INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE OF PRIVATE SECONDARY SCHOOLS IN KAMULI DISTRICT UGANDA: CASE STUDY OF KAMULI PROGRESSIVE COLLEGE

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APPROVAL

This is to certify that this research report has been submitted in partial fulfillment of the requirements for the award of a Bachelor's Degree in business administration (Finance accounting) with my approval as the University supervisor.

Signature.. **Date**...23/9/2019...

DR. JOSEPH B.K. KIRABO

DEDICATION

This research report is dedicated to my beloved mother **Mrs. Baligeya Elizabeth**, my role model and Daddy **Mr. Baligeya Sebastian** not forgotten at any one moment my brother and sister **Mary Nabirye**, Fiona Mulabiza, brother Ikoba Jacob friends and family and finally my supervisor Dr. Joseph B.K. Kirabo for their tremendous aid rendered towards me financially, academically, morally and spiritually.

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The success in producing this research report is attributed to a number of people, whom I wish to extend my thanks. The completion of this piece of work has been such a task that would not have been a success when handled solely.

I first of all thank God, who gave me the abundant health, strength and courage to be able to complete this work. My sincere gratitude goes to my supervisor Dr. Joseph B.K Kirabo, the same token I wish to thank all lecturers in the department of Finance and Accounting for their academic role that has led me towards the completion of my course.

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Last but not least, I am very grateful to the almighty God for life, courage, strength, and power given unto me to utilize this precious opportunity and accomplish this study. Never give up all is possible in the name of the Lord. Let his name be glorified, Praise God, AMEN.

TABLE OF CONTENTS

LIST OF TABLES

LIST FIGURES

LIST OF ABBREVIATIONS AND ACRONYMS

ACCA..Audit and Assurance Services).

MOES &T....................................Ministry of Education Science and Technology.

MVA..Market Value Added

PPPE.. Public Private Partnership for Education

SAP...Standard Auditing Practices

ABSTRACT

The study investigated and sought to establish *the effect on internal control systems on financial performance in private secondary schools in Kamuli, Uganda. Internal controls were looked at from the perspective of Control Environment, and Control Activities and risk management whereas Financial performance focused on Liquidity, Quality, Efficiency, Satisfaction, Survival, Liquidity and Reporting as the measures of financial performance. The research was conducted using both quantitative and qualitative approaches using Survey, Case study as Research Designs. Data was collected using Questionnaires as well as review of available documents and records targeting basically Finance Officers, Heads of Departments, Management Committee members and Finance and Accounts staff as respondents from a population of 40 in Kamuli progressive college. Data was analyzed using the Statistical Package for Social Scientists where conclusions were drawn from tables, figures from the Package. The study found that management of the institutions is committed to the control systems, actively participates in monitoring and supervision of the activities of the school, all the activities of the Institution are initiated by the top level management, that the internal audit department is not efficient, is understaffed, doesn't conduct regular audit activities and doesn't produce regular audit reports although the few reports produced by the internal audit department address weaknesses in the system. It was further revealed that there is a clear separation of roles, weaknesses in the system are addressed, and there is a training program for capacity building in the institutions. However, the study also found out that there is lack of information sharing and inadequate security measures to safeguard the assets of the school. The study established a significant effect of internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the Institutions in Kamuli expects the internal audit department to do and what appropriate number staff would be required to do this job. It also recommends that the institutions establishes and manages knowledge/information management system to enable all parties within the institution to freely access and utilize the official information. There should be a strategy to improve the generation of additional finances for the Institutions in Kamuli. The Study therefore concludes that internal control systems do function although with hiccups and that there is a significant effect of internal control systems on financial performance of private secondary schools in Kamuli, Uganda.*

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This section will present the background to the study, statement of the problem, specific objectives, and research questions, scope of the study, significance of the study and operational definition of key terms.

1.1.0 Background to the Study

1.1.1 Historical Perspective

Internal control system is a topical issue following global fraudulent financial reporting and accounting scandals in both developed and developing countries (Mattie & Cassidy, 2002). According to COSO (2004), Internal Control is a system consisting of specific policies and procedures designed to provide management with reliable assurance that the goals and objectives it believes important to the entity will be met. In their view, the reasons to have internal controls is to promote operational effectiveness and efficiency, provide reliable financial and administrative information, safeguard assets and records, encourage adherence to prescribed policies and compliance with regulatory agencies. The AMF Working Group (2007) looked at the components of internal controls as being the control environment, control activities, risk assessment, information and communication, and monitoring and evaluation. Whereas internal controls are thought to be the domain of accountants and auditors, it is actually management that has the primary responsibility for proper controls.

Internal controls refer to the measures instituted by an organization so as to ensure attainment of the entity's objectives, goals and missions (Brennan & Soloman, 2008). They are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to the organizations communication processes, internally and externally, and include procedures for:- handling funds received and expended by the organization, preparing appropriate and timely financial reporting to board members and officers, conducting the annual audit of the organization's financial statements, maintaining inventory records of real and other properties and their whereabouts.

Internal Controls are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (David, 2001). Increasingly, reliability of financial reporting in accounting context is very important for the investors who use the information for decision management (Jenning et al., 2008).

The reliability of financial reporting is effective to internal control efficiency to ensure that the transactions and bookkeeping are appropriate and properly authorized, valid, correctly recorded, complete, and on time. Moreover, it is very important that organizations have fairly summarized accounting information data disclosure (Sebbowa, 2009). However, in general, a quality reporting is affected by internal control mechanism. There is a general perception that institution and enforcement of proper internal control systems will always lead to improved financial performance. It is also a general belief that properly instituted systems of internal control improve the reporting process and also give rise to reliable reports which enhances the accountability function of management of an entity. According to Dixon et al., (2001) appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives.

An entity should put in place its own system of controls in order to achieve its objectives (Mwindi, 2008). A system of effective internal controls is a critical component of company management and a foundation for the safe and sound operation of organizations. However, ineffective internal controls result in ineffective programs and eventually leading to losses (Olumbe, 2012). Recent incidence of corporate failures and accounting frauds are mostly preceded by failure in companies' internal control structures (Anyanzwa, 2013). The companies will develop; design and institute structures, processes and systems not primarily based on rational economic cost benefit analysis, but because they are more or less required incorporating new practices and procedures. By doing so, they will mitigate agency problems and increase assurance to all the stakeholders. Strategies required include mechanisms for improving participation, efficiency, transparency, accountability mechanisms at individual, household, community, institutional, organizational levels. This calls for well-defined system of internal controls. Internal control system entails the upholding of the policies, strategies and legislation where water service providers have to develop and manage water resources in an efficient and effective manner while being accountable to the recipients of the services. With this focus on transparency, participation and accountability, this study will provide a valuable contribution to addressing challenges facing the financial performance of water companies (Matata, 2015).

Internal controls are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Jensen, 2003). Internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for performance (Beeler et al, 1999). Fadzil et al., (2005) said that an effective internal control system unequivocally correlates with organizational success in meeting its performance target level.

Internal control keeps an organization on course toward its objectives and the achievement of its mission. They promote effectiveness and efficiency of operations, reduces the risk of asset loss, and helps to ensure compliance with laws and regulations. However the overall purpose of the concept is to help an organization achieve its mission, promote orderly, economical, efficient and effective operations and produce quality products and services consistent with the organization's mission, safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud. It also promotes adherence to laws, regulations, contracts and management directives as well as develop and maintain reliable financial and management data, and accurately present that data in timely reports (Magara, 2013).

1.1.2 Theoretical Perspective

Institutional theory, offers a contrasting explanation that may be used to understand the adoption and design of control practices within organizations. This theory, more sociological in character, originates from work done by Meyer and Rowan (1977) and DiMaggio and Powell (1983). It has been said that institutional theory is becoming an important theoretical perspective in accounting and organization theory research (Dillard, Rigsby & Goodman, 2004). According to this theory, organizations develop and design structures, processes and systems not primarily based on rational economic cost benefit analysis, but because they are more or less required incorporating new practices and procedures.

According to Meyer and Rowan (1977) this means that: Organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society. Organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures. Organizational structures, including the various internal control functions, roles, processes and systems, become symbolic displays of conformity and social accountability. Organizations with the appropriate structures in place avoid in-depth investigations of their business operations.

Meyer and Rowan, building on the work by Berger and Luckmann (1966), pointed the importance of institutionalized rules. These are classifications built into society and may be taken for granted or supported by public opinion or even the force of law. These rules involve normative obligations which may be viewed as facts of (organizational) life which must be taken into account and considered by actors in the business community whether they are risk management officers, compliance officers, managers, auditors, directors or other types of professionals within and outside of firms. The process of institutionalization is then how social processes of different kinds come to take on a rule like status in everyday society. Repeated patterns of actions become institutions, or institutionalized rules, and thus institutional theory explains organizational phenomena by pointing to the environment and the formal and informal rules that are imposed on organizational activities.

