

**THE IMPACT OF INTERNAL CONTROLS ON  
ACCOUNTABILITY IN ORGANIZATIONS**

**CASE STUDY: UGANDA RED CROSS SOCIETY**

**BY**

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## DECLARATION

The work presented in this report is an original and independent study carried out by the researcher, where ideas have been obtained from people, acknowledgement has been made

I therefore declare that, this work has not been submitted in any institution or university for a degree or any award.

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.....

.....14<sup>th</sup>/Aug/2010

**Researcher**

**Signature**

**Date**

## APPROVAL

This research report by Namalea Esther has been carried out under my supervision and is now ready for submission for examination with my approval.

**Dr. Kinyata Stanley**

.....

.....14/8/2010

**Supervisor**

**Signature**

**Date**

## DEDICATION

This work is dedicated to my beloved, responsible and caring parents **Mr. and Mrs. Wamboza Stephen Magomu** for the kind of love, prayers' and support they have always given me since my childhood, research and my studies. May the almighty God bless and reward them abundantly.

I also dedicate this work to **Mr Ntege Bruce Keith** (*my love*) for all the kind of love, care, support, company throughout my life, research, and studies. He has always encouraged and supported me to a large extent May the almighty God richly reward and bless him.

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***“May God richly Bless You All. Amen!!!!”***

## ACRONYMS

ICS:	:	Internal Control Systems.
I.A	:	Internal Audit/Auditor.
URCS	:	Uganda Red Cross Society.
KIU	:	Kampala International University.
SBM	:	School of Business and Management.
IFRC	:	International Federation of Red Cross and Red Crescent Societies
CSF	:	Civil Society Fund.
UNFPA	:	United Nations Population Fund.
DFID	:	Danish Funded International Development.
AMREF	:	African Medical and Research Foundation.
PEPFAR:	:	President's Emergency Plan for Aids Relief.
UNICEF:	:	United Nations International Children's Emergency Fund.
DANIDA:	:	Danish International Development Agency.
MTN	:	Mobile Telecommunications Network – Company.
SG	:	Secretary General.
DSG	:	Deputy Secretary General.
HOD	:	Head of Department.
CGB	:	Central Governing Board.
BGB	:	Branch Governing Board.
BC	:	Branch Coordinator.
RC	:	Regional Coordinators.
ITNs	:	Insecticide Treated Nets.
P.C	:	Programme Coordinator.
P.O	:	Programme Officer.
P.O	:	Project Officer.
BBA	:	Bachelors Degree in Business Administration.
LPO	:	Local Purchase Order.
ACCA	:	Association of Chartered Certified Accountants.

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## **ABSTRACT**

In this research, the focus was on the impact of the internal controls on accountability in Uganda Red Cross Society. It was prompted by the continued audited financial reports of 2006 – 2009 which show gaps in URCS internal controls as adequacy and effectiveness of ICS implementation is concerned. This was attributed due to failure of URCS to effectively account for funds sent by its donors (about 200million shilling was refunded due to misappropriation of funds).

It involved identifying the controls found in the society, determining their effectiveness, constraints affecting them and their impact on accountability. Both primary and secondary data were used in the research and these were obtained through questionnaires, interviews and observation techniques. The findings of the study indicated that the controls found in URCS were not effective and this was found to be a major cause of loss of the society funds in the organization.

The study also identified some problems which included, poor management, obsolete equipments for processing accounting records, assets, and unmotivated staff. It was also established that most staff move with society lap tops to their homes which are always stolen and no proper follow up is made, thus making the society to spend more money on buying new lap tops almost every quarter. Also the security at URCS entry is inadequate giving room to increased theft.

Based on these findings, a number of recommendations were made to improve the effectiveness of internal controls, these included, intensification of internal auditing and supervision, motivation of staff, training and simplification of accounting policies and procedures, provision of branch accountants, extension of internet and accounting system in branches/regions, to mention but a few.

## **CHAPTER ONE**

### **1.0. INTRODUCTION:**

The researcher was to study the impact of the internal controls on accountability in organizations. The case study was carried out at Uganda Red Cross Society head office in Kampala.

### **1.1. Background to the Study:**

The Uganda Red Cross Society (URCS) is one of the biggest and oldest humanitarian organizations in Uganda. It started as a branch of British Red Cross in 1941 and on 30<sup>th</sup> July 1964, it was established by the URCS Act Cap 125 Laws of Uganda. URCS constitution was adopted by the Act of Parliament, which is based on the Geneva Conventions. URCS is a member of the International Federation of Red Cross and Red Crescent Societies (IFRC).

