Kampala International University School of Post graduate and more so to all the authors that I used their work for references. The entire University for the knowledge instilled in me so as to be who I am.

Special thanks goes to the members of my family, my parents, Grandparents, brothers and sisters (Tecky, Grace, Laban, Elly, Jose) of who all have brought something good to my life. Not to forget my nephew Wayne and Camila. Another great person in my life is Mr. Mutwol and Grand mum, your support in all ways is only God who can reward.

Thanks to my dearly friends of whom without them life could not be easy. Mummy Erinah and Mr. Patric Baguma may the Lord reward you for being there for my family when you were needed most. Sheena, Maurny, Kush, Tony, Joyce, Jane, Gilly and Kim your time has been a blessing to me and to all Friends, Course Mate and neighbors may God reward you accordingly.

My love goes to my husband and our little prince Aloyce, you mean a lot to me.

Above all, I lift up almighty God for the gift of life, health and strength to endeavor all through childhood to this level.

GOD BLESSES YOU.

List of Tables

Categorization of respondents.....	21
The documents used for cash control.....	22
The types of books kept in Mukwano Company Limited.....	23
The response whether there is segregation of duties.....	24
Response on whether there is proper authorization of transactions.....	25
Response whether internal security controls and cash management are sound.....	27

List of Figures

Response on whether there is segregation of duties.....	25
Response on whether there is proper authorization of transaction.....	26
Response on whether internal security control and cash management are sound.....	28

List of Acronyms

ISCS	Internal Security Control System
ISC	Internal Security Control
ISA	International Standards on Auditing
ACCA	Association of Chartered Certified accountants
KIU	Kampala International University
CO	Company
LTD	Limited
UMI	Uganda Management Institute
Ushs	Uganda Shillings
No	Numbers
GAAP	General Accepted Accounting Principles

Abstract

The thesis is about the effect of Internal Security Control Systems (ICS) on cash management of a given organization where in these case Mukwano Group of Co. ltd., was the major organization evaluated. The primary purpose of the study was to examine and evaluate the impact of internal security controls on cash management established by the management of the Mukwano Co. ltd., Kampala main branch with the aim of suggesting corrective measures that can be adopted to ensure that the systems are effective and efficient.

The researcher applied a survey research designing carrying out this research work which enabled the researcher to collect as many views as possible concerning internal controls in cash management in Mukwano Group of Co. ltd, Kampala. The research design was chosen because of its suitability in data collection. The sampling size used by the researcher was 50 participants, where 20(twenty) were its management and 30(thirty) its employees. The data source used was from both primary and secondary sources. Primary data was obtained by use of questionnaires while secondary data was by use of document study such as journals and websites.

The findings of the study show that the (ICS) of Mukwano Co. ltd., are strong and efficiently working and this explains why the company as enjoyed a tremendous success over these years. Secondly we can say this is due to its size in the organizational structure. The larger the company the more the effectiveness in its internal security controls system.

The recommendations of the study were; that the management of Mukwano Company should ensure that there is proper rotation of employees. Mukwano Company should ensure that all cheques are written in full names of the company, they should ensure that there is proper segregation of duties, and should ensure that there is proper authorization of all transaction by the responsible official so as to avoid fraudulent activities within the company.

TABLE OF CONTENTS

Declaration.....	i
Approval.....	ii
Dedications.....	iii
Acknowledgements.....	iv
List of tables.....	v
List of figures.....	vi
List of acronyms.....	vii
Abstract.....	viii
Table of contents.....	ix
CHAPTER ONE: INTRODUCTION.....	1
1.0 Introduction.....	1
1.1 Background to the study.....	2
1.2 Statement of the Problem.....	3
1.3 purpose of the study.....	3
1.4 Objective of the study.....	4
1.4.1 The general objective of the study.....	4
1.4.2 Specific Obejective.....	4
1.5 Research Question.....	4
1.6 Significance of the study.....	4
1.7 Scope of the study.....	5

1.7.1	Geographical scope.....	5
1.7.2	Subject scope.....	5
1.7.3	Time scope.....	5
1.8	The conceptual Framework.....	6
CHAPTER TWO: LITERATURE REVIEW.....		7
2.0	Introduction.....	7
2.1	Organization of the study.....	7
2.2	Review of Related literature and other Research's Work.....	7
2.2.1	The concept of Cash Management and ICS.....	7
2.2.2	Understanding Internal Controls.....	8
2.2.3	Elements of ICS.....	9
2.2.4	Types of ICS.....	9
2.3	Objectives of Internal Controls.....	10
2.4	Means of Achieving Effective Internal Control.....	11
2.5	Organization Structure.....	13
2.6	The Effect of Organization Size on Internal Control.....	13
2.7	Establishment of an Effective System of Internal Control.....	14
2.7.1	Proper Authorization.....	14
2.7.2	Separation of duties.....	15
2.7.3	Cash and Bank Reconciliation.....	15
2.7.4	Audit.....	

CHAPTER THREE: METHODOLOGY.....	17
3.0 Introduction.....	17
3.1 Research Design.....	17
3.2 Research Population.....	17
3.3 Sampling and Sampling Procedure.....	17
3.3.1 Procedures.....	17
3.3.2 Sample Size.....	18
3.3.3 Subject Selection.....	18
3.4 Instruments.....	18
3.4.1 Interviews.....	18
3.4.2 Questionnaires	18
3.5 Data Analysis.....	19
3.5.1 Editing.....	19
3.5.2 Coding.....	19
3.6 Ethical Consideration.....	19
3.7 Limitations of the study.....	20
CHAPTER FOUR: PRESENTATION, INTERPRETATION & ANALYSIS OF FINDINGS.....	21
4.0 Introductions.....	21
4.1 Categorization of respondents.....	21
4.2 The cash controls in place.....	22

4.2.1	Books of accounts kept in Mukwano Co.Ltd.....	23
-------	---	----

4.3	Response on segregation of duties.....	24
-----	--	----

4.4	Response on proper authorization of transactions.....	25
-----	---	----

4.5	Response on internal security controls system & cash management.....	27
-----	--	----

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION.....	29
--	-----------

5.0	Introduction.....	29
-----	-------------------	----

5.1	Summary.....	29
-----	--------------	----

5.2	Conclusion.....	30
-----	-----------------	----

5.3	Recommendations.....	30
-----	----------------------	----

5.4	Areas of further studies.....	31
-----	-------------------------------	----

REFERENCES.....	32
------------------------	-----------

APPENDICES.....	34
------------------------	-----------

Questionnaires A.....	34
-----------------------	----

Questionnaires B.....	37
-----------------------	----

Introductory Letter C.....	40
----------------------------	----

CHAPTER ONE

1.0 Introduction

Internal security controls encompass the policies and procedures that an organization establishes to ensure that it operates in accordance with management's intentions and accountability is maintained for all transactions. This includes the methods adopted by the organization to safeguard its assets, to check the accuracy and reliability of its accounting data, to promote operational efficiency, and to encourage adherence to prescribed managerial policies. Internal Security controls are usually developed and put into place to either prevent mistakes or detect them on a timely basis if they occur.

