

**INTERNAL CONTROL SYSTEMS AND PERFORMANCE IN PUBLIC
INSTITUTIONS: A CASE STUDY OF MASENO UNIVERSITY,
A PUBLIC INSTITUTION IN KENYA**

**BY
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FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
THE DEGREE OF BACHELOR OF COMMERCE
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DECLARATION

This research project proposal is my original work and has not been presented for the award of degree in any other University

Signature 

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This proposal has been submitted for examination with my approval as the University supervisor

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DEDICATION

This project is dedicated to my family, especially my loving wife Salome, daughters Caroline, Molvin and Gladwell and sons Christopher and Alvin, whose prayers and support has seen me through this work. To my dear wife: thanks for giving me the time and the peace I much needed for the four years to accomplish this achievement and to my children for being a source of inspiration to me and always giving me challenges to go on.

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ABSTRACT

Public institutions in many parts of the world have poor performance compared to private institutions. The poor performance can be attributed to financial management practice. The sound financial management practices require the institution of strong internal control systems in organization. However, there are limited empirical research findings in developing countries regarding the relationship between internal control systems and organizational performance. The main objectives of the study is to investigate the impact of internal control systems and organization performance in public sector, establish the internal control systems prominent in public institutions, determine the effectiveness of internal control systems in public organization and to determine the relationship between internal control system and organizational performance in public institutions.

Moreover, in addressing the impact of internal control systems on performance, the study tends to answer questions such as what are the internal control systems instituted by public institutions?, how effective are the ICS in public organization? and what is the relationship between ICS and organizational performance in public institutions?

Regardless of an entity's size or type, and regardless of whether it is held privately or publicly, managers and accountants should be alert to the rudiments of accounting systems and controls. Accounting records are kept for a variety of purposes, and a major purpose is to help managers operate their entities more efficiently and effectively. Any person who forms a business will soon discover that record-keeping is absolutely essential. Records form element of internal control systems. For instance, records of receivables and payables must be created for transaction with customers and creditors, and cash disbursements and receipts must be traced to the individual accounts. Even the simplest of organizations must have some records.

The concept of internal control is just as relevant to public universities as it is to profit making organizations. Inadequate internal controls can hinder the management responsibilities of senior officers and employees and place them in a position where they may be tempted to engage in questionable activities and accounting malpractices, or could subject individuals to unwarranted accusations of such activities. In Maseno University, there have been a lot of weaknesses in their policies and procedures and also in their Internal Audit, the extent to which employee's in positions handling cash fail to take regular leave and lack of rotation of employees handling very sensitive areas in finance and administration.

This study takes a sample study approach with its target population being the different categories of employees in different departments of Maseno University. It takes on a sample of 117 employees. It ensures equitable and proportionate representation of each stratum (department) in the sample. Primary and secondary data are used in the study. Primary data was collected from sample population using open and closed ended questionnaires. Primary data collected was supplemented by secondary data. Secondary data will be from literatures, articles and books and internet sources. Descriptive statistics is used in the data analysis and information presented in statistical forms.

Maseno University started as a constituent college of Moi University on 1st September 1990 and became a fully fledged University in January 2001 through Maseno University Act 2000. The university currently has a total number of staff of 1200 which comprise both academic staff and non-academic staff. The Vision of the University is "To be a leading Institution and Center of Excellence in University teaching, outreach, research and development." The mission of the University is the promotion of excellence in undergraduate and postgraduate studies, basic and applied research for enhancement of economic, social, cultural, scientific and technological development of Kenya, with special emphasis on training practically oriented graduates.

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Regardless of an entity's size or type, and regardless of whether it is held privately or publicly, managers and accountants should be alert to the rudiments of accounting systems and controls. Accounting records are kept for a variety of purposes, and a major purpose is to help managers operate their entities more efficiently and effectively. Any person who forms a business will soon discover that record-keeping is absolutely essential. Records form element of internal control systems. For instance, records of receivables and payables must be created for transaction with customers and creditors, and cash disbursements and receipts must be traced to the individual accounts. Even the simplest of organizations must have some records.

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In response to demand driven industry related programmes, the university has established a strategic presence in Kisumu city (Kisumu City Campus University College), Bondo district (Bondo University College) and Homa-bay district (Homa-bay Learning Centre). To ensure effective faculty performance, the University has restructured and introduced School of medicine, School of Agriculture, School of Computer Science and School of Business and Economics studies. The new Schools are in addition to the current faculties and schools that are in existence: Faculty of Arts and social Science, Faculty of Education, Faculty of Science and School of Public Health and Community Development

Auditing and accounting are known to have been practiced widely in developed economies which existed before the Birth of Christ. Little has been written in the history of internal control systems though many of the 19th century to current accountancy writers have paid more attention to internal control probably in relation to the activities of the auditor. According to Danielle Lauren, the American institute of Accountants first defined internal control in 1949, followed by further clarifications in 1958 and 1972. The concept of internal control theory has undergone development over a long period and can be divided into internal check, internal control system, the internal control Structure and the overall framework of internal control, and several different stages to 1976. In 1977 publicly held companies came under legislation to adequately implement controls to protect their financial information.