1.1.3 Conceptual Perspective

Financial control refers to means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (machinery and property) and intangible (reputation or intellectual property such as trademarks) (Jenning et al., 2008).

At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures reduce process variation, leading to more predictable outcomes (Donald & Delno 2009). Internal control also ensures the reliability of financial reporting (all transactions are recorded and that all recorded transactions are real, properly valued, recorded on a timely basis, properly classified, and correctly summarized and posted). An Organization with effective system of internal control is expected to achieve its objective efficiently and effectively.

According to Stoner (2003), Financial performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg & Anderson (2005) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process (EFQM, 2005).

According to Brown (1998), financial performance is the assessment of value for money and acceptance by individuals of personal responsibility for their actions in relation to quality of their outputs and decisions. Practically, all approaches adapted to getting health systems perform better through partnerships and increased competition in service delivery emphasize accountability as a core element in implementing health reform/improving system performance (Blinkerhoff, 2003).

1.1.4 Contextual Perspective

Private Secondary Schools fall under the auspices of the Ministry of Education Science and Technology (MOES &T), Kamuli district has a total of 56 secondary schools, of which 15 are government aided, 23 privately owned and 18 community based schools.

Overall, the management of private institutions is spread over several ministries, which makes co-ordination of their activities and maintenance of training standards difficult. The supervision of most of these institutions is left to individual ministries and private sector that often lack the capacity to assure quality and high standards of training and management (MOEST, 2002).

Due to the limited resources available in private institutions and the apathy towards private Education in the country, only a small proportion of eligible school leavers is absorbed.

Every year, 55% of those graduating from the primary and secondary school level join private institutions while the balance join the Government aided schools directly.

It is imperative therefore that the existing education structure is reviewed in order to establish opportunities that link private institution programmes with programmes at higher levels of education and training. This will have the potential of enhancing financial performance and the attractiveness of the programmes to learners, and parents who consider private schools as sub-standard. Private secondary schools is mainly provided and managed by communities and Non Governmental Organizations (NGOs). The main challenges relate to the low quality of education provided and the lack of linkages with the formal education system. The sub-sector also suffers from the lack of adequate teaching and learning resources, poor physical facilities and low prioritization by Government in terms of budgetary allocations (MOEST, 2002).

Performance of Technical Training Institutions in Kenya has remained a big challenge in the modern competitive business environment. Regardless of the internal control practices, it is evident that private secondary Institutions in Kamuli are inefficient and ineffective based on their practices. However, the motive behind this study is to investigate the effect of internal controls in performance of Private secondary institutions in Kamuli thus coming up with appropriate measures to reduce the felt difficulty among private education Institutions in Uganda.

1.2 Statement of the Problem

Although the government has continued to offer subsidies to the private schools through Policy on Public Private Partnership for Education (PPPE) in order to improve access and quality of service delivery in the Education sector, there is wide spread discontent among the people for lack of basic facilities. Private schools are poorly managed in the developing countries. Lack of management structures and corporate governance has resulted in poor performance of these entities. Private schools are plagued with severe deficiencies in the delivery of services, with access to reliable, sustainable, and affordable infrastructure remaining poor in general. The sector's worrying performance is caused, among other reasons, by financial and capacity constraints, including the absence of a commercial orientation to services, institutional deficiencies, and the lack of systemic incentives to deliver ongoing quality services (Kabafunzaki, 2011).

A study conducted by (Semewo, 2011) on effectiveness of internal control system in private institutions of learning in Uganda clearly indicate that these Institutions face quiet a number of challenges during internal controls in performance like struggles with liquidity problems, financial reports are not made timely, accountability for the financial resources is still wanting, frauds and misuse of institutional resources. However the study did not focus on effects of internal controls on financial performance of private secondary schools in Uganda.

In addition the incidence of internal control weaknesses, unsatisfactory and deteriorating service delivery have the undesired effect of not only weakening the institutions ability to effectively deliver services but also encourages collusion, fraud, embezzlements, loss of cash (revenue), assets conversion genuine and deliberate mistakes, corruption, lack of transparency and accountability for revenue collection and other assets. The management of an institution should familiarize themselves with internal control procedures that will ensure effective financial performance and the desired institutional performance (Efozie, 2010). A contextual knowledge gap therefore exists. It is against this background that this study sought to examine the effect of internal controls systems and financial performance of private secondary schools in Kamuli.

1.3 Purpose of the Study

To determine the effect of internal controls systems and financial performance of private secondary schools in Kamuli, Uganda.

1.4 Specific objectives of the Study

The study will be guided by the following objectives;

(i) To determine the effect of internal controls systems on financial performance of private secondary schools in Kamuli, Uganda.

(ii) To examine the influence of internal controls and of private secondary schools in Kamuli, Uganda.

(iii) To examine the relationship between internal control systems and financial performance of private secondary schools in Kamuli, Uganda.

1.5 Research questions

The study will be guided by the following research questions;

(i) What is the effect of internal controls systems on financial performance of private secondary schools in Kamuli, Uganda?

(ii) What is the influence of internal controls on financial performance of private secondary schools in Kamuli, Uganda?

(ii) What is the relationship between internal control systems on financial performance of private secondary schools in Kamuli, Uganda?

1.6 Research hypotheses

(i) Internal control system has no effect on financial performance of private secondary schools.
(ii) Internal control system has no influence on financial performance of private secondary schools.
(iii)There is no relationship between internal control and financial performance of private secondary schools.

1.7 Scope of the study

1.7.1 Geographical scope

The study will be carried out in Kamuli which borders districts Iganga in the East, Jinja in the South, Kayunga in the West, Soroti in the North and Pallisa in the North-East.

1.7.2 Time scope

The study will use data on internal controls systems and financial performance of private secondary schools from 2000 to 2017 in Kamuli, Uganda this being the period in which the private sector experienced draw backs on internal control systems were reported most. The study will be carried out in a period of 4 months from May 2019 to Sept 2019.

1.7.3 Content scope

The study will focus on internal controls systems and financial performance of private secondary schools in Kamuli, Uganda; the independent variable (Internal controls) will have constructs such as control environment, control activities, risk management, reporting and Moderating variables will include Inventory audits, Cash reconciliation, Cash management, and Segregation of duties. The dependent variable which is financial performance which will be measured by Liquidity level, Efficiency, quality, Survival.

1.8 Significance of the study

The study findings will;

Generate useful insights that can be used by the government, MOES as well as members of the public in order to boost the financial performance under the private sector in the country and consequently propel economic growth.

Provide strategies of improving internal control, financial accountability and service delivery in the private sector.

It is on the belief of the researcher that invaluable benefits to management and those charged with governance and training in private schools will emerge on how to streamline the systems of internal controls thus ensuring improved financial performance and ultimately ensure attainment of the Institutional objectives.

Provide information to new business proprietors who wish to invest in private secondary school sector on how to manage business to avoid failures. Add to existing literature on internal control, financial accountability and service delivery.

1.9 Operational definitions of key terms

Internal control is the plan of organization and all the methods and procedures adopted by then management of an entity to assist in achieving management objectives of ensuring as far as practicable.

Risk assessment refers to the identification and analyzing of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed.

Control activities as policies and procedures established to address risks and to achieve the entity's objectives.

Financial performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter will review literature from different authors in accordance to the objectives of the study. The chapter will be subdivided into theoretical review, conceptual and review of related literature. The study will focus on determining the effect of internal controls systems and financial performance of private secondary schools in Kamuli, Uganda.