The study was about analyzing the impact of Internal Security Controls on cash management in Mukwano group of Co. Ltd. Cash is the most important and valuable asset of any organization, thus requires special attention. Internal security controls over cash management are needed at all levels of the organization that handle cash and/or cash equivalents, these are coupons and credit card slips among others. Both program managers and financial managers are accountable for cash under their control. However, the organization unit finance officers must provide guidance to all employees who have cash management responsibilities; he/she also bears ultimate responsibility for internal control security over cash collections, disbursements, and holdings which are accounted for by his/her operations.

Responsibilities of cash management officers, cashiers, certifying officers, and other accountable officers to establish and maintain controls should be formally delegated by organization unit finance officers. This is because operators within the organization depend upon management of cash. If the funds allocated for different activities are mishandled, then, objectives of the organizations will never be achieved. A system of effective Internal Security Controls (ISC) is a critical component of a given organization and a foundation for the safe and sound operation of hospitality organizations.

A strong system of internal security controls ensures that an organization achieves its goals and objectives both long term profitability targets and maintain reliable financial

and managerial reporting. Internal security Controls are established by management to monitor and review accountability and the inbuilt systems. Most companies have collapsed because of mishandling of funds. It is well known that poorly kept records, inaccurate reporting, unauthorized cash transfer, false budgets among others may disrupt the organization from achieving its objectives.

The researcher decided to research about this topic because of the increasing cases of cash malpractices and misappropriations. Thus, the researcher is interested in finding out the controls that are in place by Mukwano group of Co. ltd., so as to avoid cash misappropriation.

.1 Background to the Study

The Mukwano group of Co. ltd. industries with its deep-rooted origins had a humble beginning with a single laundry soap production line installed in 1986. Today, close to just two decades later, it is a conglomerate of varied business interests ranging from manufacturing to transport and logistics to property development within Uganda and spanning across the Great Lakes region with excess of 7,000 individuals who share a common vision. Mukwano group of Co. ltd. is committed to deliver world class products and services at affordable prices to the people of Uganda and Sub Saharan Africa.

Mukwano group of Co. Ltd is located in Kampala Industrial Area. Since 1986, this company has been operating successfully. Mukwano group of Company Limited as any other organization has internal security controls system put in place by management so as to manage the cash and other resources of the organization effectively. However, the controls if not implemented well and supported by a responsible official that is the internal auditor, also they should have departments such as finance and accounting departments, human resource department ,Research and Development, otherwise the internal controls may become weak and chances of fraud and misappropriation of cash may come in.

Internal security controls system are comprised of the plan and all the coordinated methods and measures adopted within an organization to safeguard the assets of the organization, check accuracy and reliability of accounting information, promote operational efficiency and encourage adherence to presented managerial policies. (Chambers 1987, Taylor *et al*, 1988)

Mukwano group of Co. Ltd deals in variety of products which include the following; Bar Soap, Hira Blue Detergent Powder, Nomi Blue Detergent Powder, Nyota Blue Laundry Bar Soap, Nyota Pink Laundry Bar Soap, Nyota Green Laundry Bar Soap, Chapa Mukwano Tablet Soap, Chapa Mukwano Laundry Bar Soap, Chapa Simba, Laundry Bar Soap, Yeyo - Talcum Powder, Yeyo – Shampoo, Mukwano Perfumed Family Jelly, Supa Liquid Detergent, Dazzelene Floor Cleaner, Klix Scouring Powder, Blik Liquid Bleach, Mukwano Fruit Drops/Cough Drops, Pet jars, Jerry cans, Food, containers, Mugs, Basin, Marina Catering Margarine, Nice Fry Deep Frying Fat, Tamu Bakers Fat, Shamba Seed Meal, Sesame Seedmeal, Mukwano Vegetable Oil

1.2 Statement of the Problem

The success of any organization largely depends on how effective its cash resources are managed. Despite the existence of the internal security controls in organizations, cases of cash mismanagement and mishandling continue to exist. Arinatwe Sam (1996). If such a situation is left unchecked, then the company may end up losing a lot of money, which could threaten its going concern objective. This research aims at checking the effects of internal security controls measures that are in place at Mukwano group of Co. Ltd and looking at the effects brought about by these measures both positive and negative.

1.3 Purpose of the Study

The purpose of the study is to examine and evaluate the Internal Security Controls system (ISCS) established by the management of Mukwano group of Co. Ltd and how effective and efficient they are to the success of the company.

.4 Objectives of the Study

.4.1 The general objective of the study is:

To investigate the impact brought by the implementation of Internal Security Controls systems on governing cash in an organization. And in the case of existence of ISCS, then is it effective?

1.4.2 Specific

- i. Investigate and evaluate the effectiveness of internal security control system on cash management in Mukwano group of Co. Ltd.
- ii. To examine and analyze whether there is segregation of duties for example, a different person should handle deposits of cash and cheques from one receiving them.
- iii. To establish whether there is a proper authorization of transaction in the organization.

1.5 Research Questions

- i. What is the impact brought about by the implementation of internal security controls on cash management in Mukwano group of companies' ltd?
- ii. What is the effectiveness of internal security controls system on cash management in Mukwano group of companies?
- iii. How are the transactions authorized and what is the level of segregation of duties in Mukwano group of companies?

1.6 Significance of the study

The groups and categories that are to gain from this study are;

- i. The research is to benefit Mukwano group of Co. Ltd, Kampala. This is through providing information of effective and efficient internal controls and cash management.
- ii. The research is to benefit the researcher in that, through interacting with various respondents the researcher ability and skill are widened and enhance through literature to be gained in research.

- iii. The research is to benefit Kampala International University, as it would be added on to its existing literature in the library.
- iv. The study is aimed at providing information on effective and efficient Internal Control System and cash management to be utilized by other interested parties facing financial losses in their undertakings.
- v. The study is of benefit to other scholars who will conduct studies in related field in future.

1.7 Scope of Study

1.7.1 Geographical

The study focuses at Mukwano group of Co. Ltd in Kampala city cited around Industry Area.

