

**THE EFFECTS OF INTERNAL CONTROL SYSTEM ON
ORGANISATION'S CASH FLOW MANAGEMENT**

“A CASE STUDY OF KILIFI TEACHERS CO-OPERATIVE SOCIETY”

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS
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DECLARATION

I hereby declare that this research dissertation is my original work and has not been submitted in the same form or any other form to Kampala International University or any other institution for that matter for any award whatsoever.

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APPROVAL

This research dissertation has been done by Ms.Jungo P. Edna, Reg. No. BBA/11030/62/DF of Kampala International University under my supervision as a University Supervisor and submitted to the School of Business and Management with my Approval.

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Date...5/6/2010.....

DEDICATION

I dedicate this work to my family who has always given me their financial and moral support throughout all the years of my study.

Special thanks to my parents especially my beloved mother for all that she has had to offer for all these years, my friends and all others who I cannot thank individually. May God bless you.

ACKNOWLEDGEMENT

This work would not have been complete without the help I got from the staff of Kilifi Teachers Co-operative Society who willingly assisted me with the relevant data during my research.

My classmates who worked with me tirelessly giving me guidance and direction and my supervisor who ensured that all that I was doing was done well by correcting me and that's why I have come this far.

ABSTRACT

This Study was about the Effects of Internal Control System on Organization's Cash Flow Management a case of Kilifi Teacher's Co-operative Society. The main Objective of the study was to establish the Relationship between Internal Control System on Organizational Cash Flow Management in KITECO.

Chapter One of the Study established the background of the study, the statement of the problem, the Purpose of the study which was to establish the Relationship between Internal Control System and Organizational Cash flow Management in KITECO, and the Research objectives were to; Establish the Relationship between internal Control System and organizational Cash flow management in KITECO, to examine the roles played by internal Control System on the Performance of KITECO and to determine the components and types of internal Control Systems in KITECO.

The Research Objectives were used to formulate Research Questions.

The Scope of the study was limited to Kilifi Teacher's Co-operative Society in Kilifi District and its significance was to create a system of Internal Control Structure in KITECO which is a primary concern for organizations seeking to improve their operations, give an insight on the importance of Internal Controls in playing an Integral part in organizational efficiency and to help other researcher's in the field in the field of study to have a deeper understanding on the nature and importance of internal Controls in Organizations.

Chapter Two deals with Literature Review of ICS, theoretical Framework and literature relatwd to the study discussed in depth.

Chapter Three dealt with the type of Research Methodology used, the Research Design employed during the Study which was qualitative and quantitative, the research population which was 100 employees and the sample size of 50 employees selected randomly. The Data Source used was both primary and secondary collected through Interviews and Questionnaires. The limitations experienced being language barrier, unwillingness to give out information and lack of enough literature related to the study.

Chapter Four Dealt with analysis and presentation of Data which was collected during the study. This included the Bio Data of the respondents and the other results in relation to the study objectives. The results were presented in form of Tables. Bar Graphs and Pie-Charts.

Chapter Five was the last Chapter showing the Summary of findings, conclusions and Recommendations. The findings of the study were based on the research Objectives and the recommendations were made in relation to that specific Study.

LIST OF ABBREVIATIONS

ICS- Internal Control System

KITECO- Kilifi Teacher's Co-operative Society

SAS- Statement on Auditing Standards

SAP- Statement on Auditing Principles

SACCO- Savings and Credit Co-operative Society

ATM- Automated Teller Machine

GAAP- General accepted accounting principles

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CHAPTER ONE

INTRODUCTION

Sacco's in Kenya are gradually responding to the fast changes in financial environment and adopting new approaches to the traditional Sacco model. Sacco membership is based on common bonds and knowledge about the borrower. These mechanisms Sacco's argue have proven their ability to manage risk, enforce lending contracts and they reduce transaction costs of delivering credit. Until recently Sacco's have been able to retain membership and attract new members through natural affiliation stemming from the common bond among members. However with increased competition from other financial service providers and other factors such as retrenchment, Sacco membership is beginning to decline. As a result Sacco's are being forced to come up with strategies and products to assist them cope with these challenges. Some of these strategies involve extending services to alternative market from what they predominantly served and provide quality services for example having an effective Internal Control System which will help to protect the members' funds from being perpetrated through frauds.

1.1 Background of the study

Kilifi Teachers Co-operative Society was formed in 1972 to cater for the needs of primary school Teachers in Kilifi District Coast Province. However it was fully registered to be a co-operative society in Kenya in 1974. The core objective of its establishment was to give members an opportunity to save and borrow. It started in Kilifi District and was providing services to Primary School teachers around Kilifi Town. However due its popularization the Sacco has opened up Branches in Malindi and Mariakani Town to serve the teachers in those regions. Though its initial goal was only to offer borrowing and saving services it has over the years improved to begin offering banking services to its members. Among products offered include; ordinary savings account, fixed savings account and advances. It also acts as a salary pay point.

The society serves a wide range of members and is trying to meet the needs of all its members through its various products. Membership consists of the following categories; Salaried employees from the organization who form the common bond, non- salaried employees who are members of FOSA and Microfinance customers who have joined the SACCO through recently introduced Micro finance program. The SACCO is now offering ATM services to its members. The Sacco has also adopted the Grameen concept of group guaranteed lending program which incorporates a forced savings element and an insurance cover against death of the borrower.

Even though competition is high in the financial sector due to competitors e.g. Post bank and Microfinance institutions, Commercial Banks who are using aggressive marketing techniques to woo potential members and using advanced technology the society has continued to gain popularity due its low interest on loans, good customer care, low minimum deposits and customized customer services e.g. giving advance to its members. This has therefore led to its advancement which has seen it advancing from a share capital of 22,502,824.00 in 1980 to 192,786,837.00 in 2000. KITECO has also established branches in Mariakani and Malindi Towns to cater for its members in those regions. With more and more members joining and its tremendous growth over the years KITECO will certain become the best co-operative society in Kenya.

1.2 Statement of the problem

The problem is internal control systems in Kilifi Teachers Co-operative Society started experiencing problems in mid 90s due to non existence of proper internal control system. This therefore led to cash mishandlement and lack of proper authorization on the use of cash resources in the organization. This was because of lack of segregation of duties (e.g. separating handling of cash from cash recording), authorizations and approvals e.g. cash approvals.