2.1 Theoretical review

Various theories have been formulated on internal controls and financial performance. They include Agency theory; contingency theory and Lending credibility theory. These are discussed below

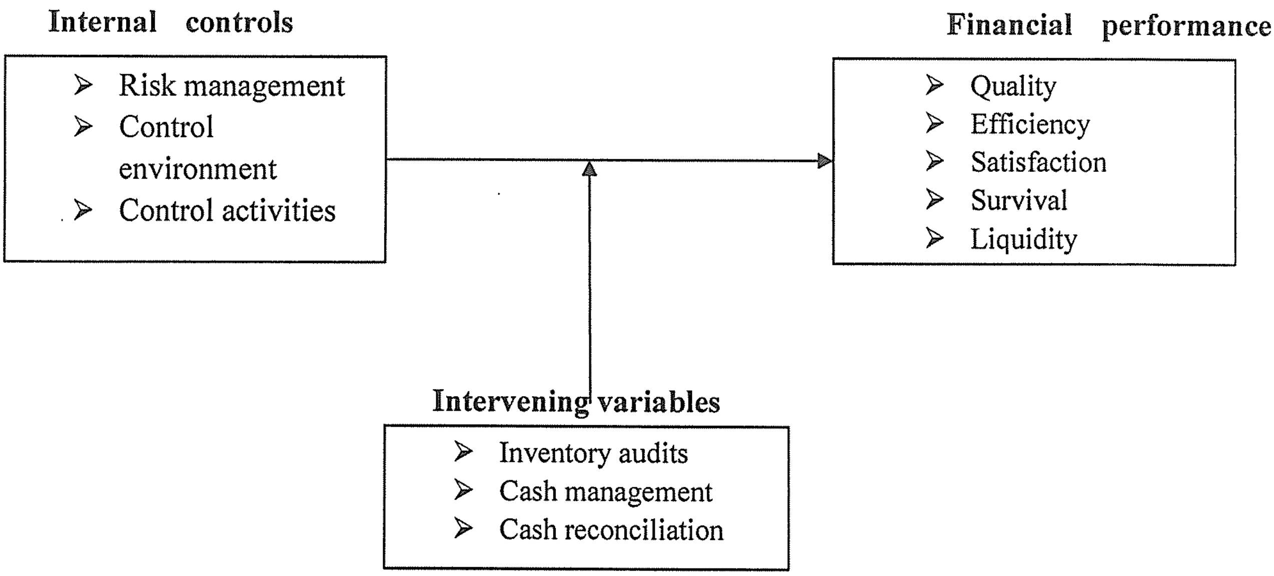
2.1.1 Institutional theory

Institutional theory, offers a contrasting explanation that may be used to understand the adoption and design of control practices within organizations. This theory, more sociological in character, originates from work done by Meyer and Rowan (1977) and DiMaggio and Powell (1983). It has been said that institutional theory is becoming an important theoretical perspective in accounting and organization theory research (Dillard, Rigsby & Goodman, 2004). According to this theory, organizations develop and design structures, processes and systems not primarily based on rational economic cost benefit analysis, but because they are more or less required incorporating new practices and procedures.

According to Meyer and Rowan (1977) this means that: Organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society. Organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures. Organizational structures, including the various internal control functions, roles, processes and systems, become symbolic displays of conformity and social accountability. Organizations with the appropriate structures in place avoid in-depth investigations of their business operations. Meyer and Rowan, building on the work by Berger and Luckmann (1966), pointed the importance of institutionalized rules. These are classifications built into society and may be taken for granted or supported by public opinion or even the force of law. These rules involve normative obligations which may be viewed as facts of (organizational) life which must be taken into account and considered by actors in the business community whether they are risk management officers, compliance officers, managers, auditors, directors or other types of professionals within and outside of firms. The process of institutionalization is then how social processes of different kinds come to take on a rule like status in everyday society. Repeated patterns of actions become institutions, or institutionalized rules, and thus institutional theory explains organizational phenomena by pointing to the environment and the formal and informal rules that are imposed on organizational activities.

2.2 Conceptual Review

2.1 Conceptual Framework



Source: Adopted and modified basing on information from Adams (2002), Martin &Terblancle (2003), Anthony (2004) and the AMF Working Group (2007).

This model is based on three variables; internal controls as the independent variable, service delivery as the dependable variable and financial accountability as the intervening/mediating variable. According to the model, there are internal control components that must be present in order to conclude that internal control is effective (Adam (2002), Martin & Terblancle (2003), Anthony (2004) and the AMF Working Group (2007). In this framework, internal controls should be the concern of every employee of the firm and should be the main stay of the firm's culture in order to have effective and sound internal control system leading to proper financial accountability and eventually enhancing service delivery in the Institution. Each company is responsible for its own organization and hence its internal controls developed within an overall framework of sound governance (AMF Working Group, 2007).

John & Morris (2011) drawing from Statements of Standard Auditing Practices No. 6 (SAP6) defines Internal control as "the plan of organization and all the methods and procedures adopted by then management of an entity to assist in achieving management objectives of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and the timely preparation of reliable financial information".

Whittington & Kurt (2001) argue that It is worth noting from the above that; properly instituted systems of internal control will ensure; completeness of all transactions undertaken by an entity, that the entity's assets are safeguarded from theft and misuse, that transactions in the financial statements are stated at the appropriate amounts, that all assets in the company's financial statements do exist, that all the assets presented in the company's financial statements are recoverable and that the entity's transactions are presented in the appropriate manner according to the applicable reporting framework (ACCA- Audit and Assurance Services).

COSO (2004) considers risk assessment as the process of identifying and analyzing of relevant risks to the achievement of the entity's objectives and determining the appropriate response. It includes risk identification from external and internal factors, at the entity and the activity levels, risk evaluation, assessment of risk appetite of the organization and the developing responses of all the risks in the organization. There are four types of responses to risk which must be considered; transfer, tolerance, treatment, or termination. The appropriate controls can be either preventive or detective.

Success (2004) states that control environment is the consciousness of the organization, thus, the atmosphere that compels organizational members to conduct their activities and responsibilities as per the laid down control objectives. According to Lower (1998), an effective control environment is where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way.

Craig (2009) states that control activities are the administrative and supervisory actions that management engages in to keep the organization focused and cautious in addition to keeping members effective and efficient at task execution.

According to Stoner (2003), financial performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg & Anderson (2005) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process (EFQM, 2009).

2.3 Review of Related Literature

2.3.1 The effect of Control activities on financial performance of private secondary schools.

Craig (2009) states that control activities are the administrative and supervisory actions that management engages in to keep the organization focused and cautious in addition to keeping members effective and efficient at task execution. Control activities are actions supported by internal control objectives, procedures and policies that enable managers to address risk timely, effectively and efficiently (Steeves, 2004). He further categorized the activities as preventive and detective. Managerial and administrative measures that are pro-active in nature and prevent undesirable events from occurring are what he referred to as preventive controls. They comprise; proper authorization, segregation of duties, sufficient documentation, and physical control of assets.

COSO (2004) considers control activities as policies and procedures established to address risks and to achieve the entity's objectives. To be effective, control activities must be appropriate, function consistently according to plan throughout the period, and be cost effective, comprehensive, reasonable, and directly relate to the control objectives. Control activities occur throughout the organization, at all levels and functions. They include a range of preventive and detective activities for example; authorization and approval procedures, segregation of duties (authorizing, processing, procuring recording, receiving), controls over access to resources and records, verifications, reconciliations, reviews of operating performance, reviews of operations and activities, and supervision (assigning, review in and approving, guidance and training), among others.

Ray & Pany (2001) also mention Control activities as another component of internal controls. They note that control activities are policies and procedures that help ensure that management directives are carried out. Controls activities in an organization basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing (necessary to check accuracy, completeness and authorization of transactions), physical controls (necessary to provide security over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end).

The last component of internal control according to Ray & Pany is monitoring. This is aimed at ensuring that the internal controls continue to operate as intended. This can be achieved through ongoing monitoring or separate evaluations. Separate evaluations are non routine monitoring activities such as period audits by the internal auditors (Whittington & Kurt 2001). Generally, internal control is very important to the reliability of financial statements when the internal control system examined closely in timeliness.

2.3.2 Effect Risk management on financial performance of private secondary schools.

COSO (2004) considers risk assessment as the process of identifying and analyzing of relevant risks to the achievement of the entity's objectives and determining the appropriate response. It includes risk identification from external and internal factors, at the entity and the activity levels, risk evaluation, assessment of risk appetite of the organization and the developing responses of all the risks in the organization. There are four types of responses to risk which must be considered; transfer, tolerance, treatment, or termination. The appropriate controls can be either preventive or detective. According to Jenny & Pamela (2006), risk assessment refers to the identification and analyzing of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. Thus, setting objectives is a precondition to internal controls.

At the highest levels, goals and objectives should be presented in a strategic plan that includes a mission statement and broadly defined strategic initiatives (Strat Nakazi, 2002). In a similar view, Gleiling (2005) noted that at the departmental level, goals and objectives should be classified in the following categories; operational, financial, and compliance objectives. A clear set of goals and objectives is fundamental to the success of an organization. Specifically, a department or work unit should have a mission statement, written goals and objectives for each significant activity (Manashe, 2000).