1.7.2 Subject scope

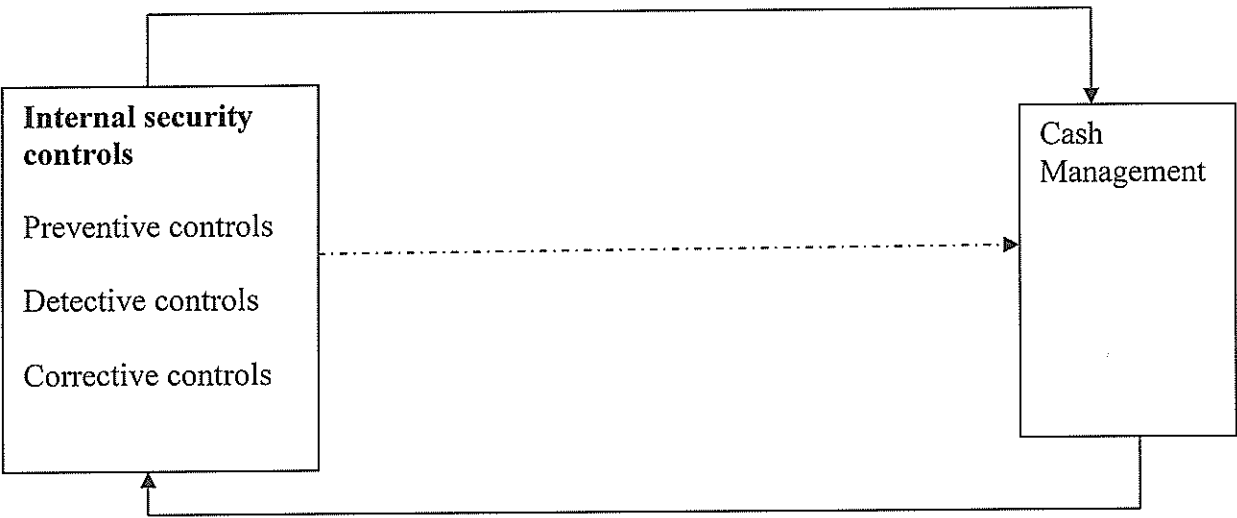
The study is centered on Internal Security Controls (ISC) in place and general management of cash at hand, bank, cash receivable, cash payment the imprested and the balance thereof.

1.7.3 Time scope

This research is expected to take approximately eight months starting from January to august of 2008.

.7 The Conceptual Framework of Internal Security Control System

Figure 1. The Conceptual Framework of Internal security Control System



Source: *I M Pandey (2003) Adapted*

Cash is the important current asset for the operations of the company. Cash is the basic input needed to keep the business running on continuous basis; it is also the ultimate output expected by any given company. Cash is concerned with managing of preventive controls, detective controls, and corrective controls. Cash is the life blood of every business and that's why it requires special attention as well as to be effectively managed. Therefore with effective internal security controls, (preventive controls, detective controls, and corrective controls) cash management is guaranteed since there will be cash planning that involves strict monitoring of cash outflows and disbursements. However, if there internal security controls and cash are weak, and then the firm is likely to end up in financial distress which can eventually lead to bankruptcy (*I M Pandey 2003*).

CHAPTER TWO

LITERATURE REVIEW

.0 Introduction

This chapter reviews the relevant literature about the same subject. It includes major definitions of terms, the classification, essential features, objectives, and limitations of internal control, motives of handling cash and guidelines to strong internal security control systems, if the objectives of effective and efficient cash management are to be achieved.

.1 Organization study

The work is divided into five chapters; the first chapter deals with the background of the study, statement of the problem, research objectives, general hypothesis, the scope of the study, and justification of the study. Second chapter reviewed the research work and related literature of other scholars while chapter three shows the methodology used to carry out the research work. Chapter four described the findings of the study, which is presented in relation to the study objectives. Chapter five is about the summary, recommendations and conclusion of the study.

.2 Review of Related Literature and Other Researcher's Works

.2.1 The Concept of Cash Management and Internal Security Control System

Internal security controls represent an application of common sense and prudent conduct to the use and proper safeguarding of organization's assets. Proper internal control mechanisms provide management with a reasonable assurance that intended safeguards are being practiced consistently. Therefore, the integrity of any cash management activity depends on the application of internal control principles and standards. Cash management involves the following; managing cash flows within the company, Management of cash flows into and out of the company, Financing deficit on investing surplus cash and thus controlling cash balances at the point of time (Pandy M, 2003).

The management of cash is an important function in practice because it is difficult to predict cash flows and there are hardly any synchronization between inflows and outflows. *Adong (1988)* controlling is a three-stage process that includes planning, ensuring and correcting of performance to ensure that the organizational goals and objectives are attained. Standards are set and actions against these standards observed and corrective measures instituted in case of negative deviations from set standards.

Arinaitwe Sam (1996) interpret the term internal security control as the step taken by a business to prevent fraud both misappropriation of asset and fraudulent financial reporting and others acknowledge the important of internal security control for fraud prevention, believing that internal security control has an equal role in assuring internal security control over manufacturing and other processes. It comprises of the control environment and control procedures.

The success of any organization is geared by the implementations of internal security control systems, and thus Mukwano group of Co. Ltd as well. It ensures effective and efficient management of resource of any organization. Internal security controls needed for small scale business differed from internal security controls needed for large scale business and every person in managerial position is expected to institute internal security control measures that are appropriate to the business according to its nature and size (Meigs Walter b. 1988).

2.2.2 Understanding Internal Control

The organizational management should always understand the entity's internal controls in order to put up the financial statement which guides the audit work. This understanding includes knowledge on the five components of internal security controls as well as about the design of relevant internal controls and whether they have been placed in operation by the entity. This knowledge is used to identify the types of potential misstatements, determine control risk, which in turn affects detections risk, assist in the design of substantive tests, knowledge from previous audits, understanding of the entity's industry, assessment of inherent risk, judgment about materiality and the complexity and

sophistication of the entity's operation and system. Each of these items needs to be considered when the auditor examines a client's internal security control where the issues of understanding the five components comes in for instant reliance strategy has been adopted then an extensive knowledge of these components is of importance to the auditor (*William F. Messier Sr.*).

2.2.3 Elements of internal security control system (ICS)

All organizations are expected to have an efficient and sound accounting system contains the following components. Control procedures, these refer to accounting policies and standards to be followed by those working in accounts department. Control environment, this refers to clear-cut responsibilities by those involved in accounting department so that it is easy to fix blame in case of negative deviations. Information system, this involves books of original entry to be kept, ledgers and what accounting statements should be carried out. *ACCA (1996)*

According to *Arens et al (1994)*, the ICS has got five major elements; Management Risk assessment, control environment, control activities, Monitoring and accounting information system. Good communication is crucial to the success of an internal security control system.

2.2.4 Types of Internal Controls

Management is responsible to ensure that the company has an effective ICS that can prevent, detect and correct errors and frauds of cash. Internal controls are subdivided into;

Preventive controls these controls risks from occurring and can be implemented by segregation of duties, recruiting the core staff; authorization controls fraudulent or erroneous transactions occurring. Detective controls, these are controls, which detect errors, and frauds that have not been prevented. They include reconciliation, supervision and internal checks. Exception reports could also reveal situations, which have been cumbersome such as large amounts of money to be paid without proper authorization.

Corrective controls, these are controls that address any problems that have occurred. Where problems are identified, those controls that will ensure that the problems are properly rectified, for example follow up procedures of management action like rotation of staff (Woolf Emile,1994).

2.3 Objectives of Internal Controls

In all organizations internal security controls are implemented to achieve certain objectives (as stated in 2.2.3). The following are objectives aimed at in establishing ISCS: Organizations own assets both current and non-current. These assets need to be properly maintained and safeguarded against misuse, misappropriation and theft among others vices. This thus calls for complete accounting for all the assets. According to *Emily Woolf (1994)*, depending on the complexity of a company, there should be adequate accounting system. Adherence to management policies, hence proper procedures of handling of funds.