Kilifi Teachers Co-operative society then decided to introduce some measures which would improve its performance and therefore make it an efficient co-operative society.

This was done by review of internal controls in the society to ensure that the society could run smoothly.

This is why the researcher gained a special interest to analyze how internal control system has an effect on the organizational cash flow management in organizations.

1.3 Purpose of the study

The study was to establish the relationship between internal control system and organizational cash flow management in Kilifi Teachers co-operative society in Kenya.

1.4 Objectives of the study

- To establish the relationship between internal control system and organizational cash flow management in KITECO
- To examine the roles played by internal control system on the performance of KITECO
- To determine the components and types of internal control systems in KITECO

1.5 Research Questions

- What is the relationship between internal control system and organizational cash flow management in KITECO?
- What is the role played by internal control system on the performance of KITECO?
- What are the components and types of internal control system in KITECO?

1.6 The scope of the study

The research dwelt on the aspects of internal control system on organizational cash flow management and how ICS had affected its performance.

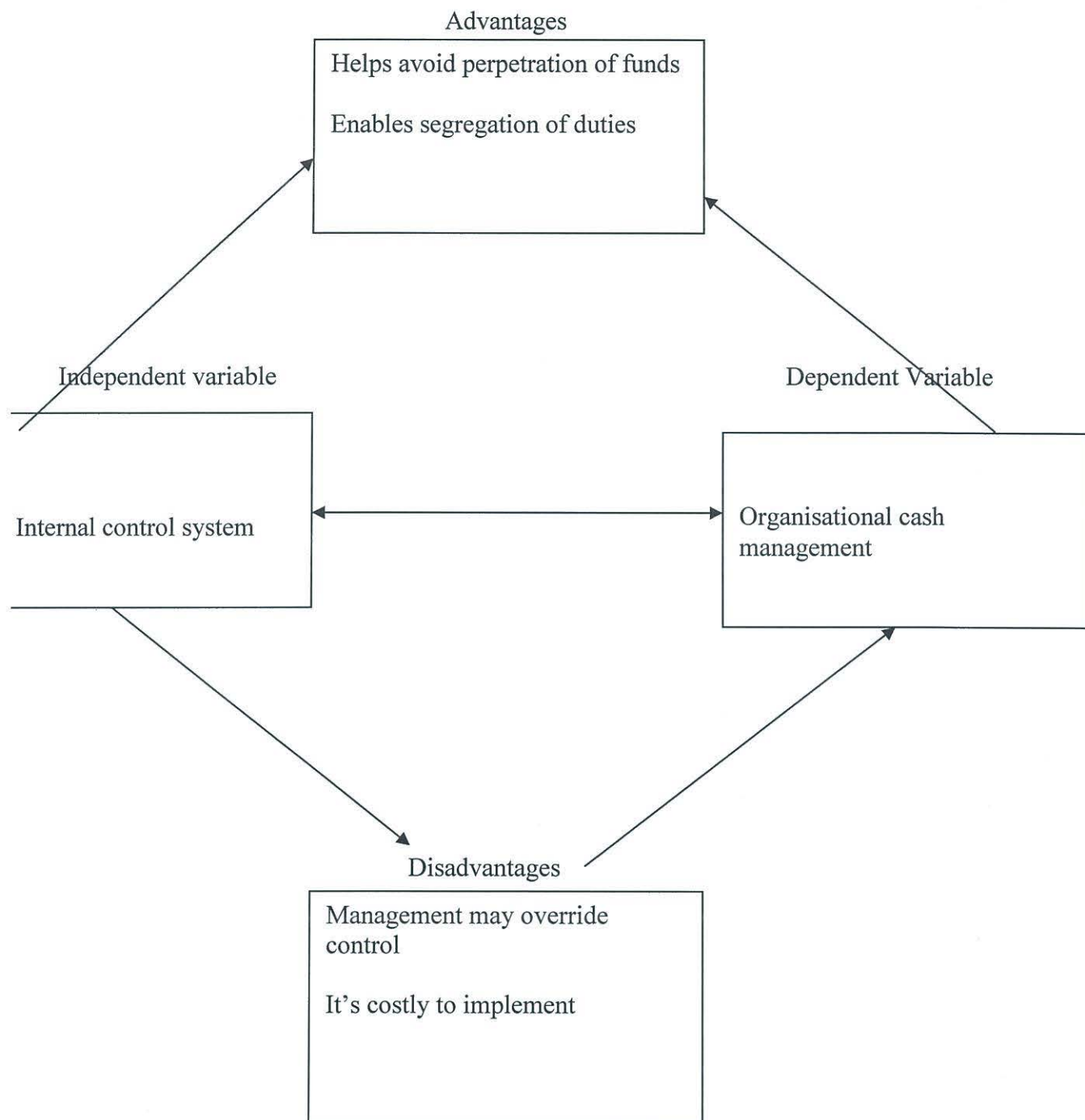
However it was to be specifically dwelling on Kilifi Teachers Co-operative society in Kilifi town located in North Coast in the Kilifi Teachers Co-operative House building.

Due to limited time and resources this research was carried out for a period of 4 months.

1.7 Significance of the Study

- To create a system of internal control structure in KITECO this is a primary concern for organizations seeking to improve their operations. This is because the need for enhanced ICS is a natural part of managing new streams of revenues in organizations.
- To give insight on the importance of internal controls in playing an integral part in organizational efficiency.
- To help other researchers in the field of study to have a deeper understanding on the nature and importance of internal controls in organizations.

1.8 Conceptual Framework



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This involves locating, reading and evaluating reports of previous studies, observations and opinions related to the planned study. It therefore leads to the appreciation and understanding the research that has already been done in one's area of interest. The literature review used in this study is got from text books, Scholar journals, Periodicals, Kiteco's annual and quarterly reports, Publications about internal Control System.

Internal Control System therefore refers to all the policies and procedures (financial or otherwise) adopted by the managers of an entity to help ensure as far is practical the efficient conduct of its business. The purpose of ICS is to promote operational efficiency and adherence to management policies.

2.1 Theoretical framework

According to Arens, Loebbecke, (2000) a system of internal control consists of policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals. These policies and procedures are usually called controls, and collectively they comprise the entity internal control. An understanding of internal controls especially those controls related the reliability of financial reporting is important to the auditors' purposes.