Cochran (2000) considers the identification of risks as important for the achievement of the organization objectives because an effective internal control system, no matter how well conceived, and operated, can provide only reasonable- not absolute-assurance to management about the achievement of an entity's objectives. He says that managers should determine what can go wrong, what areas have the most risk, what asset are at risk, and who is in a position of risk . The risks may include; public scandal, misuse of revenues, assets and personnel, and also the use of unreliable information for decision making. Alternatively, Smith (2005) considers identification of risks as a challenge to some organizations. The internal controls can give management information about the entity's progress or lack of it towards achievement of objectives but cannot change an inherently bad manager into a good one

2.3.3 The effect of Control environment on financial performance of private secondary schools.

Anthony (2004) noted that control environment sets the tone for the organization, influencing the consciousness of its people. It is the foundation for all the other components of internal controls. Success (2004) states that control environment is the consciousness of the organization, thus, the atmosphere that compels organizational members to conduct their activities and responsibilities as per the laid down control objectives. According to Lower (1998), an effective control environment is where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way. Jenny and Pamela (2006) assert that "a governing board and management enhance an organization's control environment when they establish and effectively communicate written policies and procedures, a code of ethics, and standards of conduct". They also enhance the control environment when they behave in an ethical manner - creating a positive tone at the top – and when they require that same standard of conduct from everyone in the organization.

On the other hand, Okwach (2000) views control environment as an enabler of execution of tasks by organization members as set by the board members and departmental managers through attitudes and actions that encourage the highest level of integrity, appropriate leadership philosophy, operating style and personal and professional standards, thereby leading to reasonable compliance and operational efficiency levels. Ishumgisa (2001) also noted that control environment makes organizational members aware of the job requirements and efficiency expected of them to carry out tasks that translate in the overall organizational performance. Spillane & Reimer (2000) subscribed to the view that control environment exists when the responsibility to execute assigned task is not directed by anyone but rather consciously dictated upon organizational members, and also when members find themselves obeying, observing and responding to the desired organizational culture, operations and activities as efficiently and effectively declared.

Whittington and Pany (2001) note that the control environment sets the tone of the organization by influencing the control consciousness of people. They further assert that control environment is viewed as the foundation for all the other components of internal control. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees (especially the extent of their independence from management, experience & stature), management philosophy and operating style (in terms of their aggressiveness or conservativeness which may determine the level of risk they may take on), and Organizational structure (which may be a well organized structure that provides for proper planning, directing and controlling operations or a disorganized structure that may only serve to confuse the key players by creating unclear roles).

Control environment has several factors, however, for purposes of this research, the review will focus on Management philosophy and operating style, the integrity and ethical values of personnel that create and administer controls, and audit committees and board of directors. For purposes of the study, board of directors will be represented by the Board of Management and the various committees of the Board (Verschoor, 1999). Whittington & Pany (2001) also believe that these factors set a basis upon which the other internal control components can be built. They also provide a framework within which the other components operate. However, these assertions have not always held true, since management in organizations has always overridden these controls, the lack of mentoring has always led to collapse of controls. The independence of audit committee has largely been theoretical in most organizations. Boards of management have on several occasions had very little time for institution affairs, implying that their supervisory role has always been wanting.

2.4 Empirical review

A study carried out by Palfi and Muresan (2009) examined the importance of a well organized system of internal control in regard with the bank sector. The sample was based on 25 credit institutions of Romania. The analysis of the survey answers revealed that the continuous collaboration, based on periodical meetings, between all structures of bank, characterizes an effective internal audit department.

A study carried out by Abu Musa (2010) investigated the existence and adequacy of implemented security controls of computerized accounting information systems in the Saudi private institutions. The results of study revealed that the vast majority of Saudi private institutions have adequate security controls in place. The results also enable managers and practitioners to better secure their computerized accounting information systems and to champion the security of information technology for the success of their banks (Semewo, 2011).

It can be concluded that effective internal controls include; the maintenance of proper accounting records, employee accountability, timely reporting on financial matters, risk mitigation by internal employees, effective communication among employees, efficient and effective utilization of financial and non financial resources and information and communication technology in service delivery (Emasu, 2007). They help to ensure that the organization is not unnecessarily exposed to avoidable financial risks and that financial information used within the business and for publication is reliable (Semewo, 2011). They also contribute to the safeguarding of assets, including the prevention and detection of fraud and misuse of organizational resources (Musa, 2010).

2.5 Research gaps

Abdi (2015) investigated the impact of internal control system on financial performance in private higher learning institutions. There exists a contextual gap as the study focused on higher learning institutions and not secondary schools

Njanike, Mutengezanwa and Gombarume (2011) assessed factors that influence the internal controls in ensuring good corporate governance in financial institutions in developing countries

Odhiambo and Byaruhanga (2014) investigated the effect of internal control systems on the financial performance of technical institutions.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the research design, the research population, and sample size, sampling procedures, research instruments, validity and reliability of instruments, data gathering procedures, data analysis, ethical considerations and limitations of the study.

3.1 Research Design

Durrheim and Painter (2006) define research design as a "strategic framework, a plan that guides research activity to ensure that sound conclusions are reached. This involved plans for data collection, the instrument for gathering information, how information gathered were processed and analyzed to give meaning to the research findings. The study applied a descriptive and cross sectional research design According to Doyle (2004), a descriptive study research refers to a body of techniques for collecting data and obtaining responses from individuals to a set of prepared questions. Descriptive study technique with self-administered questionnaires as the survey instrument is considered appropriate for this study.

This type of design enabled the researcher to investigate the effect of internal controls adoption. Both quantitative and qualitative study approaches were applied. The quantitative approach involves the researcher collecting data from the respondents while qualitative approach includes collecting data from key informants who are knowledgeable about the research topic. Qualitative method will be used because it provides detailed - in depth information which was supported with quotations from the respondents

3.2 Research population

In the opinion of Donkor & Obeng (1999), population of a study refers to a complete set of individuals (subjects), objects or events having common observable characteristics in which the researcher is interested. The study population constituted 40 people including employees and its Board of directors of Kamuli progressive college.

3.2.1 Sample Size

The sample size was determined using krejice and Morgan sample size determination table a sample size of 36 was selected according to the well known formula by krejice and morgan (1970)

$$S = \frac{x^2NP(1-P)}{d^2(N-1) + X^{2P}(1-P)}$$

S= required sample size

X= Z value (e.g. 1.96 for 95% confidence level)

N= population size

P= population proportion expressed as decimal

d= degree of accuracy (5%) expressed as a proportion (0.5) it is margin of error

Morgan table for determining sample size

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	274	4000	351
25	24	130	97	320	175	1000	278	4500	354
30	28	140	103	340	181	1100	285	5000	357
35	32	150	108	360	186	1200	291	6000	364
40	36	160	113	380	191	1300	297	7000	367
45	40	170	118	400	196	1400	302	8000	367
50	44	180	123	420	201	1500	306	9000	368
55	48	190	127	440	205	1600	310	10000	370
60	52	200	132	460	210	1700	313	15000	375

Source: Krejcle , Robert V., Morgan, Daryle W.," Determining sample size for Research

Activities", Educational and psychological Measurement, 1970.

N= population size

S= sample size

Sample size is 36

3.2.2 Target population

The following samples were selected using purposive sampling techniques: samples were selected from different categories or departments which include 7 respondents selected from Board of directors purposive sampling, 3 respondents were selected from human resource department using purposive sampling, 7 were be selected from IT department using purposive sampling, 11 respondents was selected from Accounts and finance using purposive sampling, 8 respondents was selected from marketing department using purposive sampling.

Table 3:1; Showing the distribution of the population according to their categories

Category	**Population**	**Sample**	**Sampling design**
Board of directors	08	7	purposive sampling
Human resource	04	03	purposive sampling
IT	8	7	purposive sampling
Accounting and finance	12	11	purposive sampling
Marketing	08	8	purposive sampling
Total	**40**	**36**	purposive sampling

Source: Dis record, 2019

3.2.3 Sampling procedure

According Cooper and Schindler (2006), sampling technique is the procedure of choosing a particular sample from a population. The study applied both probability and non-probability sampling techniques i.e. Simple random sampling and purposive sampling techniques were used to select respondents.

Simple random sampling (SRS) is when every eligible individual in the population has the same chance of being selected. This usually means the availability of a list of all eligible individuals and, using a random selection scheme, a sample of individuals was selected to be surveyed.

Simple random sampling was used to choose respondents from the population as broken down into different categories. These guarantee the desired distribution among the selected categories of the population. After having the right strata, the categories were arranged accordingly where simple random sampling was used to arrive at the final respondents. This helped to reduce bias on the selection of the respondents. Respondents selected under this sampling were people from procurement department, human resource department, IT department, Accounts and finance department, marketing department.

Purposive sampling is a sampling technique in which researcher relies on his or her judgment when choosing members of population to participate in the study. Here, the researcher used personal judgment to choose respondents from different categories of population that helped to answer research questions to achieve the research objectives.

3.3 Data Sources

According to Saunders, Lewis and Thornhill (2009), the two most commonly used primary data collection methods were the questionnaire and the interview. All research was generally be concerned with obtaining answers to questions.

3.3.1 Primary data

Primary data was collected by use of questionnaires. According to Paul, (1997.191) a questionnaire is suitable for source of data collection since it goes deep within minds or attitudes, feeling or reactions of people. He argues that a questionnaire can be mailed to people thousand miles away, whom the researcher may never see.