Organizations have invested heavily in improving the quality of their internal control systems over the past decade arguing that a good internal control yields

good business. Many organizations are required to report on the quality of internal control over financial reporting, compelling them to develop specific support for their certifications and assertions. The following five objectives help management in designing effective internal controls: maintaining reliable systems, ensuring timely preparation of reliable information, safeguarding assets, optimizing the use of resources, preventing and detecting error and fraud (Alvin et al 1993).

Internal controls assist organizations in achieving their objectives by safe guarding the assets of the business from loss by fraud or unintentional errors, check the accuracy or reliability of accounting data which management uses in decision making. The International Standards of Auditing (ISA), (Book 28 - 2009 by Nicholas V Anduuru) and International Financial Reporting Standards (IFRS) reports on the adequacy of existing controls within the entity. The external auditor must carefully evaluate the internal control system as a basis to determine the degree of audit procedures necessary in the circumstances.

Internal control of accounting and financial information involves most of the key players in the Company, who have different responsibilities and roles depending on the subjects being dealt with. Three corporate governance players are particularly closely involved and these are: Senior management is responsible for organizing and implementing internal control of accounting and financial information, as well as compiling financial statements for each accounting period, the Board of Directors, which compiles the financial statements, and the Supervisory Board, which, like the Board of Directors, carries out such audits and verifications of the financial statements as it deems appropriate. Preparations for these tasks can be made by the Audit Committee, if the company has one; and lastly the Chairman of the Board of Directors (or the Chairman of the Supervisory Board), who is responsible for compiling the report on internal control procedures, including those relating to the preparation and processing of accounting and financial information. The internal audit function, if one exists, can help these

players by making proposals to improve the quality of internal control processes for published accounting and financial information. (Working Group set by AMF).

1.2 STATEMENT OF THE PROBLEM

Despite the studies made in the past it has been found out that internal control cannot ensure success. Bad decisions, poor managers, unethical behavior, collusion and override of controls, and competition still present problems in Maseno University's operational framework. The internal Audit which acts as a guide to internal controls in the University is involved directly in the operations of other staff and therefore any occurrence of an error or fraud at the initial stages will not be owned by them and chances are that such problems may end up not being reported on. Internal Audit is also answerable to the Chief Executive and there is no Audit and Risk committee to which there findings may be reported so these make their jobs be at risk. Good controls help organizations get where they want to go while minimizing pitfalls and surprises (Institute of internal auditors, 1998). Unmonitored controls tend to deteriorate over time. Monitoring, as defined in the COSO Framework (Guidance on Monitoring Internal Control Systems, January 2009), is implemented to help ensure "that internal control continues to operate effectively." When monitoring is designed and implemented appropriately, organizations benefit because they are more likely to Identify and correct internal control problems on a timely basis, produce more accurate and reliable information for use in decision-making, prepare accurate and timely financial statements and be in a position to provide periodic certifications or assertions on the effectiveness of internal control. Effective monitoring can lead to organizational efficiencies and reduced costs associated with public reporting on internal control because problems are identified and addressed.

1.3 RESEARCH QUESTIONS

1. What are the internal control systems instituted by public institutions?
2. How effective are the internal control systems in public organization?
3. What is the relationship between internal control systems and organizational performance in public institutions?
4. Are all monetary transactions conducted by the organization in line with the company's operational activities?
5. Does Maseno University comply with government regulations?
6. Do internal controls ensure that all tasks are being completed according to standards and that all quotas are being met?

1.4 NULL HYPOTHESES

There is no significant relation between the respondents' perception of the implementation of internal control systems and performance in public institutions.

1.5 SIGNIFICANCE OF THE STUDY

- (a) The results of this study may be useful to university management staff members who are policy makers.
- b) Transparency about the effectiveness of an institution's internal control system discourages managers from engaging in opportunistic behavior and reassures its stockholders, employees, and the public that they have a level playing field in which to invest.

1.6 SCOPE AND DELIMITATION OF THE STUDY

The study will be delimited to Maseno University and its campuses; Kisumu City Campus University College and Homa-Bay learning centre. Bondo University

College will be excluded as it gets its capitation from the Government of Kenya and it has got its own council. It will be further delimited to Finance/Administration, Academic, Students Welfare, Income Generating Activities, Health Services departments and Kisumu Hotel (Maseno University).