As an auxiliary to Government, URCS operates throughout the country with 51 branches and about 30 sub-branches across the country. URCS work is guided by the seven fundamental principles of the Red Cross and Red Crescent movement; Humanity, Impartiality, Neutrality, Independence, Voluntary service, Unity and Universality. URCS headquarter is located on Lumumba avenue plot 28/30, P.O. Box 494, Kampala. The offices are approximately one (1) kilometer from Kampala town.

The major society's source of funds are from the Donors like Danish, Swedish, Norwegian, Netherlands, British, Japanese, Germany and America Red Cross; others include partners like AMREF, PEPFAR, MTN, CSF, UNFPA,

DFID, UNICEF, DANIDA, Ministry of Health, Global Fund, Local Fundraising and individuals among others.

The Society Mission is to improve the quality of life of the most vulnerable people in Uganda as an effective and efficient humanitarian organization, and the Vision is an empowered, healthy and self-sustaining community that responds to the needs of the vulnerable.

Internal Control System (ICS) is defined as A system of controls, financial and otherwise established by management to facilitate carrying on business of the enterprise in an orderly, effective and efficient manner of operations, ensure adherence to management policies, procedures, regulations and laws, safeguard the assets, ensure as far as possible the validity, completeness and accuracy of records and financial statements.

The internal control system comprises the internal control environment and the control procedures adopted by management of the firm so that reasonable allowance is provided that the goals and objectives will be achieved. The internal controls limits the extent of fraud and errors that occur when running the organization, streamlines the reporting procedures hence producing internal conflicts and harmonization of internal management.

Management is responsible for establishing specific internal control policies and procedures. Every employee is responsible for ensuring that established internal controls are followed and applied.

Internal auditors evaluate the effectiveness of control systems, monitor control systems, and contribute to ongoing effectiveness of control systems.

External auditors review control systems for the impact they have on financial reporting and compliance with requirements of external agencies.

The internal control procedures put in place by Uganda Red Cross Society according to Society Accounting Procedures for example the control of assets and financial control mechanisms available in the organization, the Secretary General (SG) is the Chief Executive Officer (CEO) and overseer of the society operations. The means like requisition books are requisitioned by respective program officers (P.O) at head office which are approved and signed by respective Head of Departments (HOD), Accountants, and the Deputy Secretary General (DSG).

Payments are approved by the S.G, Central Governing Board (CGB)-Chairman and Treasurer, and the HOD-Finance.

For effective and efficient running of URCS, there's need for internal controls not to be undermined as it may be a positive impact on improving accountability of URCS's funds.

## **1.2. Statement of the Problem:**

For the last four (4) years, it was viewed that in the audited financial reports of 2006 – 2009, URCS accountabilities to and from branches with reference to the transfers had no regular reconciliations, in 2008 donor funds worthy 176 million was refunded to the donor (Danish) due to misappropriation of funds. Also about 50% of funds, accountabilities and reports are not submitted on time leading to donors losing hope and trust, delay of next transfer of funds and implementation of URCS activities.

In 2006 about Uganda shillings 10million from the sale of insecticide treated nets (ITNs) in Kampala South Branch (KSB) and 2008 in Mbale Branch, about 14 millions for branch activities implementation (Blood Donor Recruitment and Malaria projects) was not properly accounted for. The sale of the nets in KSB had no regular maintained records in the cash book and money receipted was not banked consistently. The transfer of funds to Mbale had no supporting documentation for example transfer letters as per URCS Accounts policy.

Furthermore, the inventory procedure of receiving goods at URCS stores does not provide for inspections, stocks consists of different programs with no specific location within the stores. Many branches as well as the head office, have no stock maintained to show the items received, issued and the balance in stores leading to insufficient stock records during the year 2007 - 2009.

The researcher was interested in finding out the URCS internal controls put in place, their impact, strength and weaknesses, and how they are/were applied as far as timely and effective accountability/utilization of funds is concerned.

### **1.3. Purpose of the Study:**

The purpose of the study was to examine the existence and impact of the internal controls on accountability in Uganda Red Cross Society.

### **1.4. Objectives of the Study:**

- i. To establish whether Uganda Red Cross Society has internal control systems in place.
- ii. To find out if the internal controls are effective and sufficient, and how it has impacted on accountability.
- iii. To identify the weaknesses of internal control systems in the organization

### **1.5. Research Questions:**

- i. Are there internal controls in Uganda Red Cross Society?
- ii. Are the internal controls in Uganda Red Cross Society sufficient and effective?
- iii. What are the constraints hindering effective operations of the internal controls in the URCS
- iv. How has internal controls impacted on accountability in URCS?
- v. What are the weaknesses and improvement methods needed?