An internal control also makes it possible to carry out regular independent checks on the performance of various sectors of a company. An internal control ensures that stock is adequately protected against loss or misuse stock is cash in another format, which must well be protected. There should always be proper authorization of all transactions undertaken in a company. *Emily Woolf (1994)* contends that the internal control makes the verification of these to be carried out with ease. Internal controls aim at ensuring that there is proper recording of transactions in relevant books of accounts in an organization.

2.4 Means of achieving effective Internal Control

An organization's internal control is achieved through effective implementation of its components which includes (as stated in 2.2.2); Control environment sets the tone of an organization influencing the conscience of its people. It is the umbrella of all other components of internal control, providing discipline and structure. It also covers the entire entity and establishes the framework for implementing the entities accounting

systems and internal controls. There are factors affecting the control environment which includes; Integrity and ethical values, commitment to competence, Participation of the board of directors or audit committee, Management's philosophy and operating style, Organizational structure, Assignment of authority and responsibility, Human resource policies and practices

Management risk assessment. An entity's risk assessment for financial reporting is the identification, analysis, and management of risks relevant to the preparation of financial statements that are fairly presented in conformity with GAAP for example historical cost, going concern and business entity (Frank woods 2007). This risk assessment process should consider external and internal events and circumstances that may arise and adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assessment of management in the financial statements. There are factors affecting risk management and these include; Changes in the operating environment, new personnel, new or revamped .information systems, Rapid growth, new technology, new lines, products or activities, Corporate restructuring, Foreign operations, Accounting pronouncements.

Monitoring is a process that assesses the quality of internal control over time. For an entity to achieve its objectives, the management should monitor internal control to determine whether it's operating as intended and that it is modified as appropriate for changes in conditions. Monitoring involves appropriate personnel, assessing the design and operations of controls on a timely basis and taking the necessary action. It can be done through on going activities or separate evaluations. On going monitoring procedures are built into the normal recurring activities of the entity and these are regular management and supervisory activities. Management uses internal auditors or personnel performing the same functions to monitor the operating effectiveness and efficiency of internal controls. The presence of a strong internal audit function strengthens the control environment (*William F.Messier Sr.*)

Control activities are policies and procedures that help and ensure necessary actions are taken in order to achieve the entity objectives. Control activities that are important to internal control include; Performance reviews, Information processing, Physical controls, Segregation of duties

Information and communication. The information system is important to the financial reporting which includes the accounting system, consist of methods and records established to record, process, summarizes and report an entity's transactions and to maintain accountability for the assets and liabilities. An effective accounting system gives appropriate consideration to establishing methods and records that will Properly present the transactions and related disclosures in the financial statements. Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements. Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period. Identify and record all valid transactions. Describe on a timely basis the transactions in sufficient detail to permit proper classification of transactions for financial reporting (Taylor Henry Donald, (1988).

Communication involves providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting. It includes the extent to which to reach personnel understands how their activities in the financial reporting information system relate to the work of others and the means of reporting exceptions to an appropriate higher level within the entity. Communication can also be made orally or through the acts of management.

2.5 Organization Structure

A well designed organization structure provides a basis for planning, directing and controlling operations. It divides authority, responsibilities and duties among members of organizations by dealing with such issues centralized versus decentralized decision making and appropriate segregation of duties among the various departments. When management's decision making is centralized and dominated by one individual, that individual's abilities and moral character are extremely important to the auditors. When a

decentralized style is used, procedures to monitor the decision making of the many managers involved become equally important. (Williams F. Messier Sr.)

The organizational structure of an entity should separate responsibilities such as; Authorization of transactions, Record keeping for transaction, Custody of asset. The effectiveness of such structure is usually obtained by having designated department's heads that are evaluated on the basis of the performance of their respective departments. The top executives of the major departments should be of equal rank and should report directly to the president or to an executive vice-president (RJ Carter 1990).

.6 The Effect of organization Size on Internal Control

The size of an organization may affect the way in which the components of internal controls are implemented. Large companies may be able to implement the components easily compared to the small and mid size companies where they are forced to use some sort of different alternative approaches that may not adversely affect their internal control. The one example that differs between small and large entities is the use of written code of conduct. While large entities use a written code of conduct it may not be the case with small and mid size entities (David Jessop and Alex Morrison 1988).

The small entities can develop a culture that emphasizes integrity and ethical behavior through oral communication and example of the owner manager. While the basic concepts of risk assessment, control activities and information and communication components should be present in all entities, they are likely to be less formal in small or midsize company. A good example is communication channels in a small entity where by it's so effective due to its size; the fact here is the fewer level in the organizational hierarchy and management's visibility. Control activities in small entities are also effective because of owner's-manger day-to-day involvement which leads to identifying risks affecting the activities and monitoring those activities. Monitoring in small to midsize entities is also effective due to management's close involvement in operations.

Coopers et al (1984) ACCA (1996) Milli Champ (1996)

.7 Establishment of an Effective System of Internal Control

- .7.1 Proper Authorization** *R J Carter (1990)* argues the basic principal behind control of stock issues is that of right authorization. Carter defines it as a system or procedure that will ensure that only certain stock is used by certain people for certain activities within the operation.

Jesop and Morrison (1998) holds that stock in stores represent money and should not be misappropriating, wasted or improperly used. For this reason, issues cannot be made indiscriminately and before goods can be withdrawn from a storehouse, there must be some authority for a transaction. This may be in a form of a signed document or verbal instruction or a routine arrangement. The normal method is to use an issue note signed in one appropriate box by an authorized person. Storekeepers should have full details of the names, designations and specimen signatures of all persons empowered to approve issue notes.

In some circumstances it is convenient to handover stores simply on verbal demand by a known supervisor without the presentation of a written document. This is normally done for items of comparatively small value.

The method that authorization employs should be appropriate to everyday needs of the organization. *Carter (1990)* says the stores is given stock value limit, position within the organization where members of staff are able to request a stock on the basis of their position within the company, the function within the organization which restricts the staff to requesting only these items and services that they require and are free.

R J Carter believes that controls of issues of stock are important because it helps to avoid losses. However, Carter outlines the following as problems associated with authorization of issues. Updating of lists of authorized persons, designation of the number of persons who can authorize a request from stores, updating of financial limits and flexibility and controls conflicts. It can therefore be emphasized that, a sound internal security controls system over cash management is paramount in an organization if cash resources are not

to be tempered with. The stronger the ISCS the more confidence the public can have in the financial statements and records of an organization.

.7.2 Separation of duties; the internal control that is the most effectively assures the secure handling of cash is separation of duties. Having different people receive cash, prepare the transmittal and reconcile the ledger sheets attains this. This allows each person to serve as a control over the others, catching mistake and preventing the misappropriation of funds. In small office where separating duties is difficult it is imperative that the supervisor review cash operation each day (Walter b.1988).

.7.3 Cash and Bank Reconciliation; According to ACCA Study and pension, Nerl Stein (1988) bank balances are easy to verify. Following steps are necessary; obtain a confirmation of balances from the bank or banks concern. As the balance confirmed is that according to the banks records, check the reconciliation of the cashbook with the bank statement. When carrying out bank reconciliation.