3.3.2 Secondary data

This is the use of the already collected data that is not specifically gathered for the research question at hand (Kothari, 2004). This data could be government or non-governmental / private statistics.

Secondary data was obtained from the reports of Ministry of Finance, Uganda Revenue Authority Survey and from online tax related documents like journals, magazines, books, articles and other literatures written by different knowledgeable scholars who are related to the study objectives.

Secondary data was gathered from secondary sources, internal or external. Secondary data sources are "books and articles in which other researchers report the results of their research based on (their) primary data or sources".

4. Data collection instruments

The questionnaires and structured interview instruments were structured in line with the research objectives and questions which made up of both open and close-ended questions. Questionnaire and interview with data collection instruments which enabled the researcher to pose questions to subjects in his/her search for answers to the research questions.

3.4.1 Interview guide

An interview is a conversation between two or more people i.e. the interviewer and the interviewee, where interviewees are questioned by the interviewer to obtain information. This method suited the research most appropriately and the researcher was able to collect data through in-depth semi structured interviews consisting of few open ended questions which allowed a two-way communication between the interviewer and interviewee and the interviewee gave unbiased opinions which proved to be a useful pool of resources for the researcher to analyze the situation and provide the researcher with deeper understanding of the subject and enabled accurate understanding.

3.4.2 Questionnaires

The study used questionnaire method of data collection because of its numerous advantages and its ability to yield the most satisfactory range of reliable data. The questionnaire comprised of closed ended questions that gave the respondent a variety of choices to select the most suitable answer. Questions were organized according to the objectives of study and responses were rearranged based on 5 Likert scale of 1 - 5 where; 1 - Strongly Disagree (SD), 2 - Disagree (D), 3 - Not sure (NS), 4 - Agree (A) and 5 - Strongly Agree (SA) with assertion. This meant the extent to which respondents agreed with the statements.

3.5 Quality data control

Quality control of data is an integral part of all research and takes place at various stages, during data entry or digitization, and data checking. It is vital to develop suitable procedures before data gathering starts. The data collected was valid, accurate and consistent with the study.

3.5.1 Validity and Reliability

Validity of an instrument is how accurate the instrument is in obtaining the data it intends to collect (Mugenda & Mugenda 2003). Validity indicated the degree to which the instrument measured what it will be supposed to measure (Kothari, 2004). To ensure precision, relevance and content validity of the instrument, the questionnaire were subjected to critical evaluation by the researcher and the supervisor.

Reliability means the extent to which results are consistent over time. If the results of a study can be reproduced under a similar methodology, then the research instrument is considered reliable (Joppe, 2000). The strategies that were used to obtain reliability were prolonged engagement and audit trails for qualitative data. Data was systematically checked, focus maintained and there was identification and correcting of errors (Tashakkori &Teddlie, 2010). This ensured accuracy of data collected.

A separate reliability test for each of the variables was computed. The key statistics in interpreting the reliability of the scale is the alpha listed under the reliability co-efficient section at the end of the output.

The value of coefficient alpha ranged from zero (no internal consistency) to one (complete internal consistency). The study used multiple items in all construction and so the internal consistency method will be applied in the study.

3.6 Data Processing

Sarantakos (2000) describes data analysis as data that is statistically analyzed in order to determine whether the generated hypotheses had support. The structured questionnaires were coded for all questions in respect to each research objective so as to ensure that processing of data was easily done before fieldwork. The data that was collected and analyzed using quantitative method and analysis was done using descriptive statistics. According to Cooper and Schindler (2006), descriptive analysis involves the process of transforming raw data into charts, tables with frequency distribution percentages to enable full interpretation of data. A computer package known as excel was used to analyze the data. The study employed the use of statistical frequencies like percentages to analyze the various differences in population demographics.

Qualitative data analysis includes analyzing data during and after collection and this involves identifying the themes of the study. All responses were coded according to each theme and analyzed accordingly.

3.7 Data analysis

Data will be compiled, sorted, classified and entered into the computer analysis using statistical package for social sciences (SPSS). A cross tabulation and correlation analysis was carried out to present the background information against the study variables and establish the strength of the relationship between variables. Regression analysis was to determine variance in the dependent variable that is explained by the independent variable.

3.8 Ethical consideration

The researcher complied with ethical procedures to protect the rights of the research participants, involving the principle of voluntary participation which required that participants were not coerced into participating in this research. The following ethical measures was adhered to (Sekaran, 2003)

Right of the participant: In this study, no attempt was made to harm participants deliberately and who could experience any form of harm be it through victimization, emotional or otherwise, would be informed in advance of their right to withdraw from participating in the study.

Confidentiality and anonymity: Confidentiality means that information from participants was not be divulged to the public nor made available to colleagues, subordinates or superiors. In this information about participants' were treated with confidentiality and the participants were anonymous (Saunders, *et al.,* 2003). A covering letter also assures respondents that all responses are treated with utmost confidentiality and anonymity.

CHAPTER FOUR

PRESANTATIONS INTEPRETATIONS AND ANALYSIS OF DATA

4.0 Introduction

This chapter contains the presentation, analysis, and interpretation of results in line with the study objectives. The chapter presents; the descriptive statistics of the items under study, rotated factor analysis of variables under study, and the inferential statistics comprising of correlation and regression results for the variables under study. Statistical tools such as tables showing frequencies and percentages, and graphs were used to summaries findings from the survey. The presentation is guided by the research objectives and statistics were generated with the aim of generating responses for the research questions.

4.1 Demographic characteristics of respondents

Under this section, the researcher was interested in finding out the demographic characteristics of the respondents. They are presented as follows Frequencies and percentages were used to reflect the findings.

4.1.1 Gender of respondents

The researcher wanted to know the gender or sex distribution of the respondents and this is shown in the following table and illustration. This section indicates the both sexes within the community.

Table 4.1: presenting the gender distribution of the respondents who participated in the study

Gender	Frequency	Percentage (%)
Females	11	31
Males	25	69
Total	**36**	**100**

Source: Primary data Findings (2019)

According to table 4.1, the Gender – characteristics shows that male respondents were the majority constituting 69% in the sample as compared to their female counterparts who were 31% of the entire sample.

4.1.2 Age of the Respondents

The study went on to establish the different age groups of the respondents and the findings were as presented in table 2. The study also involved all respondents who are responsible and with mature understanding. For example all the respondents were 20 years and above.

Table 4.2: presenting the Age distribution of the respondents who participated in the study

Age	Frequency	Percentage (%)
20-29	7	19
30-39	15	42
40-49	11	31
50+	03	8
Total	**36**	**100**

Source: Primary data, (2019)

Age Group – characteristics; the results in table 4.2 above revealed that most of the respondents were in the age-group of 30-39 years comprising 42 % and were followed by those in the age-group of 40-49 years representing 31% of the sample The minority were in the age-group of 20-29 years and the 50 and above age-group constituting 19% and 8% respectively of the sample.

4.1.3 Education Levels of the Respondents

Under this section the researcher was interested in finding out the education status of all respondents involved in the study. This was partly essential in order to enrich the findings of the study.

Table .4.3: Educational Level of the Respondents

Education Level	Frequency	Percentage
Degree	11	31
Diploma	16	44
Certificate	05	14
A-Level	03	8.3
O- Level	01	2.7
Total	**36**	**100**

Source: Primary data,2019

Education level – characteristics; table 4.3 above indicate that 44% of the respondents had attained diploma level of education, 31 were degree holders, 14% were certificate holders, 8.3% had attained A level standard and 2.7% had O level qualifications. The implication is that the respondents were well knowledgeable of the subject matter and as such made informed decisions findings (2019)

4.1.4 Position held in the institution

The study also sought about the position held by different stakeholders in the institution and the findings were as represented

Table .4.4: position held in the institution

Level of Management	Frequency	Percentage
Finance and Accounts	15	42
Management committee	10	27
Departmental heads	11	31
Total	**36**	**100**

Source: Primary data (2019)

Position held – characteristics; table 4.4 above show that the majority of the respondents were from Finance comprising of 42% of the sample and were followed by departmental heads 31% while management committee constituted the minority of 27% of the sample.

4.2. Organization Characteristics

The organization characteristics included; size of the institution, Years of its existence and the employees period of working in the institution.

4.2.1 Size of the institution

Under this section the researcher sought to know the operating size of the institution as presented below

Table .4.5: Size of the institution

Size	Frequency	Percentage
Large	10	27
Medium	15	42
Small	11	31
Total	**36**	**100**

Source: Primary data (2019)

Size – characteristics; table 4.4 above show that the majority of the respondents agreed that it's a medium institute comprising of 42% of the sample and were followed by a 31% who raised it that it's a small and 27% constituted the minority of the sample.