According to Hermanson, Loeb, Strawser (1983) statement on auditing procedures (SAP) NO. 33 defined internal control as the plan of organization and all the coordinate methods and measured adopted within the business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribe managerial policies.

According to Guy, Alderman, Winters (1999) SAS NO.55 defines internal control as a process effected by an entity board of directors, management and other personnel

designed to provide reasonable assurance regarding the achievements of objectives in the following categories:

- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Effectiveness and efficiencies of operations.

Internal control provides reasonable assurance of achieving each of the three objectives listed. It is a means of controlling the entity activities ensure that they accomplish the desired objectives. Internal control may include a wide variety of specific objectives and related policies and procedures. Say a manufacturer may establish a certain controls to ensure the quality of its products, to acquire raw materials at the lowest possible prices, motivates its employees, to participate in social development in the community it operates in, or to avoid making credit sales to customers unlikely to pay. Although internal control usually pertains to numerous different entity objectives it is often relevant to an audit of an entity financial statement.

2.2 Related Literature

According to Belverd.E.Needles, (1995) internal control has traditionally been defined as all the policies and procedures a management uses to protect a firm's asset and to ensure the accuracy and reliability of accounting. It also includes a control that deals with operating efficiencies and adherence to management policies. In other words, management wants not only to safe guard assets and to have reliable but also maintain an efficient operation that follows its policies. To this end it establishes an internal control structure that consists of three elements:

- The control environment
- The accounting system
- Control procedures

According to Meigs, Larson, Robert (1987) many people interprets internal control as the step taken by a business to prevent employee fraud. Actually such measures are rather as a small part of internal control. The basic purpose of internal control is promoting the efficient operations of an organization. The system of internal control consists of all measures employed by an organization to:

1. Safeguard assets from waste, fraud and inefficient use
2. To promote accuracy and reliability in accounting records
3. To encourage and measure compliance with company policies and
4. To evaluate the efficiency of operations.

In short, internal control consists of all the measure taken to ensure the management with assurance that everything is functioning as it should. An internal control extends beyond the accounting and a financial function, its scope is companied wide and touches all the activities of the organization.

According to Spicer and Pegler (1993) internal is best regarded as indicating the whole system of controls, financial and otherwise, estimated by the management in the conduct of a business including the internal check, internal and other forms of controls.

According to Howard.F.Stettler (1997) internal control involves actions taken within an organization to assist in regulating and directing the activities of the organization. The scope of internal control extends beyond the accounting controls and includes all operational controls that are; quality control, budgetary controls, work standards, periodic reporting, internal check and internal audit. Besides internal check and internal audit, the two important areas of internal are as under:

- Administrative control
- Accounting control

Internal control therefore comprises measures introduce in organization to control and regulate the accounting of the transaction, increase the efficiency of operation, adhere top policies of the business and maintain accuracy and reliability for business records.

Cash flow management

Cash is defined as money on deposits in banks and any items that a bank will accept for deposits. These items include not only coins and paper money but also cheques, money orders; bank credit cards e.g. visa cards and master cards

Cash inflows can be generated from borrowing money, account receivables, sale of securities and extra.

Cash outflows refer to repayments to loans, cheques, to pay creditors, long term investments and extra.

Cash management refers to planning, controlling and accounting for cash transactions and cash balances. Efficient cash management is essential to the success-even to the survival-of every business organization.

Cash management is necessary to ensure that at any point in time a company has neither too little nor too much cash on hand. Cash management is one of the most important aspects of control over cash.

2.3 Relationship between internal control system (ICS) and organization cash flow management.

The system helps the organization institute adequate safeguards for accessing and using records and assets such as cash or other organizational assets. Such safeguards should also cover access to records, documentation, and record-keeping files.

It also recommends segregation of duties in order to reduce the opportunity for any one person to be in a position to perpetrate and/or conceal errors or irregularities in the normal course of his or her duties.

This can be done by assigning different people the responsibilities of authorizing Transactions, recording transactions, and maintaining custody of assets.

Internal control system helps in creating an organization that promotes an environment of control. The attitude of the management has a significant influence on the effectiveness of an organizations ICS structure.

2.4 Components of ICS

A company's internal control refers to policies and procedures that an entity's board of directors, management and other personnel design and implement to provide reasonable assurance that its control objectives are met. These are also called elements/components of internal control and consist of:

(1)Control Environment

The essence of an effectively controlled environment lies in the attitude of its management. If top management believes control is important, others in the organization will sense that and respond by consistently observing the policies and procedures established.

This sets the tone of an organization, influencing the control consciousness of its people. It is the foundation of all other component of internal control, providing discipline and structure.

(2) Risk assessment

Risk assessment for financial reporting purposes is an entity's identification, analysis and management of risks to the preparation of financial statements that are fairly present in conformity with general accepted accounting principles (GAAP).

All entities-large or small, profit or non-profit, service or manufacturing encounter risk. Many of these risks if not addressed can cause misstatements in the entity's financial statements. Risk assessment is therefore an important component of internal control.

(3)Control activities/Procedures

Control activities are the policies and procedures management establishes to address risks that management might prevent the entity from achieving its objectives. Control activities have various objectives and are applied at various organizations and functional levels

within the entity. Although control activities may be performed either manually or by a company with today's widespread use of computers, computerized controls are almost always used to some extent.

There are a number of types of internal control activities that an organization can use to achieve its control objectives.

(4) The Accounting information and communication System.

An organization's accounting information system consists of the methods and records established to record, process, summarize and report an entity's transactions and to maintain accountability for the related assets, liabilities and equity information is needed at all levels of an organization to assist management in meeting the organization's objectives. Of major concern to the auditor are the accounting information system and the way in which responsibilities for internal control over financial reporting are communicated throughout the organization. Accordingly, an accounting information system should help the organization in carrying out its objectives.

(5)Monitoring

Monitoring is the process that an entity uses to assess the quality of internal control over time. This is usually done because internal control changes over time. These changes can occur for various reasons .Example an entity may expand or contract their operations, new personnel may join the entity or the effectiveness of training and supervision may vary.

Management therefore monitors to determine whether internal control continues to be effective and to modify them as appropriate for changes in conditions.