1.7 THEORETICAL FRAMEWORK

According to International Journal of Government Auditing, (October 1997), all good systems of internal control have certain features in common. These features can be termed as a checklist of internal control, which may be used to appraise any specific procedures of cash, purchases, sales, payroll, and the like. This check list is sometimes called principles or rules or concepts or characteristics or features or elements. The following check list summarizes the guidance. Reliable personnel with clear responsibilities. The most important element of successful control is personnel. Incompetent or dishonest individuals can undermine a system, no matter how well it meets the other items on the check list. Individuals obviously must be given authority, responsibility and reliability. Yet many employers use low-cost talent that may prove exceedingly expensive in the long run, not only because of fraud but because of poor productivity. Reliability begins at the top of the organization. The entire system deserves surveillance by operating management to see if it is working as prescribed and if changes are warranted. In addition, appropriate overseeing and appraisal of employees are essential; the most streamlined accounting system is deficient if its prescribed procedures are not being conscientiously followed. Separation of Duties: This element not only helps ensure accurate compilation of data but also limit the chances for fraud that would require the collusion of two or more persons. This is extremely important and often neglected element can be subdivided into four parts: Separation of operational responsibility from record-keeping responsibility. The entire accounting function should be divorced from operating departments; separation of the

custody of assets from accounting. This practice reduces temptation and fraud. For example, the book keeper should not handle cash, and the cashier should not have access to ledger accounts such as the individual records of customer; in a computer system, a person with custody of assets should not have access to programming any input records. Similarly, an individual who handles programming or input records should not have access to tempting assets; separation of the authorization of transactions from the custody to related assets. To the extent of feasible, persons who authorize transactions from its origin to its ultimate posting in a ledger. Independent performance of various phases will help ensure control over errors; separation of duties within the accounting functions: An employee should not be able to record a transaction from its origin to its ultimate posting in a ledger. Independent performance of various phases will help ensure control over errors.