Teeming and lading; when checking the agreement between the cashbook and the bank statement, the auditor should pay particular attention to the dating of lodgments. A discrepancy in the dates may indicate delay in banking resulting from a form of teeming and lading.

Outstanding checks; a few cheques used by a company are never presented. After six months, perhaps necessary for the client to consider reversing the entry for them restoring the bank balance and reinstating the liability concerned.

Overdrafts; It will be necessary for the auditor to inquire into the terms and limits of any overdraft facility as part of the going concern review. Also where an overdraft is secured, the fact must be stated in accounts.

Job rotations; these should be encouraged in organizations as it ensures that an employee does not overstay in a particular department. This discourages employees from perpetuating fraud and malpractice, as one is likely to be discovered when another employee is brought to the same position. Sport accounts; these should be carried out to check physical cash balances. This is responsibility of the internal audit departments. *ACCA, (1996)*

- .7.4 Audit; Internal Audit is an independent appraisal activity within an organization for the review of activities as a service to all levels of management. It entails constant reviews of internal security controls in ensuring that they are effective and can be relied on in the ensuring the safety of the assets and that the financial statements are reliable. Internal audit department is thus crucial if an organization is to put a check in all transaction that involves cash flows. Ethically carried out internal audit can reduce on frauds and thefts particularly when dealing with cash as this is the most liquid susceptible asset in an organization. *ACCA, (1996)*.

CHAPTER THREE

METHODOLOGY

.0 Introduction

This chapter focused on the methods and techniques that are were used by the researcher to collect data for the study. It considers study design, procedures, subject selection, data collection instruments, data analysis, limitations and delimitation.

.1 Research Design

Descriptive research design was used in the study. The descriptive research design helped the researcher to describe and explain the way controls are implemented in the organization. Quantitative research approaches were used to obtain the data that can be measured in numerical figures.

.2 Research Population

The researcher was interested with Mukwano Group of company staff .She targeted both the top managers as well as the support staff from different departments in the company. The main targeted sample was employees as a whole.

.3 Sample and sampling procedure

.3.1 Procedures

In carrying out this research, the researcher had to go through several channels in order to acquire the relevant data;

The research topic was handed to the supervisor for approval, questionnaires and instruments also were approved. The researcher then obtained an introductory letter from the school of post graduate Kampala International University. This was to help the researcher to be accepted in the field of study and to the management and staff of Mukwano Co. Ltd, indicating the purpose of the researcher's visitation. This was followed by the actual administration of instruments, which included distribution of questionnaires to the subjects and carrying out other necessary observations. The

researcher collected the questionnaires after they have been filled. Finally, the collected data was sorted, analyzed, and interpreted and edited compared with other notes.

3.3.2 Sample size

From the target population of 51 employees at Mukwano, 50 were selected. This was through use of Sloven's formula. Of the 50 selected, 20 were top management employees, 15 were employees from the finance department and 15 subordinate workers from other departments.

$$n = \frac{N}{1 + ne^2} \quad \text{where } n = \text{sample size, } N = \text{total population,}$$

$$= \frac{51}{1 + 0.05^2} \quad ne = \text{degree of error at 0.05 level of significance}$$

$$= 50.87282$$

3.3.3 Sample Selection

Due to the nature of the population which was heterogeneous, the sampling frame involved both top management and ordinary employees of the company. Purposive sampling technique was used to select all the above samples this was because they were deemed by the researcher to hold information of importance.

3.4 Instruments

3.4.1 Interviews

The researcher used interviews to acquire information that is not easy or possible to get through questionnaires. Unclear questions to the respondents were re-asked or repeated which enabled the researcher to get more clear information from the respondents.

3.4.2 Questionnaires

These include both structural and non-structural, which was aimed at getting all the necessary data from the respondents. This method was used because of the following reasons; they are cheaper to be administered and convenient to collect data from such a

large population within a short period of time, respondents are expected to answer even sensitive question because they are not going to write their names.

3.5 Data Analysis

Raw data was edited as soon as the instruments were received. The data was analyzed through use of tables, pie-charts, computer packages for example Microsoft excel, percentage and tables.

3.5.1 Editing

This was done at the end of each work day. This process was carried out to ensure that the information given by respondents is accurate and consistent. Editing was done by the researcher, in this respect; every questionnaire that came from the field was scrutinized, through cross checking wrong entries and standardizing the information while checking on the omissions and inconsistencies.

3.5.2 Coding

This consisted of translating edited responses into numerical figures or terms. Coding was considered as a process or classification by the researcher in preparation for tabulation. A complete coding schedule was done to ensure that various responses obtained were classified into meaningful forms so as to bring out those essential patterns clearly.

3.6 Ethical Consideration

Many companies are not willing to enclose their information, especially regarding to accounts issues. So the research had to justify herself when approaching the company managers in order for them to believe that her work was purely academic. By doing so she had to get an introductory letter from the university confirming and informing them that the research is a bonfide of Kampala International University pursuing a Master Degree and as part of her studies she has to do a research work. The university requests the management of Mukwano Group Company limited to assist the research by supply/furnishing her with the required information through questionnaires she had administer, interviews and reading materials for her research work.

1.7 Limitations of the Study

Research being known to be a very tedious and costly venture, thus there are limitations that were encountered by the researcher and they include:

- i. Lack of cooperation from some respondents especially top management respondents who are in charge of the company's operations.
- ii. Financial problem. Due to the fact that the study requires finance in form of traveling and other funding, the researcher was faced by financial constrain in the process of carrying out research. The researcher thus, was forced to acquire a loan from a relative.
- iii. The researcher was targeting the accounting department of the organization. However, the majority of respondents were not really from this department and thus most of them did not understood the terms like ICS .The researcher hence had to explain the accounting terms in ordinary language used in questionnaires and interviewing.
- iv. Lack of willingness from the respondents to fill the questionnaires or spend their time to be interviewed.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS OF FINDINGS

4.0 Introduction

This chapter addresses the presentation and analysis of the field data. The research examined the data so as to find out how the internal security control system affects the cash management. Tables, figures, and pie charts were used in the presentation and interpretations of findings.

4.1 Categorization of Respondents

The sample covered 50 respondents in total. 20 respondents from the management staff and 30 respondents from employees. The questionnaires put forward were administered at Mukwano Head offices. The following table shows the response rate.

Table 4.1: showing categorization of respondents

Qualification	Management		Employees	Percentage
	No. of Respondents	Percentage	No. of Respondents	
Degree	15	30%	12	24%
Diploma	5	10%	18	36%
Total	20	40%	30	60%

Source: Primary data

From the table 4.1 above, the sample covered 50 respondents. The researcher obtained information from 10% of the management staff who were Diploma holders and the researcher managed to obtain more data from the Degree holders of the management staff which was 30%.

From the section of employees, the researcher obtained 36% of the information from Diploma holder employees and also obtained 24% of the information from the Degree holders among the employees of Mukwano Company Ltd. Thus the researcher was able

to obtain all the relevant information concerning how the internal controls influences cash management at Mukwano Company Ltd.