2.5 Types of internal controls

There are three core types of internal controls. These can be identified as;

Preventive controls

These are the controls which prevent risks from occurring in the organization e.g. authorization controls should prevent fraudulent or erroneous transactions taking place.

Other preventive controls include segregation of duties, recruiting and training the right staff and having an effective control culture.

Detective controls

These are controls that detect if any errors have been committed. These could be exception types of reports that reveal that controls have been circumvented. For example, large amounts paid without being authorized .Other examples include reconciliation, supervision and internal checks in management.

Corrective controls

These controls address any problems that have occurred. Where problems are identified, those controls will ensure that the problems are rectified. Examples include follow up procedures and management.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This refers to the various types of methods used by the researcher when carrying out his research. This chapter therefore outlines the Research Design, Research population, sample and sampling method, methods of data collection, data analysis and limitations of study.

3.1 Research Design

The research has been a Case Study of Kilifi Teacher's Co-operative Society based on qualitative and quantitative analysis and was carried out in KITECO using the selected sample. This was to enable the researcher have a better understanding, comprehensive and intensive data collection practices, procedures impacts and importance of internal Control System on Organizational Cash flow management.

3.2 Research population

Population refers to an entire group of individuals, events/objects having a common observable characteristic. In this case, the study population was the employees of Kilifi Teachers co-operative society with a specific number selected from all the departments. The population of KITECO was 100 employees.

3.3 Sampling Method

This is a method used in selecting a number of individuals for a study in such a way that the individuals selected represent the large group from which they were selected.

Random sampling therefore was the method used in selecting the sample who were employees of KITECO in various departments e.g. Accounts department, Human Resource department, Information Technology department and extra.

3.4 Sample size

It is a smaller group obtained from the study population. The sample size used by the researcher was 50 employees and it was obtained through Random Sampling. This was because of the size of the organization under study which was not large. The sample was selected carefully so as to be a representative of all the employees of the organization in all the departments and in the level of their seniority.

3.5 Data Source

The study utilized both primary and secondary data. The source of primary data being questionnaires administered and interview schedules. The secondary data used included data from text books, Scholarly journals, Periodicals, Kitecos annual and quarterly reports, Publications and references from the library.

3.6 Research Instruments

3.7 Questionnaire Method

This is a method of data collection whereby the respondents give information by filing or answering questions in a form.

The questionnaires used in this study were administered by the Researcher and contained open ended questions and closed questions. These were administered to the sample size selected in the various departments in the organization. Collecting data via this method in this study was advantageous because the information was free from bias due to anonymity of the respondents. Data was thus collected from the senior members e.g. managers, Head of Departments to the junior employees in the organization.

3.8 Interview Schedule

Interview is defined as a process of communication or interaction in which the interviewer/researcher collects data from the respondents/interviewees in face to face. This was to enable the researcher gain into depth knowledge of the topic of study. An interview was also used to help in supplementing the questionnaire in areas which needed more explanations not got from the questionnaire.

3.9 Limitations of the study

There were various limitations which were experienced by the researcher in carrying out this study. These were;

- (i) Respondents' were unwilling to give out data fearing on the consequences of revealing some information which was supposed to be confidential.
- (ii) Language barrier problem was also experienced, where some of the respondents could not express themselves well and some of the questions were being misunderstood, and the researcher had to source for interpreters to explain the questions to the respondents.
- (iii) The researcher incurred high costs in the course of data collection which came about when he/she was supposed to travel to meet the respondents and buying the instruments which were used in collecting the data. Time was also an issue where the researcher experienced shortage of time during data collection.
- (iv) Limited literature on ICS in libraries around made the study to be restricted to use a few literature materials that the researcher managed to access.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.0 Introduction

This chapter concerns the way data collected from the respondents is analyzed and presented in various ways. The data collected in this study was quantitative and qualitative, collected through interviews and questionnaires. The study concerned the effects of internal control system on organizational cash flow management. The findings were presented in the form of bar graphs, tables and pie charts to clearly show the effects.

4.1 Bio Data

4.1.1 Respondents by Gender and Age.

Table 1. Respondents by Gender

Gender	Frequency	Percentages
Male	30	60%
Female	20	40%
Total	50	100%

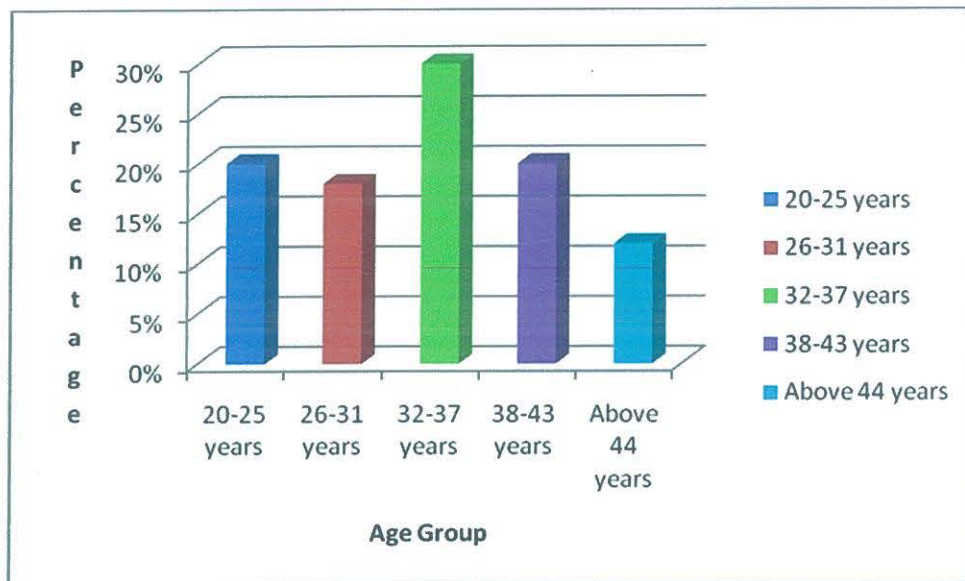
From the above table therefore it clearly shows that most of the respondents were male (60%) compared to their female counterparts (40%).

Table 2. Respondents by Age

Age group	Frequency	Percentage
20-25 years	10	20%
26-31 years	9	18%
32-37 years	15	30%
38-43 years	10	20%
Above 44 years	6	12%
Total	50	100%

The table above therefore shows that most of the respondents were between (32-37)years of age group 30%,while 20% were aged between (20-25)years and (38-43) years,18% were aged between (26-31)years, and 12% above 44 years.