1.8 CONCEPTUAL FRAMEWORK

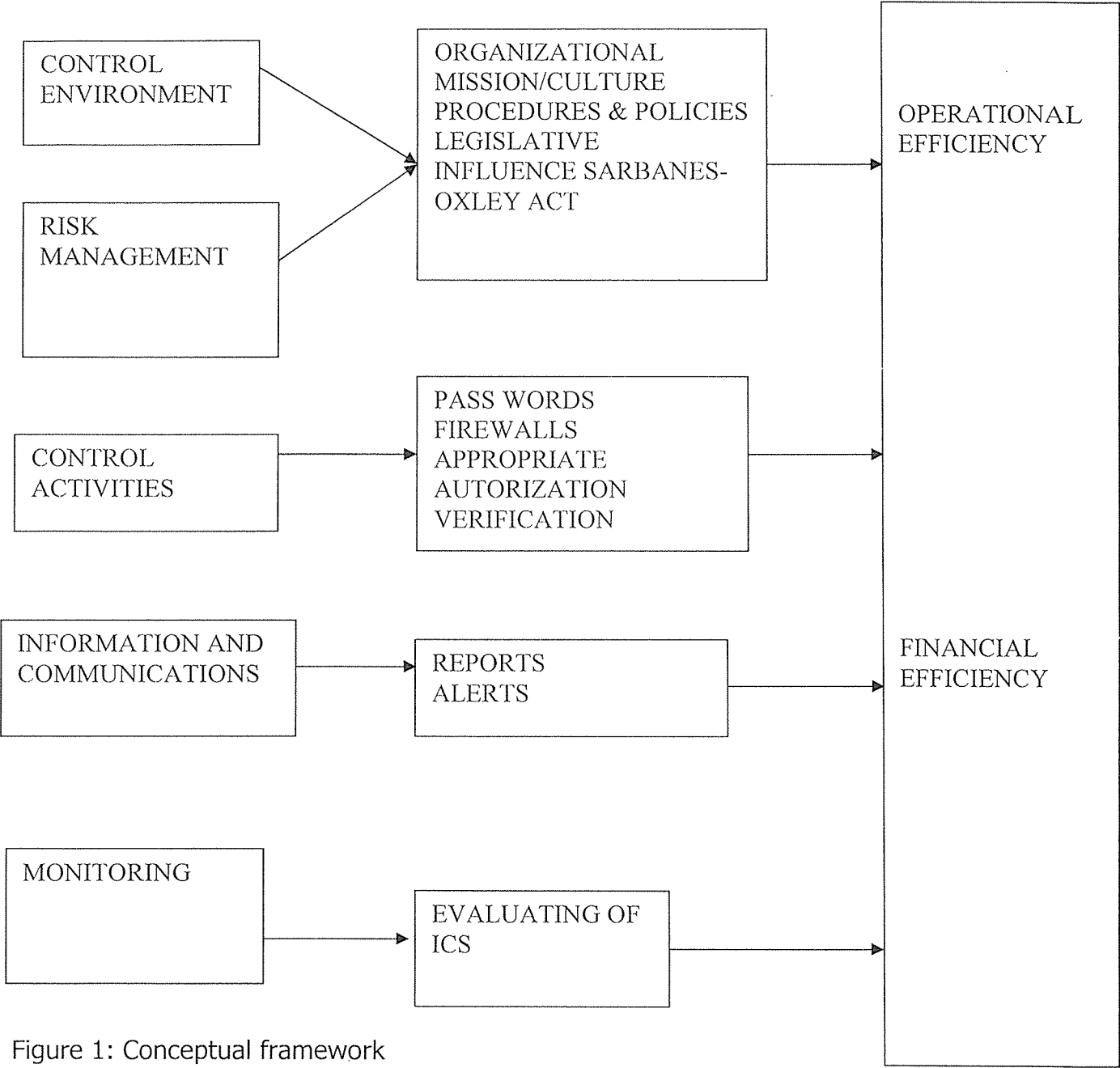


Figure 1: Conceptual framework

The core of any business is its people- their individual attributes, including integrity, ethical values and competence- and the environment in which they operate. They are the engine that drives the entity and the foundation on which everything rests. The entity must be aware of and deal with the risks it faces. It must set objectives, integrated with the sales, production, marketing, financial and other activities, so that the organization is operating in concert. It also must establish mechanisms to identify analyze and manage the related risks; Control policies and procedures must be established and executed to help ensure that the actions identified by management, necessary to address risks to achievement of the entity s objectives, are effectively carried out. Surrounding these activities are information and communication systems. These enable the entity s people to capture and exchange the information needed to conduct, manage and control its operations. The entire process must be monitored, and modifications made as necessary.

In this way, the system can react dynamically, changing as conditions warrant. From Turnbull, the Group took on board the overall spirit, that is to say that of a guide - succinct the aim of which is to demonstrate a sound, professional practice in which internal control is an integral part of the processes used by the company in pursuit of its objectives; to continue to be applicable in a constantly changing professional environment; to enable each company to implement it in such a way that it takes account of its own situation and specificities. Internal controls are the responsibility of all employees of the department; generally an employee's position will determine the extent of their involvement. Internal control is people-dependent; it is developed by people, it guides people, it provides people with a means of accountability and people carry it out. While everyone in a department has responsibility for ensuring the system of internal control is effective, the greatest amount of responsibility rests with the managers of the department.

Internal controls are the structure, policies, and procedures used to ensure that management accomplishes its objectives and meets its responsibilities.

1.9 OPERATIONAL DEFINITIONS

Internal control- it was defined by the Basel Committee on Banking Supervision, as well as by the National Bank of Romania (Regulation no. 17/2003) represents "a continuous process in which the board of directors, senior management and all level of personnel, take part and whose aim is to ensure that all the established goals will be reached."

Planning- The process of setting goals, developing strategies, and outlining tasks and schedules to accomplish the goals.

Productivity- it is the output-input ratio within a time period with due consideration for quality. It can be expressed as follows:

Productivity=outputs/inputs (within a time period, quality considered)

Control Environment- This describes the climate which influences the quality of internal control and provides a foundation for all other standards.

Monitoring - is a process that assesses the efficiency and effectiveness of internal controls over time.

Decision making -relates to the act of making up your mind about something, or a position or opinion or judgment reached after consideration.

Management- is the process of planning, controlling, directing, coordinating and evaluating ideas, activities and programmes in order to achieve the aims and objectives of an organization (Dynamics of business studies by J.Abrose Nasio, 2004)

Communication-is the transmission or exchange of information between two or more persons. The message emanates from the source to the receiver and back to the source as feedback.(certificate business studies by Joseph Indire et al,2003)

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the existing literature on internal controls and the revenue of internally generated and management. Secondary data was sourced from textbooks, journals, internet, magazines, and Company records among others.

2.1 Internal controls and management of internally generated revenue

N.A Saleemi (2008) defines internal control as " The whole system of controls, financial and otherwise established by the management in order to carry the business of the enterprise in an orderly and efficient manner, safeguard the assets and secure as far as possible the completeness and accuracy of the records.

Various types of internal control are; control on purchases and creditors, control on stock and work in-progress, control on cash receipts and payments, control on wages payments, control on sales and debtors etc

Internal control are the basis for ensuring that accurate and true information is achieved by the financial managers who are accountable for the safe custody of the organizational finances (Rich rite, 1982). They also serve as the nerve system of the business (Thomas, 1988). He argues that internal controls are the in built policies in the system supplemented with the supervision and internal audit carried by the audit staff.

Internal controls are the basis for efficient operations of the business in terms of keeping accurate records and safeguarding the company finances. He points out that internal controls include all methods and measures that a company adopts to check the accuracy and reliability of accounting data, promote operational efficiency and encourage adherence to the prescribed managerial policies.

Dean (1996) in order to justify the need for internal controls noted the following: That effective accounting controls assist in maintaining accountability of the finances of the business, enables maximum utilization of company resources such as money and materials and enhances the preparation of transactions and financial reports in conformity to generally accepted accounting principles (GAAP). He stresses that effective internal controls take different forms including operational control, budgeting controls, quantitative control, self balancing ledgers, bank reconciliation, internal checks and internal auditing and standard costs control among others. It argues that tests of control should be undertaken to detect deviation from laid procedures such as documents not properly approved, reconciliation not regularly performed or failure to enforce the required segregation of duty and such deviation should draw management's attention.