2 The Cash Controls That Are In Place at Mukwano Company Ltd

The findings of the study revealed that Mukwano Company Ltd has cash control in place. This was found out through the interview carried out with the management as well as questionnaires that were distributed to the management. The following table show the documents that are in place at Mukwano to ensure effective cash management.

Table 4.2: Showing the documents used for cash control

Documents	Used for control		Not used for control		Total
	No. of Respondents	Percentage	No. of Respondents	Percentage	
Vouchers	40	80%	10	20%	100%
Receipts	50	100%	-	-	100%
Local Purchase Order	42	84%	8	16%	100%

Source: Primary data

From table 4.2 above, the findings of the study revealed that documents are raised and issued for control purposes in Mukwano Company Ltd. The researcher administered 50 questionnaires, where each had the following items; vouchers, serially numbered receipts and local purchase order. Each item was evaluated out of 50 questionnaires, which made the total number of respondents. This was later calculated into percentage form of the totals of those respondents who accept that Mukwano group of Company Ltd's documents are used for control and of those who reject that the documents are not used for control. From the results, 100% of the respondents show clearly that receipts issued are serially numbered and they are multi-copied. This is a good indication that internal control on cash are effectively working in Mukwano Company Ltd.

The study also revealed that vouchers are issued for controls at Mukwano. This is evident by 80%. However, 20% of the respondents who disagreed should not be under estimated if Mukwano Company Ltd is to have the most efficient and effective internal control system so as to have minimal or no cases of fraud in the Company. The researcher also found out that there are other documents like delivery notes which are serially numbered, these are goods received notes and invoices which are also serially numbered. This has made the internal control system of Mukwano more efficient as far as cash management is concerned.

2.1 Books of Accounts kept in Mukwano Company Ltd

The study revealed that different books of accounts are kept in Mukwano Company Ltd. Since there is proper book keeping system, most especially on the documents and records that concern cash transactions, therefore cash management in Mukwano is valid and it is effective. The following table shows the types of books kept in Mukwano Company Ltd.

Table 4.3: The following table shows the types of books kept in Mukwano Company Ltd.

Book of Accounts	Response			
	Yes	Percentage	No.	Percentage
Cash book	46	92%	4	8%
Cash analysis books	40	80%	10	20%
Store ledger	48	96%	2	4%
Bank reconciliation Statements	45	90%	5	10%

Source: Primary data

Findings from the study revealed that Mukwano Company Ltd keeps most of the Books of Accounts efficiently. For example, it was revealed and found out that cash book is always prepared and a reconciliation is made with the Bank statement thus a Bank reconciliation statement is prepared. The cash analysis documents are also prepared to ensure that the flows of funds is accurate, classifying clearly the cash inflows and outflows so as to eliminate any element of fraud. However, 20% said that cash analysis books are not effective thus Mukwano Company Ltd. management needs to ensure that

most effective cash analysis books are put in place so as to have a complete effective and efficient internal control system more especially on cash and cash transactions.

3 Response On Whether There Is Segregation Of Duties

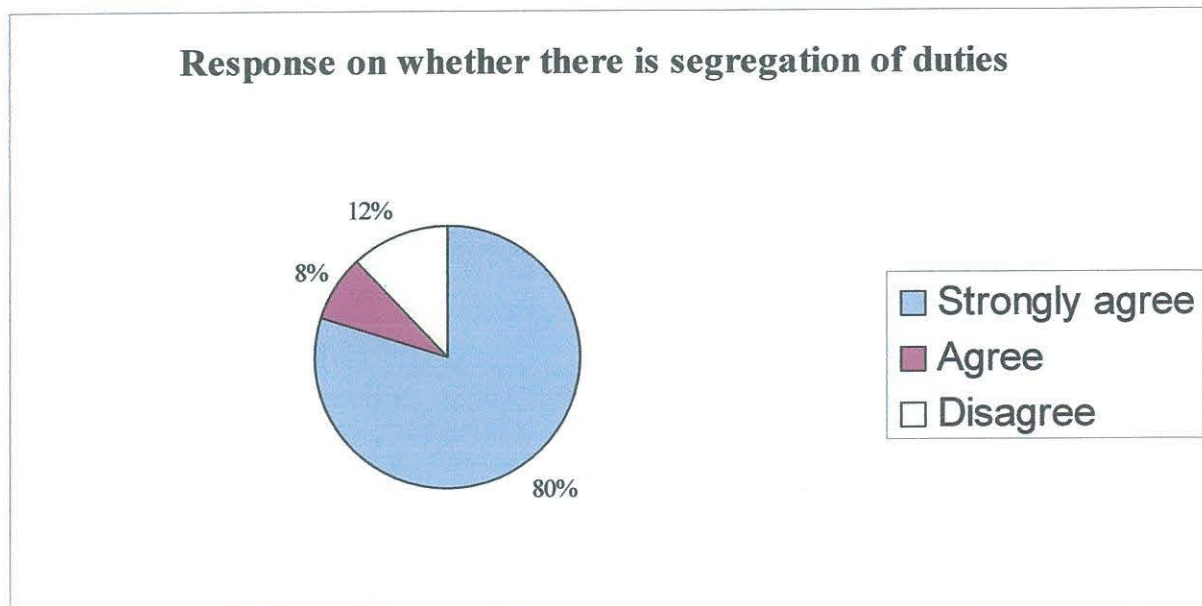
The findings of the study revealed that there is proper segregation of duties between the staff who control accounting records and those who receive cash. For example, the researcher found out that the person who initiates a transaction is not the one who at the same time authorizes it. Thus proper controls on cash transaction are in place. This is because proper segregation of duties reduced fraud within the company and this saves the company from losing money.

Table 4.4: Showing the response whether there is segregation of duties

Response	No. of response	Percentage
Strongly agree	40	80%
Agree	4	8%
Disagree	6	12%
Not sure	-	-
TOTAL	50	100%

Source: Primary data

Figure 4.1 showing whether there is segregation of duties



Source: Primary data

From table 4.4 and figure 4.1 above, the findings of the study revealed that 80% of the respondent strongly agreed that Mukwano Company Ltd has proper segregation of duties among the employees who control accounting records and those who receive cash. However, 6% said that there is segregation of duties but are not properly enforced. Thus management needs to clear it up and ensure that a person who initiates a transaction is not the same person to authorize it so as to avoid fraudulent activities within the organization which can make the company to lose a lot of money.