The above information is clearly shown by the use of a bar graph.



4.1.2 Respondents field in the organization

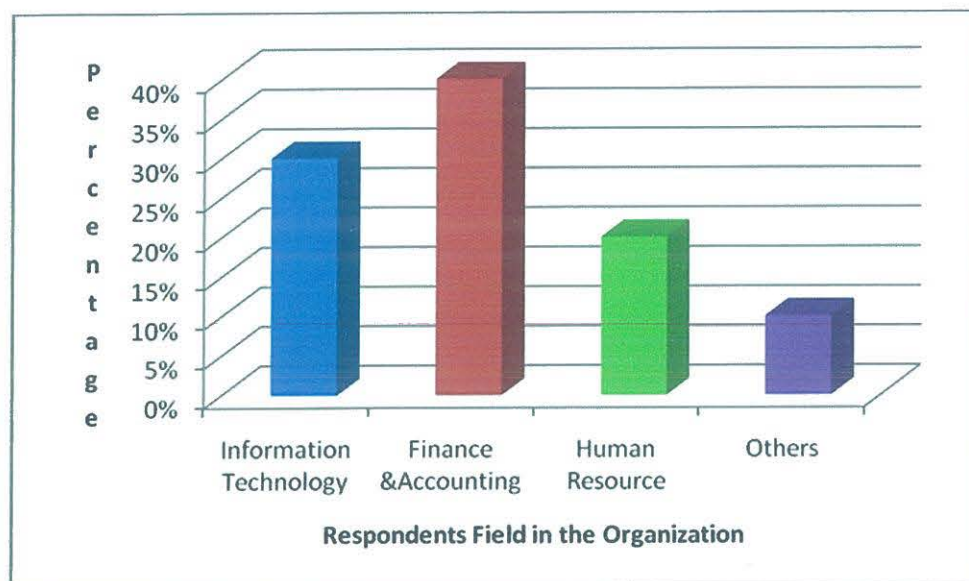
Here the researcher wanted to find out which field the respondents were in so that it would help him to know how their answers were relevant to the study.

Table 3: Classification of respondents as per their field in the organization

Field in the organization	Frequency	Percentage
Information Technology	15	30%
Finance &Accounting	20	40%
Human Resource	10	20%
Others	5	10%
Total	50	100%

From the above table therefore, majority of the respondents were from the Finance and accounting department 40%, while Information Technology had 30%, Human Resource 20% and the other departments had 10%.

This is clearly depicted by the use of a bar graph.



4.1.3 Respondents number of years service in the organization

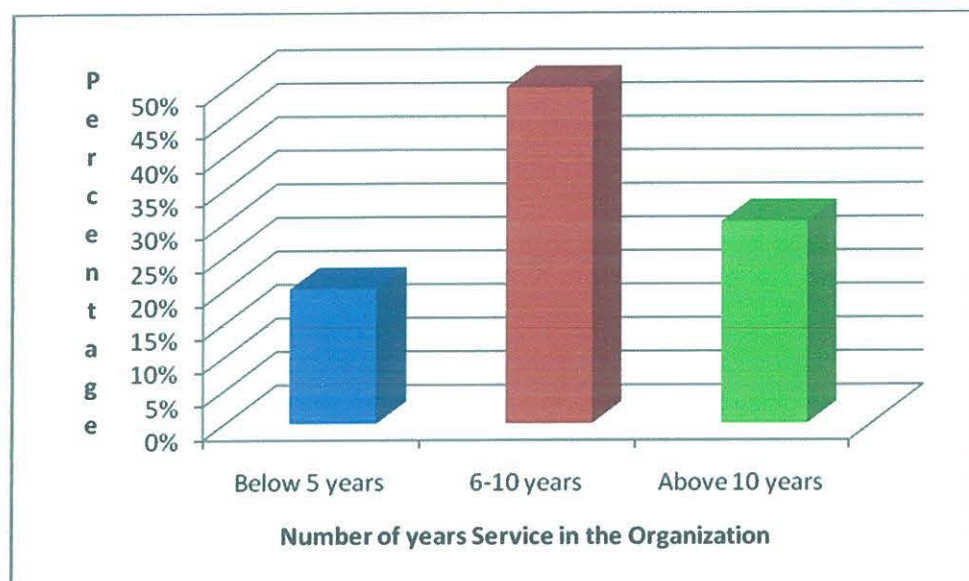
The purpose of the researcher wanting to know the number of years the respondents served in the organization, he wanted to find out how well the respondents were versed to the policies and procedures in the organization.

This was also to help him to know whether in those years of service they had seen the importance of proper internal controls in the organization.

Table 4: Respondents number of year's service to the organization

No. of years	Frequency	Percentage
Below 5 years	10	20%
6-10 years	25	50%
Above 10 years	15	30%
Total	50	100%

From the above table, it shows that most of the respondents had worked in the organization for quite some reasonable time (6-10) years that is 50% of the respondents. 30% had worked for more than 10 years and the rest 20% had worked for below 5 years.



4.2 Relationship between ICS and organizational Cash flow management

In obtaining objective (1) of the study which was to establish the relationship between ICS and organizational cash flow management, some research questions were formulated which were to fulfill this objective. Some of the questions posed included, if they knew what ICS meant, if they had it in their organization, how ICS helped in the organization and whether it was weak or strong.

Table 5: The relationship between ICS and organizational Cash flow management.

Does ICS help in regulating cash flow in an organization?	Strongly Agree	Agree	Disagree	Strongly Disagree	Total
Frequency	20	15	10	5	50
Percentage	40%	30%	20%	10%	100%

This table showed that majority of the respondents strongly agreed that ICS helped a great deal in cash flow management as shown 40%, 30% agreed that it helped, 20% disagreed that ICS did help in regulating cash flow management and 10% strongly disagreed that ICS did help in cash flow management.

The above results come about as a result of how much the respondents are involved in the activities of the organization in relation to the ICS. Most of the respondents who are directly involved in the ICS strongly agree that it does help in Cash flow management for example those in Finance and Accounting Department.

On the other hand the 10% who think that ICS does not at all help do not in any way relate to the activities related to ICS for example the subordinate staff.