2.1.2 Rationale for effective internal controls

Decision making facilitation is one of the importances of internal control (Meigs, 1981). The fact that business decisions are based on accounting data, internal controls must be effective and efficient. An effective system of internal control provides assurance of the credibility of the internal controls. There is always a possibility that the financial reports are not reliable hence widening the chances of making inappropriate business decisions (Dean, 1999).

Management should always review internal controls time and again to ensure that the weakness can be cited as early as possible to avoid distortion in the accounting system (Dean, 1999). He stresses that systems are weakened by changes in the environment rather than a failure to create and strengthen the internal control. Thus, the need for continued review of the internal controls system so as to be able to identify which controls have been weakened or distorted and therefore design appropriate measures (Richvitte, 1987).

Internal controls further assist in the recording and preparation of financial statements in conformity with GAAP or any other criteria applicable to such statements and to maintain the accountability of financial resources.

If an employee is permitted to handle all aspects of a transaction, the danger of fraud is increased. Literature on fraud cases suggest that many individuals may be tempted into dishonest acts if given complete control over company finances.

Fraud among company employees may be reflected in a variety of ways. Payments may be withheld; suppliers may be over paid with a view of 'kick backs' to employees and lower prices may be made to some customers.

Companies must instill a high level of competence and integrity among their employees (Byambabazi, 1996). He argues that even the best-designed system of accounting control may not work satisfactorily unless the people assigned to operate it are competent.

In all large organizations, auditing is an important element of accounting control. They (auditors) continuously advice management on how to strengthen the internal financial regulations.

Budgeting is such an important aspect in control system whereby work plans are prepared based on available scarce resources and allocated to such proper areas for better utilization and maximum output.

Proper accountability of funds is another aspect of controlling revenue whereby funds issued out to facilitates an activity is strictly used for that purpose to avoid commingling of funds and realize value for money.

Internal controls as well help in establishing banking system to ensure that all the revenue and cheques due to the organization is banked instantly as per the policy in place. This in turn reduces the risk of keeping lump sum amount of cash at hand which is a risky practice.

CHAPTER THREE

METHODOLOGY

3.0. Introduction

This chapter provides a description of the research design and methodology that was employed in the study. It looks at the various sources of data for the study, sampling design and its procedures. The chapter also includes the methods that will be used in data collection, the instruments used in data collection and the Limitations of the study.

3.1 Research design

Since the study was largely an evaluation and seducing opinions the researcher used a descriptive research design adopting a cross section survey. The descriptive survey attempted to document current conditions to describe what exists at the moment (Mouser and Katton 1989). The study employed both qualitative and quantitative methods of data analysis most of the findings were quantitatively analyzed.

3.3 Survey sample

A study is carried out among Maseno University staff. It is to target about 50 subjects out of the total population of 80 staff and these are deemed to provide the required data for analysis.

3.4 Sampling design and size

3.4.1 Sampling design

The junior staffs were selected for interviewing using simple random sampling design.

Senior personnel are purposively selected to provide key information. This is intended to enable the researcher to get the required information with utmost

precision. The willingness of managers to give information and the respondent's position in the organization is the major factors considered in selecting the sample.

3.4.2 Sample size

Considering time and other constraints, fifty out of eighty respondents was be selected for this study. The break down of respondents is as follows:

Table 1 Sample size

Category	No of respondents
Accounts staff	12
Administrators	22
Others	16
Total	50

3.5 Data collection methods

3.5.1 Data sources

The source of data was both primary and secondary. Primary data was obtained by the use of structured self-administered questionnaires distributed to the selected staff of Maseno University. Secondary data was got from the review of the existing documents in the organization, such as journals, financial reports, quarterly and annual reports among others.

3.5.2 Questionnaires

In order to achieve the required results the method used was simple structured questionnaire and the majority of questions were open-ended. This is intended to allow the selected 50 staff of Maseno University to express themselves freely without any form of restraint.

3.6 Data processing

Data from the field was sorted, coded, edited and tabulated to reveal the percentage scores of different study attributes and later analyzed using frequencies and percentage scores.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS OF THE FINDINGS.

4.0 Introduction

In this chapter, the researcher presents general findings about the effective internal controls and the management of internally generated revenues in Maseno University. The primary data was basically obtained from employees in accounts section and related sub sections, while secondary data was obtained from available internal records in the organization. A sample of twenty respondents is used in data collection which is analysed using frequency tables and responses expressed in terms of percentage scores.

4.1 Descriptive data

Table 2 Showing gender composition of respondents

Gender	Frequency	Percentage
Female	18	36
Male	32	64
Total	50	100

Source: Primary data

The analysis shows that 36% of the respondents are female and the 64% male.