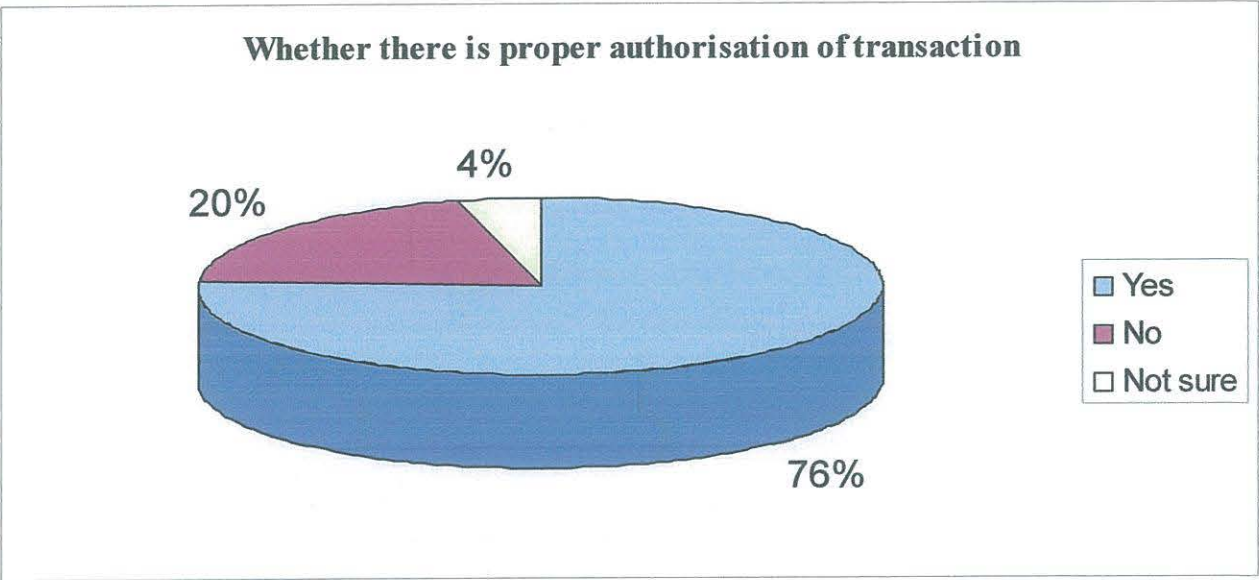
4.2 Response On Whether There Is Proper Authorization Of Transactions

Table 4.5: Showing there is proper authorization of transactions

Response	No of respondents	Percentage
Yes	38	76%
No	10	20%
Not sure	2	4%
TOTAL	50	100%

Source: Primary data

Figure 4.2: Showing whether there is proper authorization of transactions



Source: Primary data

From table 4.5 and figure 4.2 above, the findings of the study revealed that there is proper authorization of transaction and cash transaction as well. This is because 76% of the respondents strongly accepted that authorization is active in Mukwano Company Ltd and they assured that no transaction is effected without being properly authorized. Further, the study revealed that, Mukwano Company Ltd has limited number of persons who authorize the transaction and the Company has few recommended persons for receiving cash. Among these people include Sales Assistants, Cashiers and traveling Assistant. The study also revealed that cash received by traveling Salesman is accounted for properly and that these people are given adequate security guards against any form of robbery.

The study revealed that 20% of the respondents disagreed that though Mukwano Company Ltd has authorization in place but it is not followed. This is because sometimes actions are handled without proper authorization. These include transaction of small amounts. Thus, the management of Mukwano Company Ltd. needs to ensure that proper channels of authority are put in place such that each and every

transaction that involves cash from the Company is properly authorized by the responsible officials.

4.3 Response On Whether The ICS and Cash Management Is Sound

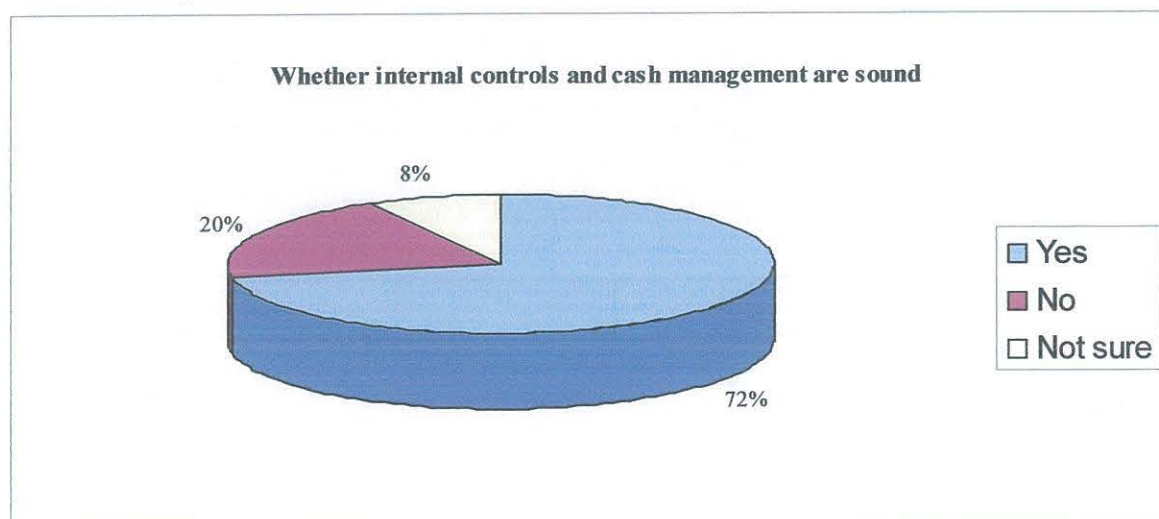
The findings from the study revealed that the internal control and cash management put in place by Mukwano Company Ltd are effective and efficient. This is because the company has been performing well and it has not registered any losses that have come as a result of fraudulent activities due to cash mismanagement. The details are revealed by the following table.

Table 4.6: Whether internal control and cash management are sound

Perceptions	No of respondents	Percentage
Yes	36	72%
No	10	20%
Not sure	4	8%
TOTAL	50	100%

Source: Primary data

Figure 4.3: Showing whether internal control and cash management are sound



Source: primary data

From table 4.6 and figure 4.3 above, the findings of the study revealed that the internal control and cash management in Mukwano Company Ltd. are sound. This is because 72% of the respondent agreed and affirmed that the internal control and cash management are in place and are efficient. This explains why there have not been cases of mismanagement of cash in Mukwano Company Ltd. The study further revealed that in Mukwano Company Ltd, all cash received and cheques received are banked promptly and cash is banked intact. The management ensures that no expenditure is made out of daily collections of cash. The study also revealed that there are always different persons responsible for selling goods, making deliveries and receiving cash.

It was further revealed that all cheques are written in full names of the Company and there are no abbreviation acronyms. This has made the Company to build a strong internal control and cash management system which has not only ensured effective cash management but also effective cash management and control of other organization, resources like non-current assets.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses the summary of the main findings of the study, conclusion as well as the recommendations made by the researcher.

5.1 Summary

The study was carried out to evaluate the impact of internal security controls system on cash management in Mukwano group of Companies limited. The findings from the study revealed that there is a significant relationship between the efficient cash management that has been prevailing in Mukwano group of Company Limited and the internal security controls. The objectives of the study were to evaluate the effectiveness of internal security controls system over cash management in Mukwano group of Company Limited, to determine whether there is segregation of duties in Mukwano Company Limited and to find out whether there is proper authorization of transactions in Mukwano Company limited.

The above intended objectives of the study were followed in the course of conducting the research. The findings of the study revealed that the internal control system on cash management in Mukwano Company Limited are strong and are efficiently working through the management of Mukwano needs not relax; they need to keep on implementing them.