Below is a Pie-Chart presenting the above information clearly for the users to depict

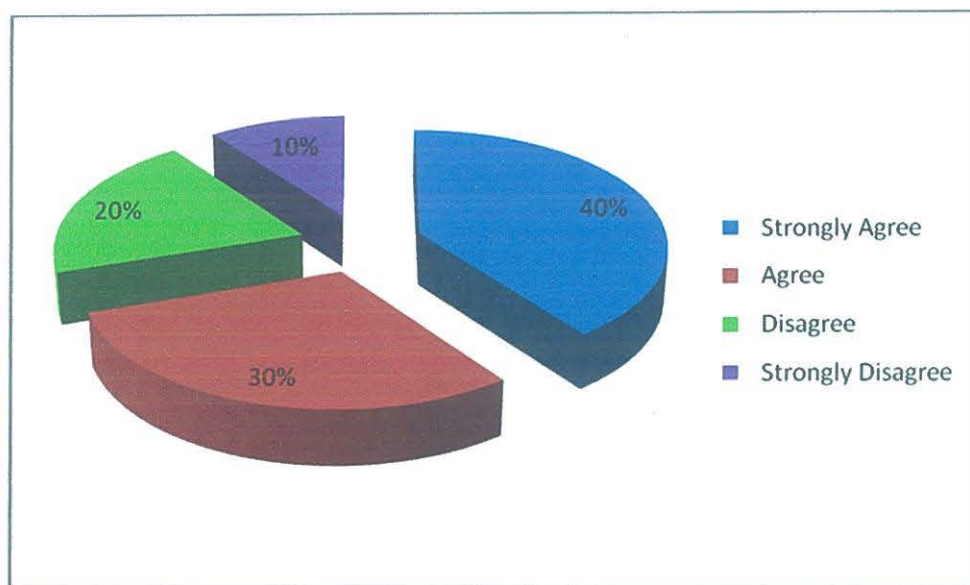


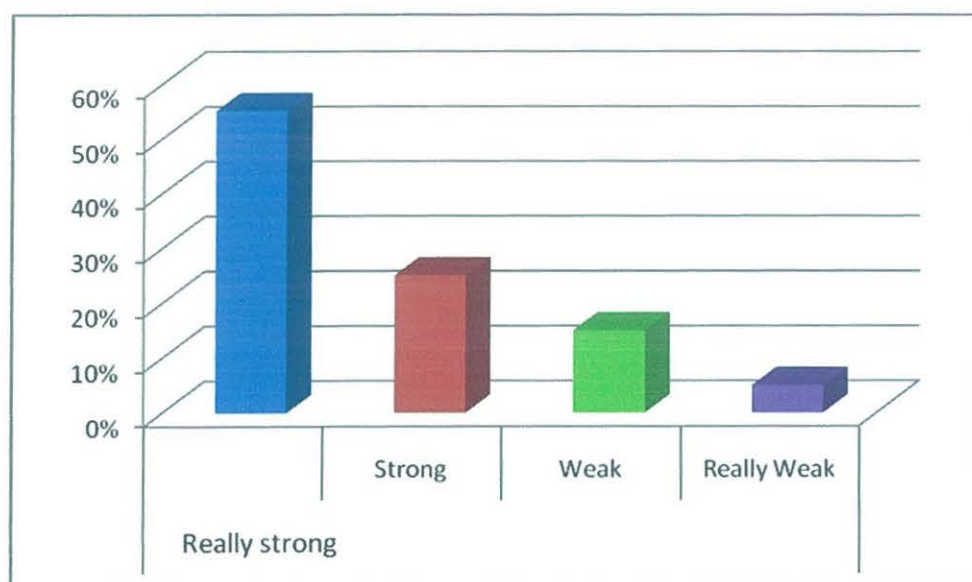
Table 5(b) Opinion on the strength of the ICS in the organization.

This was achieved by the question stating, "Do you think the system in the organization is weak or strong?"

Do you think ICS in the organization is weak or strong?	Really Strong	Strong	Weak	Really Weak	Total
Frequency	55	25	15	5	100
Percentage	55%	25%	15%	5%	100%

From the above table majority of the respondents 55% thought that ICS was Really strong in the organization, 25% thought it was Strong, 15% thought that ICS was weak in the organization while 5% thought that ICS was really weak in the organization.

Below is a bar graph showing the above results clearly.



4.3 Roles played by ICS in performance of KITECO

In obtaining objective (2) in the study, the researcher had to find out the roles played by ICS in performance of KITECO. The findings for this objective were achieved by the researcher in posing the research question, "What is the role played by ICS on the performance of KITECO?"

Most of respondents agreed that ICS had played a major role in the performance of KITECO as an organization as a whole. Other roles include:

The system helps the organization institute adequate safeguards for accessing and using records and assets such as cash or other organizational assets.

It also helps in creating an organization that promotes an environment of control. The attitude of the management has a significant influence on the effectiveness of an organization structure.

The system also recommends segregation of duties in order to reduce the opportunity for one person to be in a position to perpetrate funds and or conceal errors and irregularities in the normal course of his/her duties.

This can be done by assigning different people the responsibilities of authorizing transactions, recording transactions and maintaining custody of assets.

4.4 Components and types of ICS in KITECO

In obtaining objective (3) in the study, the researcher had to find out the components and types of ICS present in KITECO .The research question formulated for this objective being, “What are the components and types of ICS in KITECO?”

The results showed that the types of Internal Control System used in KITECO are the preventive controls, Detective Controls and Corrective controls.