Table 3 Showing age composition

Age (years)	Frequency	Percentage
18 – 25	05	10
26 – 35	28	56
36 – 45	13	26
Above 46	04	08
Total	50	100

Source: Primary data

From the above findings, the researcher was able to note that 08% of the respondents were above 46 years of age, 26% between 36 - 45 years, 56% of respondents had the age limit between 26-35 years and finally 10% were between 18-25 years.

Table 4 Showing marital status of the respondents

Marital status	Frequency	Percentage
Married	46	92
Single	04	08
Total	50	100

Source: Primary data

From the above table, the marital status of the respondents indicate that the majority are married representing 92%, while 08% are single and probably still searching for partners.

Table 5 : Showing departments of respondents

Department	Frequency	Percentage
Finance/Accounts	12	24
Administration	22	44
Others	16	32
Total	50	100

Source: Primary data

From the above analysis, we note that 24% of the respondents work in the Finance and Accounts department, 44% work in the Administration department, and 32% of the respondents consisted of others such as stores and security

Table 6 Positions held by respondents

Position held	Frequency	Percentage
Administrator	22	44
Accountant	12	22
Others	16	32
Total	50	100

Source: Primary data

Table 7: Showing the number of years respondents have spent in the park.

Position held	Frequency	Percentage
Administrator	22	44
Accountant	12	22
Others	16	32
Total	50	100

Source: Primary data

It was also revealed from the research study that 40% of the respondents have worked for the park for more than 4 years, 50% have worked for 3-4 years and 1–2 years comprising only 10%.

Table 8: showing qualifications of the respondents

Qualification	Frequency	Percentage
Certificate		
Diploma		
Professional	07	14
Bachelors Degree	06	12
Masters Degree	23	46
Ph.D	14	28
Total	50	100

Source: Primary data

Findings revealed that 44% of the respondents were Administrators, 24% Accountants and 32% are others, included stores, security.

In the above analysis the researcher was able to note that 14% professionals, 12% bachealors degree, 46% hold Masters degree and finally 28% respondent holds a Ph.D.

4.2 Effective internal controls and Management of internally generated revenues.

Table 9 Acknowledgement of income and expenditure

Procedure	Agree	Disagree	Not sure
Financial Manager authorizes all payments	40(80%)	5(10%)	5(10%)
Budget holders disburse all payments	42(84%)	5(10%)	3(6%)
All finances received are vouched	45(90%)	3(6%)	2(4%)
The number of the cheque received is quoted on the receipt	48(96%)	2(4%)	-
Receipts are issued for all payments	35(70%)	15(30%)	-
All revenue received is banked instantly	46(92%)	4(8%)	-

Source: Primary data

The table above is concerned with effective internal controls on acknowledgement of income and expenditure. Findings indicate that the financial manager generally authorizes all payments. This was supported by 80% of the respondents in the sample. The minority (10%) of the respondents were however disagree and not sure respectively. In respect to disbursement of collections, respondents generally indicated that budget holders do disburse cash collections in time. 84% and 10% of the respondents agree and disagree respectively on the issue, while 6% did not have any knowledge about it. Findings from the table further indicate that all the finances received are vouched. This view was held by 90% of the respondents while 6% disagree and 4% did not have knowledge about this. Virtually, majority of the respondents in the sample acknowledged that the cheque number received is quoted on the receipt. However, not all payments are acknowledged with issue of receipts. 70% of the respondents disagreed on issue of receipts while 30% disagreed.

Findings further reveal that money received is banked instantly as required. This was indicated by the majority of the respondents 92% agree with the view. 08% of the respondents however disagree.

Table 10 Management of imprest

Procedure	Agree	Disagree	Not sure
Imprest expenditure is always supported by payment vouchers	40(80%)	7(14%)	3(06%)
Imprest holders maintain a cash book to record all petty cash transactions made	45(90%)	3(6%)	2(04%)
Imprest application is addressed to the financial manager	47(94%)	3(06%)	-
Imprest is only incurred lawfully	46(92%)	3(06%)	1(02%)

Source: Primary data

The table above is about management of imprest. Findings revealed that imprest expenditure is always supported by payment vouchers. 80% of the respondents revealed that frequently imprest expenditure is always support by payment vouchers. Only 14% and 6% disagreed and not sure that imprest expenditure is more often supported by payment vouchers respectively. However, imprest application is addressed to the financial managers. 90% and 6% of the respondents agreed and disagreed respectively to the above view. On the other hand the majority of the respondents (92%) agreed that imprest is only incurred lawfully as required. 6% disagree and 2% not sure about it.