### **1.6. Scope of the Study:**

The area of the study was Uganda Red Cross Society (Head office), URCS is located in Kampala on Lumumba avenue plot 28/30, P.O. Box 494, approximately one (1) kilometer from Kampala town.

This research was to study the impact of internal controls on accountability of organizations. The study took three (3) months (April, June and July 2010), April was for proposal writing, while June was for data collection, and July was for report writing and submission.

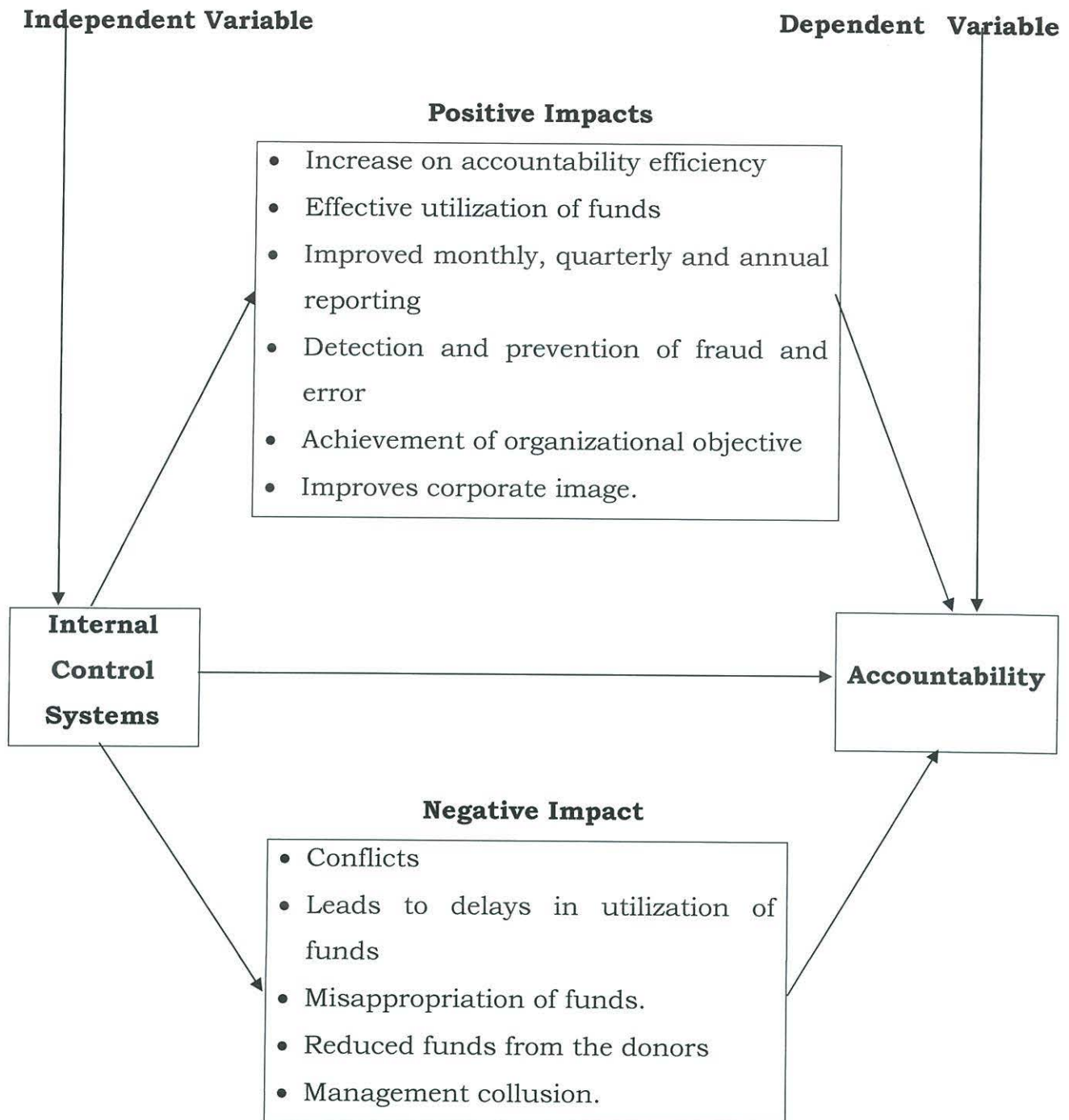
The internal control system in the study was limited to the internal accounting controls, which have bearing on the representations of the accounting records and financial statements.