4.2.2 No of years in operation

The researcher sought about knowing the period the institute has existed in operation.

Table .4.6: number of years the institution

Period (years)	Frequency	Percentage
1-5	04	11
6-10	15	42
11-15	11	31
16-20	05	14
20+	01	2
Total	**36**	**100**

Source: Primary data (2019)

The results in table 4.6 indicate that the majority of the respondents were raise it that has existed for above 10 years constituting 42% of the sample while the least participants were for 20 years and above constituting 2%

4.3 Descriptive statistics on control environment on financial performance

Table 4.3.1, showing the results on control environment on the financial performance of private secondary schools

	STATEMENT	RANK	1	2	3	4	5	TOTAL
			SD	D	NS	A	SA	
1	Staff have good working relationships between themselves	**Frequency**	0	5	0	15	16	**36**
		%tage	0	14	0	42	44	**100**
2	All workers have work schedules hence no job conflicts	**Frequency**	0	1	0	15	20	**36**
		%tage	0	2	0	42	56	**100**
3	There is a mechanism to monitor regular attendance of staff	**Frequency**	0	0	0	11	25	**36**
		%tage	0	0	0	31	69	**100**
4	Activities are perfumed in an atmosphere of creativity and innovation.	**Frequency**	2	0	0	16	18	**36**
		%tage	6	0	0	44	50	**100**
5	All the duties are performed according to the approved standards	**Frequency**	0	3	0	18	15	**36**
		%tage	0	8	0	50	42	**100**
6	All jobs are given on competency basis	**Frequency**	0	0	0	13	23	**36**
		%tage	0	0	0	36	64	**100**

Source: Primary data (2019)

In table 4.3.1 are details of the measures of effectiveness of the control environment under different key statements obtained from the respondents. The statements have been ranked in terms of their means and standard deviations so as to deduce meaning out of the results. Therefore, the details of the table are discussed under sub headings of the corresponding statements tested.

From the results in table 4.3.1, it is clearly evident that respondent were almost in total agreement as to the existence of good working relationships between themselves in the Institution as reflected by a response rate of 44% strongly agreeing which is tending, 42% agreed and 14% disagreed. Virtually all the writers (reviewed) underscore the importance of control environment to internal controls in an institution department in helping an organization achieve its objectives. Notable among these are Subramaniam, (2006), Reid & Ashelby, (2003) and Millichamp (2002) among others. Therefore the finding is in tandem with the reviewed literature.

Results of the survey in table 4.3.1 show indicate that suggests that respondents believe that all workers have work schedules hence no job conflicts. However, varied responses as 56% strongly agreed, 42% agreed and 2% disagreed to the statement to whether the internal department is sufficiently staffed. The understaffing in the internal department could be compensated for by an active and independent Council and its Sub Committee. This is what Gerrit and Mohammad (2010) refer to as "a substitution effect, which means that independent board members may be considered as an alternative monitoring mechanism to the Internal control environment Function".

The results of the survey as revealed by Table 4.3.1 suggest that management acts with Integrity in performed all the duties are according to the approved standards. This is evident when the respondents as computed by the system are well when 69% strongly agreed, 31% agreed to the statement. Nevertheless, the suggestions of the respondents had a significant variation in responses on management integrity in the execution of their role; a highly contentious issue. However, this could also be construed to imply that respondents might not have clearly understood the dimensions of integrity in this context. The results in this section are in tandem with Whittington and Pany (2001)'s assertion where they talk of the control environment to include factors like integrity and ethical values of persons responsible for creating, administering controls. This can also be likened to "the control environment setting the tone of the organization by influencing the control consciousness of people" stipulated by Cohen et al., (2002).

The analysis result in table 4.3.1 reveals that to some extent, Activities are perfumed in an atmosphere of creativity and innovation is upheld in all management decisions as reflected by a response rate of 50% strongly agreeing, 44% agreed and 6%. However, the respondents seemed to have varied responses regarding ethical values in all management decisions as revealed by a standard deviation of Upholding ethical values in management decisions is in line with Cohen et al. (2002) where he state that “the tone at the top refers to a company’s ethical values, management’s philosophy and operating style” which are reflected in the code of conduct or code of ethics.

The analysis of results in Table 4.3.1 reveals that there is a mechanism to monitor regular attendance of staff; the respondents were slightly in agreement with regard to the objectivity and independence of the monitoring committees and the responses were as 42% strongly agreed, 50% agreed and 8% disagreed to the statement. However, a opinions significant variation in the which could also relate to not clearly understanding the role of the committee. Monitoring Committee’s independence is in line with Whittington and Pany (2001)’s requirement for audit committees to be independent from the management of an institution and to possess the requisite experience and status. The independence and objectivity of the committee also rhymes well with (DeZoort et al., 2002; & Spira, 2002)’s statement that “the committee, as a subcommittee of the board of directors, plays a role in protecting the owners’ interests by monitoring management’s actions, in terms of financial reporting.

The results of the survey as reflected in Table 4.3.1 revealed that all jobs are given on competency basis there were variations in responses to this test as revealed by the responses 64% strongly agreed, 34% agreed to the statement. This finding is also in line with DeZoort et al., (2002); and Spira, (2002)’s statement that the competency of a worker plays a big role in quick service deliver. This role can only be effectively executed if governing council and all its subcommittees are independent. The governing council’s independence was also highlighted by the American Institute of Certified Public Accountants (AICPA) through its Auditing Standards Board through the issuance Statement on Auditing Standards (SAS) No. 78.

4.4 Descriptive statistics on control activities on financial performance

Table 4.4.1, showing the results on control activities on the financial performance of private secondary schools

STATEMENT		RANK	1	2	3	4	5	TOTAL
			SD	D	NS	A	SA	
1	Staff is given up to date internal control manuals for reference purposes.	**Frequency**	0	0	1	15	20	**36**
		%tage	0	0	2	41	56	**100**
2	Accounts are reconciled on monthly basis to detect errors and fraud	**Frequency**	0	4	0	14	18	**36**
		%tage	0	11	0	39	50	**100**
3	All payments are authorized by responsible officer before payment	**Frequency**	5	0	0	15	16	**36**
		%tage	14	0	0	42	44	**100**
4	All financial transactions are recorded in vouchers for future references	**Frequency**	0	0	0	11	25	**36**
		%tage	0	0	0	31	69	**100**
5	There is internal check which operates continuously as part of the system	**Frequency**	0	0	2	14	20	**36**
		%tage	0	0	6	38	56	**100**
6	The institution has an asset register which is updated regularly	**Frequency**	04	0	0	15	17	**36**
		%tage	11	0	0	42	47	**100**

Source: Primary data (2019)

In the table 4.4.1 above the researcher set out to examine the functionality of the internal control systems in private secondary Institutions using control activities as an internal control component. The results were analyzed used mean and standard deviations so as to drawing conclusions from the survey. These are discussed as follows;

The results of the survey as reflected in table 4.4.1 suggest that 56% respondents strongly agree, 41% agreed and 2% were neutral that staff is given up to date internal control manuals for reference purposes while executing finance and accounting functions. Which gives a clear manifestation of varied responses from respondents as far as executing finance and accounting roles is concerned. This is in line with Ray and Pany (2001)'s "suggestion of segregation of duties" such that no one person should handle all aspects of a transaction from the beginning to the end.

To results of the survey as reflected in table 4.4.1 suggest that 50% respondents strongly agreed, 39% agreed and 11% disagreed as to whether accounts are reconciled on monthly basis to detect errors and fraud to check employee's work. However, it revealed varied responses from the respondents interviewed as far as checking other employees' work is concerned. The lack of internal checks within an institution is at odds with Whittington and Pany's recommendation of "information processing" in which he recommends checks to ensure accuracy and completeness of information being processed.

The table 4.4.1 reveals that 44% respondents strongly agree that there payments are authorized by responsible officer before payment supervision by their seniors and 42% agreed and 14% disagreed to the statement though it is not significantly far from the "not sure" position. This shows that there were varied responses from the respondents interviewed. The lack of supervision by senior staff is an indication of deficiencies in strategic controls as advocated for by Hitt, Hoskisson, Johnson, and Moesel (1996) which if not addressed may lead to material internal control weaknesses.

Table 4.4.1 reveals that respondents 69% strongly agree, 31% agreed that all financial transactions are recorded in vouchers for future references, Accounting and financial management system However, implying that the respondents do seem to appreciate internal control activities. Nevertheless, however suggestions varied responses from respondents as far as staff training in the implementation of accounting and financial management systems are concerned. Staff being trained in the use of Accounting and Financial management system is an indication of the commitment to the effectiveness of systems of internal control. It is what Verschoor, (1999) recommended as "programs of selection and training of personnel". Having a well developed Chart of Account is both a strategic control and a financial control referred to by Hitt, et al; (1996).