Table 11 Purchase and payment thereof

Procedure	Agree	Disagree	Not sure
All orders are accompanied with official purchase order	43(86%)	5(10%)	2(4%)
All purchase orders are signed by the official vote holder	45(90%)	5(10%)	-
All purchases are paid for timely	40(80%)	5(10%)	5(10%)
All items are purchased from authorized dealers	45(90%)	3(6%)	2 (4%)
All entries are made in the vote book	40(80%)	5(10%)	5(10%)
Only persons named in the voucher receive the payment	38(76%)	10(20%)	2 (4%)
No person signs voucher payable to him/herself	35(70%)	10(20%)	5(10%)

Source: Primary data

The above table indicates that orders are largely made with the official purchase order (86%). However the minority of the respondents (10%) disagreed that all purchase orders are signed by official budget holders while 4% of the respondents were not sure whether orders are made with the official orders.

Table 12 Preparation of payment voucher

Procedure	Agree	Disagree	Not sure
All requisitions for payments are supported by vouchers	45(90%)	3(6%)	2(4%)
Every voucher should be certified and signed	20(40%)	25(50%)	5(10%)
Vouchers are only signed when the service has been performed satisfactorily	15(30%)	30(60%)	5(10%)

According to the above table, the majority of the respondents that is to say 90% acknowledged that all acquisitions for payments are supported by vouchers, 6% disagree and 4% not sure. A significant weakness was however found in respect of voucher certification. 40% agree that every voucher was satisfied and signed, 50% disagree while 10% were not sure where every voucher was satisfied or signed. The observation was that much as vouchers must be signed, satisfaction is not done. Further findings revealed that vouchers are regularly signed before the services have been performed. This view was held by 60% of the respondents. However 30% of the total sample revealed that vouchers are only signed after satisfactory service has been performed while 10% were not sure of the statement.

Table 13 Handling of cash

Procedure	Agree	Disagree	Not sure
All cheques for the company are addressed in the company names	43(83%)	5(10%)	2(4%)
Cash in physical transit is always insured and transported with armed escort.	3(26%)	35(75%)	2(4%)

Source: Primary data

The majority of the respondents (86%) in the above table indicate that all the cheques for the company are addressed in the company's name. 10% of the respondents disagree with the statement. Further findings revealed that cash in physical transit is not always issued and transported with armed ascots. 70% and 26% of the respondents disagreed and agreed respectively that cash in transit is insured and protected.

Table 14 Effectiveness of internal control in relation to safe guarding the financial resources of the organization.

Response	Frequency	Percentage
Agree	36	80
Disagree	08	15
Not sure	06	05
Total	50	100

Source: Primary data

According to the above table, the majority of the respondents 80% agreed that the current internal control system is effective. However, 5% acknowledged that the system is ineffective, while 05% expressed ignorance over the effectiveness of the existing controls.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS.

5.0 Introduction

This chapter focuses on the major findings of the study in respect of research objectives and the underlying questions as presented in chapter one. Conclusion and recommendations are based on the study findings as clearly revealed in chapter four.

The research questions sought to know the effective internal control systems employed by Maseno University, whether controls are operating as planned and their effectiveness visa vis the management of internally generated income.

5.1 Summary of the major findings

5.1.1 Effectiveness of internal controls applied by the case study organization.

Invariably, a significant number of measures have been put in place to ensure effective management of internal revenue. Management of income requires that the budget holder ensures proper recording of all monies due to the company is done and an official receipt is issued immediately cash is received from clients. Cashiers are also to be covered with fidelity insurance.

Proper management of imprest requires that vouchers for all expenditures are made and maintenance of cash book there of.

Purchase and payment controls include local purchase order requirements including signatories, payments, purchase of items from authorized dealers and all entries to be made in the vote book.

Preparation of the voucher requires that all requisitions to be supported by vouchers, all vouchers certified and duly signed and approving of the vouchers to

be done only after service has been delivered satisfactorily. Other regulations include handling of cash in physical transit. The requirement in this respect is that cash in transit should be insured and always be transported under armed escorts.

5.1.2. Finding out whether prescribed effective internal controls are operating as planned.

In respect of acknowledgement of income and expenditure, the controls are working as planned. It was observed that budget holders do disburse collections as required. This was observed by 84% of the respondents.

Besides, all finances received is vouched and receipts are always issued for all payments made to the organization. Further analysis indicates that the institution has not yet implemented the policy of covering all cashiers by 30 fidelity insurance. However the study findings reveal that money received is banked instantly as required. The financial manager authorizes all payments and the cheque number always appears on the receipt.

The study findings as well revealed that, the majority of the respondents (90%) agreed that the payments are supported with vouchers. Besides, imprest holders do maintain a cash book to record all petty cash transactions. Findings also indicate that imprest is incurred lawfully and imprest application is addressed to the manager.

Further findings revealed that all orders are accompanied with official purchase order and purchases are paid for in time.

Further, all purchase orders are signed by the official voucher holder and all transactions are made in the vote book.