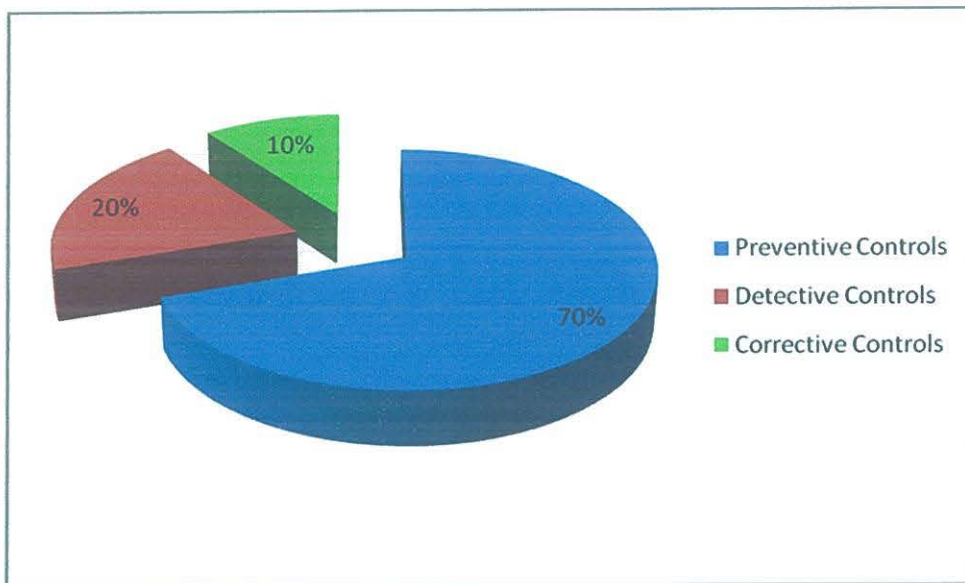
Table 6: Showing the frequently used ICS type in KITECO.

Which is the most commonly used ICS type in KITECO?	Preventive Controls	Detective Controls	Corrective Controls	Total
Frequency	35	10	5	50
Percentage	70%	20%	10%	100%

From the table above it clearly shows that the highest number of respondents stated that the most commonly used type of internal controls were Preventive Controls 70%, Detective Controls 20% and the last resort is usually corrective controls 10%.

The highest percentage recorded for preventive controls 70% is because the organization deems it fit to prevent the type of frauds that may result from defective controls than try to correct them later. The advantage of using Preventive controls is that the organization will avoid losses that would arise by preventing them.

A pie chart showing the types of controls



The internal control System also has its components that help make it run smoothly in the organization. The components present include the control environment, Risk assessment, Control activities, the accounting information and communication system and Monitoring.

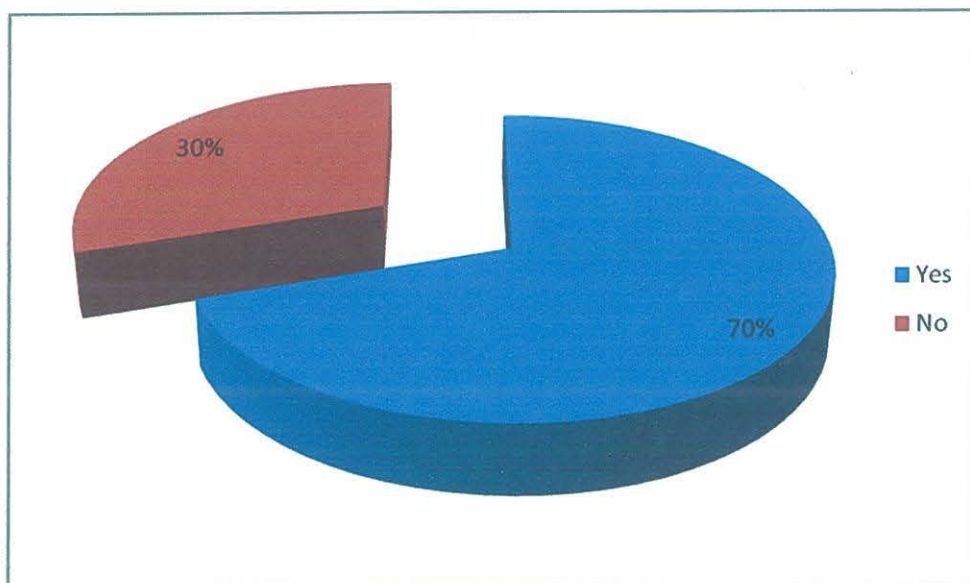
Table 7: The effectiveness of the components of ICS in effecting cash flow management in KITECO.

Do the components of ICS help effect cash flow management?	Yes	No	Total
Frequency	35	15	50
Percentage	70%	30%	100%

In the above table, it clearly shows that a high percentage of the respondents 70% thought that the components of ICS helped a great deal in effecting cash flow management in KITECO while 30% thought that the components of ICS didn't really help in effecting cash flow management in KITECO.

The above results is because the components of ICS for example Control Environment which is usually the top management believes that control is important others in the organization will sense that and respond by consistently observing the policies and procedures established.

Below is a pie chart showing the above



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This Chapter deals with the summary of the findings of the previous Chapter, conclusions reached in the study and the recommendations that might help in solving the study problems

5.1 Summary of Findings

These are derived from the main objectives of the study. Whereas the purpose of the study was to find out the effect of internal control on organizational cash flow management, it had several objectives to be achieved.

Objective (1) of the study was to establish the relationship between internal control System and organizational Cash flow management in KITECO.

From the study findings it was evident that majority of the respondents of sample size 50 strongly agreed that ICS helped a great deal in cash flow management as shown 40%, 30% agreed that it helped, 20% disagreed that ICS did help in regulating cash flow management and 10% strongly disagreed that ICS did help in cash flow management in KITECO.

The significance of this is that those respondents who agreed that ICS helped were directly involved with the activities of the ICS especially those who work in the Finance and Accounting Department while those who disagreed were not involved or not significantly involved in the activities of the ICS in the Organization.

Objective (2) of the study was to examine the roles of the ICS on the performance of KITECO. From the study findings the following roles were evidently seen as played by the ICS in performance of KITECO.

The system helps the organization institute adequate safeguards for accessing and using records and assets such as cash or other organizational assets.

It also helps in creating an organization that promotes an environment of control. The attitude of the management has a significant influence on the effectiveness of an organization structure.

The system also recommends segregation of duties in order to reduce the opportunity for one person to be in a position to perpetrate funds and or conceal errors and irregularities in the normal course of his/her duties.

This can be done by assigning different people the responsibilities of authorizing transactions, recording transactions and maintaining custody of assets.

Objective (3) of the study was to determine the components and types of internal control systems in KITECO. The study showed that there were various types of internal controls used in KITECO and these are Preventive controls, Detective Controls and Corrective controls.

The highest number of respondents stated that the most commonly used type of internal controls were Preventive Controls 70%, Detective Controls 20% and the last resort is usually corrective controls 10%.