The results in table 4.4.1, revealed that 56% respondents strongly agreed with the test statement that there is internal check which operates continuously as part of the system to show actual expenditure compared with budgets and explanations for the variances obtained" and 38% agreed and 6% disagreed. However, in as much as respondents with the test statement, they were tending towards the "not sure" position of 3. The failure by the Institution to provide budget reviews is at odds with Ray and Pany (2001)'s recommendation for "performance reviews" where he recommends comparing actual performance with budgets, forecasts and prior period performance.

The results of the survey as reflected in table 4.4.1 reveals that 47% respondents strongly agree, 42% agreed and 11% strongly disagreed to the statement with the institution has an asset register which is updated regularly to act as the security system ability to identify and safeguard assets of the Institution the respondents varied greatly in their responses to the test statement. The failure by the system to identify and safeguard assets of the institution does not augur well with Ray and Pany (2001)'s recommendation for "physical controls" (necessary to provide security over both records and other assets.

4.5 Descriptive statistics on control activities on financial performance

Table 4.5.1, showing the results on risk management on the financial performance of private secondary schools

STATEMENT		RANK	1	2	3	4	5	TOTAL
			SD	D	NS	A	SA	
1	There are mechanisms in place to identify and react to changes that can have dramatic effects on the institution	**Frequency**	0	2	0	14	20	**36**
		%tage	0	6	0	38	55	**100**
2	Communication channels are in place for changes to improve on financial performance.	**Frequency**	3	0	0	15	18	**36**
		%tage	8	0	0	42	50	**100**
3	Risks are assessed in relation to changes in the operational environment	**Frequency**	0	0	0	19	17	**36**
		%tage	0	0	0	53	47	**100**
4	Controls exist for approving decisions regarding financing alternatives and accounting principles, practices and methods	**Frequency**	0	1	0	15	20	**36**
		%tage	0	2	0	42	56	**100**
5	Internal audit has appropriate controls to improve on financial performance.	**Frequency**	6	1	0	13	16	**36**
		%tage	17	3	0	36	44	**100**
6	Organizational restructuring brings limited risks to the institution	**Frequency**	3	0	2	15	16	**36**
		%tage	8	0	6	42	44	**100**

Source: Primary data (2019)

The study (as reflected in table 4.5.1) found that the respondents seem to agree that the Institution has mechanisms in place to identify and react to changes that can have dramatic effects on the institution where by 55% strongly agreed, 38% and 6% disagree to the statement. This shows that they generally agree about the existence of an accounting system. This also shows that there is a clear variation in the responses provided by the respondents about the existence of the accounting and financial management system. Having an accounting and financial management system as reflected by the above results is in line with John J. Morris' advocacy for an Enterprise Resource Planning system that deliver fast and accurate financial reports with inbuilt controls necessary to ensure accuracy and reliability of information being reported to Shareholders. It is also an indication that Whittington and Pany's requirement of preparing, verifying and distributing reports to the various management levels is achievable.

In Table 4.5.1 above, respondents provided their understanding in regard to how Communication channels are in place for changes to improve on financial performance and how closely monitor implementation of the controls and their perceptions. But since the mean appears so close to the actual 45 average, then the need to closely focus on the variation. Thus, significant differences in responses as regards management's monitoring of implementation of internal control system. The finding is in line with Wallace & Kreutzfeldt (1991), Goodwin-Stewart & Kent (2006), and Sarens & De Beelde (2006) all of whom advocate for management (control environment) as the cornerstone for an effective internal control system. Sarens & De Beelde in particular emphasizes the "tone at the top, the level of risk and control awareness" as critical to the success of an internal control system.

Results of the study in table 4.5.1 suggest that risks are assessed in relation to changes in the operational environment regularly. This is revealed by 50% respondents who strongly agree, 42% agreed and 8% strongly disagreed to the statement. This could also imply that the staffs are aware of risk assessing reporting schedule since they are submitted directly to the, management committee or audit committee of council. The finding does well with Sebbowa (2009)'s suggestion that internal auditing is a consulting activity designed to add value and improve an organization's operations. This therefore means that Zabihollah (2001)'s assertion of internal audit procedures ensuring reliability of financial statements, operational reports, safeguarding corporate assets and effective organizational controls may not be achieved.

The results of the survey as reflected in table 4.5.1 suggest that 47% respondents strongly agree that Controls exist for approving decisions regarding financing alternatives and accounting principles, practices and methods, 53% agree with the security system ability to identify and safeguard assets of the Institution. The failure by the system to identify and safeguard assets of the institution does not augur well with Ray and Pany (2001)'s recommendation for "physical controls" (necessary to provide security over both records and other assets.

From the results in table 4.2.4, it is clearly evident that respondent were almost in total agreement as to the existence of Internal audit has appropriate controls to improve on financial performance function in the Institution as reflected by a 56% strongly agreeing and 42% agree and 2% disagreed to the test statement. Virtually all the writers (reviewed) underscore the importance of an internal audit department in helping an organization achieve its objectives. Notable among these are Subramaniam, (2006), Reid & Ashelby, (2002) and Millichamp (1993) among others. Therefore the finding is in tandem with the reviewed literature

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter presents summaries of the study findings as per the study objective, conclusions based on those findings and recommendations which are based on both the study findings and other relevant literature considered necessary and vital to be used in future to improve the study situation.

5.1 Summary of findings

This part presents the summarized results and interpretation (findings) based on the study objective as established at the beginning of the study

5.1.1 The effect of Control activities on financial performance of private secondary schools.

The results from the study revealed that there is a significant positive effect of control activities on financial performance. The findings are consistent with the view that internal control is a management function that is critical for proper accountability (Gendion, Cooper & Townley, 2000). Accountability for all funds should be maintained at all times (Chen 2004). Shungisa (2001) also noted that a lot of benefits can be derived through the implementation of an effective ICS. It prevents errors and irregularities by detecting them in a timely manner there by promoting reliable and accurate accounting records (Lame and Tan 2000). It can also quickly resolve issues arising as a result of reporting errors. It protects the interests of employees by Cleary specifying to them their duties and responsibilities and safeguarding them against being accused of irregularities or misappropriations (Dess and Shou 2001). According to Adler and Kwoh (2002), when proper internal controls activities are exercised, it helps in preparation of sound statistics that help in planning of the way forward. The financial statistics are use full in determining the performance value of the business. Thus, the weak internal controls activities in the private sector in Kamuli district have negatively affected financial accountability in the sector.

5.1.2 Effect of Risk management on financial performance of private secondary schools.

The findings revealed that there was a positive significant on risk management and financial performance. This is in line with the view that risk management can be taken to be an outcome of performance (Ayen, 2002). According to Samuel (2002), risks can be expressed in terms of capacity to deliver desired services from which customers get satisfaction. Through the internal controls, the desired employee's performance and financial performance is achieved in policy (Groth (2005). James (2005) and Magala (2001) said that internal control helps to ensure that planned activities are achieved as per set objectives in terms of realizing the desired service delivery needed by the organizational policy. Cox (2000) said that risk management leads to efficiency in utilization of organization resources where by activities are carried out as explained by their description, availability of equitable employees for work at all times, and equitable allocation of resources among others and hence, timely service delivery. Aderspan (2001) added that it avoids having idle resources in the organization thus ensuring constant provision of services and ensuring a good financial performance report.

5.1.3 The effect of Control environment on financial performance of private secondary schools.

The results from the **study** revealed that there is a positive significant on control environment and financial performance. The findings are consistent with literature reviewed, generally. Carmen et al (2004) argued that the essence of Control environment is to make power holders to account for or take responsibility for the actions and resources at their disposal through the establishment of an effective and efficient organization. Brown & Moore (2001) considered accountability desirable because it increases the incentives for actors to perform as expected and that reliability can improve performance and relationship among the parties. They argued that determining the environment increases the efficiency and effectiveness of an institution. Moore (2001) indicated that control environment increases the incentives to perform as expected and that improved performance leads to good financial performance. Blinkerhoff (2003) confirmed that, "All health systems contain accountability relations of different types which function with varying degrees of success and often, the perception of failed or insufficient accountability furnishes the impetus for reform. However, although control environment is viewed as a desirable organizational characteristic by most writers, empirical studies indicate that both leaders and subordinates Brown & Moose (2001).

5.2 Conclusion

According to the study, there is a positive significant on the effect of internal controls on financial performance which means that with effective control activities; better financial accountability can be realized. It was also established from the study that there was a positive significant of internal controls and financial performance which means that with effective internal control desired service delivery can be achieved. Improvement in internal controls relatively improves service delivery.