Another area of study reveals that vouchers are signed after confirmation of satisfactory work is done. However, the area of weakness is cash in physical

transit which is not always insured and transported with armed escorts as required. This was observed by 70% of the respondents. However, all requisitions for payments are supported by vouchers and all cheques for the company are addressed in company names. Generally, prescribed effective internal controls are basically operating as planned.

5.1.3 Ascertaining the effectiveness of the current internal control system in place.

The current control system in management of internally generated revenue is effective.

This was observed by 80% of the respondents.

5.2 Conclusion

The conclusion is based on the summary of the major findings. Although there are some weaknesses identified, the internal control put in place by the organization with an objective of safeguarding the company assets and finances, is running as planned. Generally, controls in place are in respect of acknowledgement of income and expenditure, management of imprest, purchases and payment procedure, voucher preparation and handling of cash.

Areas of weakness include failure to issue receipts for all payments made, inability to ensure that all funds received are banked within seven days. Others include failure to support imprest expenditure with payment vouchers and wrongful utilization. A Significant weakness is failure to insure cash and provision of armed escorts for cash in transit. All the above suggest that the organization should improve on the identified weak areas in the internal control system so as not to exposes funds to definite loss.

5.3 Recommendations

Recommendations are made in respect of some weaknesses identified in the study. It is hoped the recommendations will go along way in improving the safety of finances in the organization under study.

- i) Management should enforce the existing controls if the system is to improve. It should put in place measures to be taken against employees who fail to act within the requirements of the controls.
- ii) There is need for continuous review of the controls in place with view of strengthening management of finances in the organization.
- iii) Areas of weaknesses including disbursement of collection, issue of receipts for all payments, provision of insurance policy for staff, utilization of payment vouchers and security of cash in transit should be addressed.
- iv) Members who don't compile with measures put in place should be published in news papers and prosecuted in courts of Law.

5.4 Areas for further study

Basing on the weakness identified in the study. I propose that other researchers focus on the role of external auditors in cash management.

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APPENDICES

APPENDIX A: RESEARCH QUESTIONNAIRE

KAMPALA INTERNATIONAL UNIVERSITY
COLLEGE OF EDUCATION, OPEN AND DISTANCE LEARNING
DEPARTMENT OF DISTANCE LEARNING
P. O.BOX 20000 KAMPALA UGANDA

RESEARCH QUESTIONNAIRE

Dear Sir/Madam, You are kindly requested to answer the following questions providing information to the best of your knowledge. The information is purely for academic purposes as a partial requirement for the award of a bachelor of commerce degree. The information provided will be treated with utmost confidentiality.

Thank you.

PART ONE: PERSONAL DATA.

Tick as appropriate

1. Gender: a) Male ☐ (b) Female ☐

2. Age: 18 – 25 ☐ 26 – 35 ☐
36 – 45 ☐ above 46 ☐

3. Marital status: Single ☐ Married ☐

4. Department:

Finance ☐ Administration ☐ Others specify ☐

5. Position held:

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.....

6. Period worked with the organization

1 – 2 years ☐ 3 – 4 years ☐ More than 4 years ☐

7. Qualification:

Certificate ☐ Diploma ☐ Professional ☐

Bachelors degree ☐ Masters degree ☐

PART TWO: DATA RELATING TO EFFECTIVE INTERNAL CONTROLS AND THE MANAGEMENT OF INTERNALLY GENERATED REVENUES.

Tick as appropriate

8. Please indicate the extent to which you agree with each of the following statement.

Your respective answers are to range from 1 = Strongly agree, 2 = Disagree, 3 = Neither disagree nor agree, 4 = Agree to 5 = Strongly disagree

Procedure	1	2	3	4	5
Imprest expenditure is always supported by payment vouchers					
Imprest holders maintain a cash book to record all petty cash transactions made					
Imprest application is addressed to the financial manager					

Procedure	1	2	3	4	5
All orders are accompanied with official purchase order					
All purchase orders are signed by the official/vote holder					
All purchasers are paid for timely					
All items are bought from authorized dealers					
All entries are made in the vote book					
Only persons named on the vouchers receive the payments.					
No person signs voucher payable to him/herself.					

Regulation	1	2	3	4	5
All requisition for payments are supported by vouchers					
All vouchers are typed or written in indelible writing					
Every voucher should be certified and signed					
Vouchers are only signed when the service has been performed satisfactorily					

Acknowledgement of income

Procedure	1	2	3	4	5
Financial manager authorizes all payment					
Vote holders disburse collections as required					
All finances received are vouched					
The number of the cheques received is quoted in the receipt					
Receipts are issued for all payments made					
All cashiers are covered by fidelity insurance					
All money received is banked within 24 hours					

Handing of cash

Regulations	1	2	3	4	5
All cheques for the company are addressed to the company.					
Cash in physical transit is always insured and transported with armed escort					

9. The current financial regulation system is quite effective.

Agree ☐ Disagree ☐ Not sure ☐

10. Suggest measures to strengthen the financial regulation procedure.

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Thank you very much for your cooperation.