This is because the organization thinks it is better to use preventive controls (70%) because these controls help the organization prevent risks from occurring for example authorization controls should prevent fraudulent or erroneous transactions from taking place. Other preventive controls include segregation of duties, recruiting and training the right staff and having an effective control structure.

Detective control follows by (20%) because these help to detect if any errors have been made for example large amounts of money paid without authorization. This is done through Reconciliation, supervision and extra.

The components of internal control system include the control environment, Risk assessment, Control Procedures, Accounting information and communication system and monitoring.

Therefore the question posed, “Do the components of ICS help effect cash flow management?

In the results the majority of the respondents said yes (70%) that the components of ICS helped to effect cash flow management while (30%) said No; the components of ICS do not in any way help effect cash flow management.

The results were contributed by the fact that the components of ICS for example monitoring which is the process that an entity uses to assess the quality of internal control overtime helps the organization in their operations .Management therefore monitors to determine whether internal control continues to be effective and to modify them as appropriate for changes. Other components for example the Control Environment which is usually the top management believes that control is important others in the organization will sense that and respond by consistently observing the policies and procedures established. This thus helps ICS in effecting cash flow management.

5.2 Conclusions

Based on the study findings the following conclusions were arrived at in consideration of the research questions on the case study.

According to the first research question which stated that, “What is the relationship between Internal Control System and organizational Cash flow management in KITECO?” the following was revealed.

Majority of the respondents strongly agreed that ICS helped a great deal in cash flow management as shown 40%, 30% agreed that it helped,20% disagreed that ICS did help in regulating cash flow management and 10% strongly disagreed that ICS did help in cash flow management.

On the other hand majority of the respondents 60% thought that ICS was Really strong in the organization, 30% thought it was Strong, while the rest 10% thought that ICS was weak in the organization.

According to the second Research question which stated, "What is the role played by internal control system on the performance of KITECO?" the following was revealed.

Most of respondents agreed that ICS had played a major role in the performance of KITECO as an organization as a whole. Other roles include:

The system helps the organization institute adequate safeguards for accessing and using records and assets such as cash or other organizational assets.

It also helps in creating an organization that promotes an environment of control. The attitude of the management has a significant influence on the effectiveness of an organization structure.

The system also recommends segregation of duties in order to reduce the opportunity for one person to be in a position to perpetrate funds and or conceal errors and irregularities in the normal course of his/her duties.

This can be done by assigning different people the responsibilities of authorizing transactions, recording transactions and maintaining custody of assets.

According to the Third Research Question which stated, "What are the components and types of internal Control Systems in KITECO? The following was revealed.

The results showed that the types of Internal Control System used in KITECO are the preventive controls, Detective Controls and Corrective controls.

The highest number of respondents stated that the most commonly used type of internal controls were Preventive Controls 70%, Detective Controls 20% and the last resort is usually corrective controls 10%.

The highest percentage recorded for preventive controls 70% is because the organization deems it fit to prevent the type of frauds that may result from defective controls than try to correct them later. The advantage of using Preventive controls is that the organization will avoid losses that would arise by preventing them earlier.

5.3 Recommendations

From the above findings and conclusions reached the following are the recommendations to KITECO to ensure efficient running of the ICS and what is to be done in future.

(1)The management of KITECO should invest more in the IT Department by employing more IT Specialists to update its ICS and also maintain it, repair it incase of breakdown and upgrade the system for it to be efficient. Its efficiency should be improved by it being updated regularly so that it does not become obsolete.

(2)The Management of KITECO should initiate training its employees to know more about ICS so as to know how to prevent frauds in future and this can be effectively achieved through use of up to date computerized systems in the organization.

(3)Due to the ever changing Technology today, the management of KITECO should take an initiative of regularly upgrading its ICS system so that it can be up to date with the current Technology for it to be competitive.

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<http://www.answers.com/topic/internal-control-system>

APPENDIX I
(a) QUESTIONNAIRE

Dear Interviewee,

Am a Student carrying out a research in your organization. The purpose of carrying out this research is to establish the impact of internal Control System on organizational cash flow management. You will be required to answer a number of questions which are listed below. Please exercise your honesty when answering these questions to enable the researcher achieve his objectives.

Looking forward for your co-operation

Instructions: Tick where applicable

SECTION I

PERSONAL INFORMATION

1. GENDER

Male ☐

Female ☐

2. MARITAL STATUS

Single ☐

Married ☐

3. AGE

20-25 ☐

26-31 ☐

32-37 ☐

38-43 ☐

Above 44 ☐

4. DEPARTMENT

Information Technology ☐

Finance and Accounting ☐

Human Resource ☐

Others ☐

5. NUMBER OF YEARS IN THE ORGANISATION

Below 5 years ☐

6-10 years ☐

Above 10 years ☐

SECTION II

IMPACT OF INTERNAL CONTROL SYSTEM ON ORGANISATIONAL CASH
FLOW MANAGEMENT

(1) Do you know what is meant by internal control system?

Yes ☐

No ☐

(2) Do you have it in your organization?

Yes ☐

No ☐

(3) If yes, how does ICS help in the organization?

Explain.....
.....
.....

(4) Do you think the system in your organization is weak or strong?

Why?.....
.....
.....

(5) If strong, is management involved in its efficiency? If weak, do you think the
management can help increase its efficiency?

Explain.....
.....
.....

SECTION III

RECOMMENDATION

Give a personal opinion on what you think should be done to help in increasing the efficiency of handling organizational cash through the use of internal control system.

.....

.....

.....

THANK YOU

(b) INTERVIEW GUIDE

1. Is there an Internal Control System in KITECO?
2. How do you think it influences the organization?
3. What is the management attitude towards it?
4. Are strict procedures followed according to the ICS?
5. Why do you think so?
6. What recommendations are you offering to improve the efficiency of ICS?

APPENDIX II

TIMEFRAME FOR STUDY

ACTIVITY	PERIOD/MONTH
Proposal writing	July
Field familiarization	August
Data collection	September
Data collection	October
Preparation of report	December
Submission of report	June

APPENDIX III

BUDGET OF THE STUDY

ITEM	COST(in Kshs)
Transport	1500
Stationery	1000
Data analysis	1800
Lunch	500
Photocopying	500
Data typing and printing	2000
TOTAL	7300