The research also showed that there was a positive significant on the effect of control environment on financial performance which means that control environment increases the efficiency and effectiveness of financial performance in the private sector. Alternatively, if there is no control environment, set goals cannot be achieved and service provision will be inadequate.

It was also established from the study that the combination of internal controls and financial accountability significantly predicted up to 78.8% of internal controls this means that 21.2% of variations in financial performance are predicted by other variables not considered in this study. However, it was indicated that internal controls is the most significant predictor of financial performance as compared to financial accountability. This confirms the findings by Bazzolil (2000) that internal control ensures sound financial management which leads to the attainment of set goals. Thus, the weak internal controls in the private secondary schools could not ensure sound financial accountability and this hindered achievement of set goals and thus, financial performance was inadequate.

5.3 Recommendations

Based on the findings and on the study variables the researcher came up with the following recommendations.

5.3.1 The effect of Control activities on financial performance of private secondary schools.

The findings revealed that there was a positive significant effect on control activities and financial performance. Kakuru (2001) argued that if controls activities are not well implemented, it will negatively affect performance and productivity of a firm. Researcher therefore recommends that; Ministry of Education and the private sector in Uganda should promote effective internal controls that facilitate financial accountability.

Private secondary schools management should continuously monitor the internal control system to ensure high level of financial performance.

Private secondary schools must have set goals and those in authority must adhere to those goals so that performance is not compromised.

5.3.2 Effect of Risk management on financial performance of private secondary schools.

The findings indicate that risk management as the most predictor of financial performance than financial accountability. The researcher therefore recommends that to overcome hindrances to adherence to best practice in the sector there should be effective implementation of internal controls and hence effectiveness and efficiency in the organization's operations by private secondary schools Management; Reviewing their existing internal controls and strengthening them through policy implementation, Putting in place clear internal control systems to monitor proper compliance on controls control environment.

5.3.3 Effect of Control environment on financial performance of private secondary school

Here the findings indicated a significant positive effect on internal controls and financial performance accountability. This is in line with previous study of Frost (2000) that there is a strong relationship between internal controls and financial performance. Basing on the findings and the previous study the researcher therefore recommends for the following; routine monitoring and evaluation of performance should be encouraged so that errors and misappropriations are reduced or eliminated.

Staff and leaders/owners of private health units need to be equipped with skills and knowledge for effective management of resources/businesses.

5.4 Limitations to the Study

Constraints that were faced while compiling literature and conducting the study were as below;

Some respondents filled the questionnaire half way thinking that their responses may be leaked to other authorities while other respondents could not understand some of the questions despite efforts made to expound on them and hence non-response. This was solved by re meeting the respondents and making further interpretations.

Other respondents gave non-working telephone contacts; this was solved by physical visits and follow up.

5.5 Suggested Areas for Further Research

(i) Corporate Culture and accountability in the private secondary schools.

(ii) Resource utilization and service delivery in the private sector.

(iii) Leadership and accountability in the private secondary schools.

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APPENDIX i

QUESTIONNAIRE

Dear Respondent, As part of my course at Kampala International University, I am carrying out research on the topic: Internal control systems and financial performance of private secondary schools in Kamuli. The study seeks to establish the Effect of internal controls systems on the financial performance of private institutions. As one of the target respondents, your views and opinion are very important to this study. I hereby request you to spare some time and you fill this questionnaire. The responses obtained will be confidential and strictly be used for academic purpose only.

Thank you for your co-operation.

Section A: Background Information.

1. Gender

Male ☐ Female ☐

2. Age

(i) 20-29 ☐ (ii) 30-39 ☐

(iii) 40-49 ☐ (iv) 50 and above ☐

3. Level of Education

O level ☐

A level ☐

Certificate ☐

Diploma ☐

Degree ☐

Others (specify)............................ ☐

4. Number of years worked in the Department

1-5 years ☐

6 - 10 years ☐

11 -15 years ☐

16 - 20 year ☐

Over 20 years ☐

5. For how long has this Institution has been operating?

Less than 5 years ☐

5 – 10 years ☐

11 – 15 years ☐

16 – 20 years ☐

Over 20 years ☐

6. What position do you currently hold in the Institution that you work for?

Management Committee member ☐

Finance Officer and Accounts staff ☐

Departmental head ☐

7. What is the size of your Institution?

Large sized Institution ☐

Medium sized Institution ☐

Small sized Institution ☐

SECTION: B To examine the functionality of Internal Control systems of Private secondary schools.

Please rank the following statement on Likert Scale ranging from Agree, Strongly Agree, Neutral, and Disagree, Strongly disagree.

Rating it to a five scale system using 1. **SA**- Strongly agree 2. **A**- Agree 3. **N**- Not sure 4. **D**-Disagree 5. **SD**-Strongly disagree.

4. Rank the extent to which control environment affects on the financial performance?

	Statements	**1**	**2**	**3**	**4**	**5**
1	Staff have good working relationships between themselves					
2	Staff is committed to their jobs					
3	All jobs are given on competency basis					
4	All workers have work schedules hence no job conflicts					
5	All jobs are standardized					
6	All the duties are performed according to the approved standards					
7	The work structure is flexible that it allows staff to go on leave in the month of their choice without pressure					
8	The hiring process for contract staff is transparent					
9	All employees are treated equally					
10	There is a mechanism to monitor regular attendance of staff					
12	Activities are perfumed in an atmosphere of creativity and innovation.					

5. Rank the extent to which your controls activities on the financial performance of the institution?

Using 1. **SA**- Strongly agree 2. **A**- Agree 3. **N**- Not sure 4. **D**-Disagree 5. **SD**-Strongly disagree.

	Statements	**1**	**2**	**3**	**4**	**5**
1	Staff is given up to date internal control manuals for reference purposes.					
2	Staff era aware of the penalties for breaking internal control procedures					
3	Accounts are reconciled on monthly basis to detect errors and fraud					
4	All payments are authorized by responsible officer before payment					
5	All payment procedures are followed for all transactions					
6	All financial transactions are recorded in vouchers for future references					
7	There is internal check which operates continuously as part of the system					
8	All departments have clear levels of authority					
9	The institution has an asset register which is updated regularly					
10	All institution assets are corded and marked					
11	The internal auditor works independently					
12	All employees have clear duties and there is no conflict of duties					

6. Rank the extent to which how risk management affects the financial performance of the institution?

Using 1. **SA**- Strongly agree 2. **A**- Agree 3. **N**- Not sure 4. **D**-Disagree 5. **SD**-Strongly disagree.

	Statements	**1**	**2**	**3**	**4**	**5**
1	There are mechanisms in place to identify and react to changes that can have dramatic effects on the institution					
2	Controls exist for approving decisions regarding financing alternatives and accounting principles, practices and methods					
3	Risks are assessed in relation to changes in the operational environment					
4	Changes of new staff is clearly examined for the risks it may cause					
5	Organizational restructuring brings limited risks to the institution					
6	New services posses less risks to the institution					
7	The reporting mechanism in place is less risky to the institution					
8	Communication channels are in place for changes to improve on financial performance.					
9	Internal audit has appropriate controls to improve on financial performance.					
10	The institution has competent and knowledgeable personnel					

Appendix ii: Research Budget

Items	**QTY**	**UNIT COST**	**AMOUNT**
Stationery			40000/=
Transport			50,000/=
Preparing questionnaires			100,000/=
Data collection and analysis			200,000
Editing data, printing and binding	4	20,000	80,000/=
Airtime		50,000	50,000/=
Miscellaneous		20,000	20,000/=
TOTAL			**500,000/=**

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COLLEGE OF ECONOMICS AND MANAGEMENT
DEPARTMENT OF ACCOUNTING AND FINANCE

19th/08/2019

To whom it may concern

Dear Sir/Madam,

RE: INTRODUCTORY LETTER FOR BITALI MIRIAM LILIAN 1163-05014-05472

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration Accounting and Finance, Third year Second semester.

The purpose of this letter is to request you avail her with all the necessary assistance regarding her research.

TOPIC: - **INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE OF PRIVATE SECONDARY SCHOOLS IN KAMULI DISTRICT**

CASE STUDY: - **KAMULI PROGRESSIVE COLLEGE**

Any information shared with her from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours, truly,

19 AUG 2019

DR. JOSEPH B.K. KIRABO
HOD – ACCOUNTING AND FINANCE
0772323344

Kamuli Progressive College,

P.O Box 259,

Kamuli.

23rd August, 2019.

Head of Department,

Accounting and Finance,

Kampala International University

P.O BOX 20000.

Dear Sir,

RE: <u>BITALI MIRIAM LILLIAN REG. NO. 1163-05014-05472.</u>

I here by inform you that the above mentioned person has been accepted to carry out research in our school.

She began her research on 23rd Aug, 2019 until her research is done.

Yours faithfully

MR. NGO CHARLES.

HEAD TEACHER

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