The findings of the study further revealed that there is authorization of transactions in Mukwano Company Limited. However, the study found out that small transactions are affected without proper authorization from responsible officials. Thus the management needs to ensure that each and every transaction to be executed is properly authorized so as to avoid fraudulent activities within Mukwano Company limited.

5.2 Conclusion

The internal security controls system on cash management has a significant impact on the general organizational performance of every company. This is because cash is a very tricky asset that needs to be handled with care. In Mukwano group of Company Limited the internal security controls are strong; however the management needs to be on the look out for any loop hole in the internal security control system so as to ensure that the cash of Mukwano group of Company is not swindled by the unscrupulous employees.

The general conclusion of the findings was that Mukwano group of Company Limited has proper authorization of duties, segregation of duties is present though needs to be checked to ensure efficiency and that the staff in the cash handling transaction areas are competent. Thus the internal control system on cash management in Mukwano group of Company Limited is generally strong.

5.3 Recommendations

From the findings of the study revealed, the researcher made the following recommendations.

The Management of Mukwano Company Limited should put more emphasis on proper rotation of employees so as to avoid employees over staying in one position which leads to familiarity which can result into fraud. The management should also prescribe and limit the number of persons, who are authorized to receive cash so as to avoid fraudulent activities.

The management should always emphasize that there are different persons responsible for selling goods, making deliveries and receiving cash. The management should ensure that all cheques are written in full names of the company and should not be abbreviated in acronyms. There should be adequate segregation of duties in order to minimize the possibility of a loss through fraud. Segregation should cover the following; listing of remittances or issuing of receipts, authorization of cash sales records, bankrupt of all

receipts; preparation of Bank reconciliation statements and lastly cashiering function from petty cashiering function.

5.4 Areas Of Future Research

The impact of internal audit on performance of companies.

Remuneration and performance of employees of Mukwano Company Ltd.

REFERENCE:

ACCA, (1996) Audit Framework, (4th edition) Bpp Publishing London

ACCA, (1999), SAS 300, Accounting and Internet Control Systems, and Risk Management, Journal of European Monetary Union, ACCA Students Newsletter.

Adong Patricia, (1997), Evaluation of Effectiveness on Internal Controls in Diary Corporation (Research Report)

Auditing and assurance services. A systematic approach second Editions William F. Messier sr.

Arinaitwe Sam (1996), Evaluation of Effectiveness of Internal controls (Research Report)

Coopers and Lybrand, (1984) Manual of editing (4th edition) Gee and Company Publishers, London

David Jessop and Alex Morrison (1988) Storage and Control of Stock (4th edition) Pitman Publishing 128 Long Acre, London WC2E 9AN (UK)

Frank wood and Alan Sangster (2007) business accounting (10th edition)

Meigs Walter b. Whittington O Ray, Kurt, J. Pany, Meigs Roberts F, (1988), Principles of Auditing (Revised 8th Edition) Irwin, Homewood

Millichamp A. H (1996) Auditing (4th Edition) A. H Millichamp, London

Pandy M, (2003), Financial Management (Revised 8th Edition) Vikas Publishing house PVT Ltd. New Delhi

Taylor Henry Donald, Glezen G. William (1988) Auditing Integrated Concepts and Procedures (4th edition) John Willy and Sons Toronto

Woolf Emile, (1994) Auditing Today (5th edition) Prentice Hall International (UK) Tokyo.

R.J Carter (1990), Stores Management and Related operations (2nd edition) Pitman Publishing 128 Long Acre, London WC2E 9AN (UK)

www.Mukwano.com

APPENDIX A

QUESTIONNAIRES FOR THE MANAGEMENT OF MUKWANO INDUSRTY

DEAR RESPONDENT,

I am glad to have you selected as one of the respondents as regards to the study: THE IMPACT OF INTERNAL SECURITY CONTROL ON CASH MANAGEMENT IN MUKWANO INDUSTRY. Your observation, experience and opinion are very important .This research is purely academic and intended to help me obtain information on the topic. The information obtained will be treated with confidentiality.

Thanks for your co-operation.

BACKGROUND INFORMATION

(Tick where applicable)

1. Position held.....

2. Period spent in the organization

☐

Less than a year

☐

1-5years

☐

More than 5 years

3. Education qualification

☐

Diploma

☐

Degree

If any other specify.....

.....
.....
4. Gender ☐ Male ☐ Female

5. Are there controls over cash and cheques?

☐ Yes ☐ No ☐ not sure

If YES list the controls of cash and cheques practiced by the organization to ensure safe custody of cash and prevention of cheques forgeries.....
.....
.....

6. Is regular inspection of accounting records done by responsible official?

☐ Yes ☐ No ☐ not sure

7. Do you think the internal controls system and management of cash of Mukwano company ltd is sound?

☐ Yes ☐ No ☐ not sure

8. Is there segregation of duties between the staff who controls accounting records and those who receive cash?

☐ Yes ☐ No ☐ not sure

9. Is there proper authorizations of transaction in Mukwano company ltd?

☐ Yes ☐ No ☐ not sure

10. From the following statement please tick the appropriate box.

Statement	Strongly Agree	Agree	Not sure	Disagree
All cheques are serially numbered				
All bank cheques are signed in Advance				
Independent reconciliation of bank accounts carried out				
The person who prepares bank deposits also cash the deposit				
Person who prepares bank reconciliation statements are independent of persons who handles receipts and payments				
Bank reconciliation is frequently carried out				

THANK YOU.

APPENDIX B

QUESTIONNAIRES FOR THE EMPLOYEES OF MUKWANO INDUSTRY

DEAR RESPONDENT,

This questionnaire is designed to seek information in the impact of internal control system on cash management .The study is purely academic and guarantees maximum confidentiality of the participants. Thus your participations are very important in the study.

Do not write your name in this form.

Please attempt the questions as sincerely as possible by putting a tick against the response you agree with, Thanks in advance

1. Gender.

☐

Male

☐

Female

2. Age

☐

below 35years

☐

35-50years

☐

above 50 years

3. How long have you been an employee in Mukwano industry?

☐

Below 5years

☐

5-10years

☐

above 10years

4. Which category of staff do you belong to?

☐

Accounting

☐

Technical

☐

Casual

If any other please specify.....

.....



KAMPALA
INTERNATIONAL UNIVERSITY

P.O.BOX 20000
KAMPALA-UGANDA
TEL:-041-266813

**OFFICE OF THE DIRECTOR
SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH**

13th August, 2008

To:
Mukwano Group of Companies
Ltd

Dear Sir/Madam,

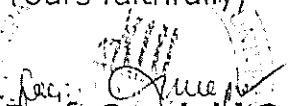
RE: INTRODUCTION FOR MISS KESSIO LOIS JELIMO

The above named is our registered student in the School of Post Graduate Studies and Research, pursuing a Master of Business Administration. With Registration number MBA/2942/61/DF

She wishes to carry out a research on "The impact of Internal Security Controls on Cash Management in Mukwano Group of Companies"

Any assistance accorded to her regarding research will be highly appreciated.

Yours faithfully,


Prof. Owolabi O. Samuel
Director SPGS&R