Besides the Secretary General (SG), the researcher also visited the internal audit department, Program officers and Coordinators, Head of Departments, Accountants, selected Branch Coordinators and other officers liable to the researchers' success, to establish what internal control measures are in place and applied in URCS.

#### **1.7. Significance of the Study:**

- i. The study will be used by the researcher as partial fulfillment of the requirements for the award of a Bachelors Degree in Business Administration.
- ii. The study may provide knowledge and awareness to the management of URCS as far as the scope and benefits of an effective and efficient internal control system is concerned.
- iii. It may also provide some solutions to the organization problems as per recommendations.
- iv. The employee may also use the information to update their approaches in administering internal control rules and procedures before and during routine work.
- v. Other students may also use the study, as a reference and foundation for further research.

### 1.8. Conceptual frame work:



## **CHAPTER TWO**

### **2.0. LITERATURE REVIEW**

#### **2.1. Definition of Internal Control System:**

STEIN (1988) defines internal control as “the whole system of control, financial and otherwise established by management in order to carry on business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible the completeness and accuracy of records”.

GUPTA (1992) defines internal control as a plan of organization and all methods and procedures adopted by management of an organization to assist in achieving management objectives of ensuring as far as practical, the orderly and efficient conduct of its business including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and errors, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information.

The above definition terming out the need for internal controls as they affect the efficient operation of the organization but GUPTA gives more coverage than STEIN as he incorporates the element of detection of fraud and errors and the timely preparation of reliable financial reports to that effect.

**Committee of Sponsoring Organizations (COSO) defines internal control as having five components:**

- Control Environment - sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control.
- Risk Assessment - the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed.
- Information and Communication - systems or processes that support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities
- Control Activities - the policies and procedures that help ensure management directives are carried out.
- Monitoring - processes used to assess the quality of internal control performance over time.

**Accountability**

Accountability for financial control purposes is the delegation of authority to qualified persons to initiate, approve, process and review business transactions and the holding of those persons responsible for the validity, correctness and appropriateness of their actions. Managers are accountable for negative results attributable to their failure to maintain reasonable internal control activities.

Accountability is a concept in ethics and governance with several meanings. It is often used synonymously with such concepts as responsibility, answerability, blameworthiness, liability, and other terms associated with the expectation of account-giving.

As an aspect of governance, it has been central to discussions related to problems in the public sector, nonprofit and private (corporate) worlds. In leadership roles, accountability is the acknowledgment and assumption of responsibility for actions, products, decisions, and policies including the administration, governance, and implementation within the scope of the role or employment position and encompassing the obligation to report, explain and be answerable for resulting consequences.

As a term related to governance, accountability has been difficult to define. It is frequently described as an account-giving relationship between individuals, for example. "A is accountable to B when A is obliged to inform B about A's (past or future) actions and decisions, to justify them, and to suffer punishment in the case of eventual misconduct". Accountability cannot exist without proper accounting practices, in other words absence of accounting means absence of accountability.

## **2.2. Objectives of internal control systems:**

POOLIN (2000) reported that business cannot avoid risk but by managing it carefully they cannot only increase their chance of survival but their share price as well.

Woolf (1985) said that the aim of internal control systems is to achieve the following objectives:

- i. Carrying out of all business transactions through proper authorization by management
- ii. Accountability of all transactions is made in the books of accounts regularly, correctly and systematically following the accounting policies and procedures

- iii. Comparison is made between the existing assets and the accounting records and appropriate measures taken in case of disagreement.
- iv. To ensure that appropriate and adequate accounting system is instituted, and
- v. To ensure that the access of assets is made under proper authorization

Whereas WOOLF concentrates on the management of the whole system through which a transaction passes, PERRIN puts emphasis on the risky areas that need to be managed appropriately so as to enhance survival and increase in performance of the organization.

### **2.3. Activities under internal control systems:**

SSERWANGA (1997) noted in his research report that such controls include:

- Checking the arithmetical assurance of the records, which can be achieved through segregation of duties
- Maintenance of reconciliation such as bank reconciliation, control ledgers with personal ledgers, which reduces errors and fraud.
- Auditing of routine control accounts and trial balances
- Comparison with external sources of information analytical review with observation of the company's performance.
- Limited direct access to assets and
- Comparison of results with budgets.
- Internal audit "an element of internal control system set up by management of an enterprise to examine, evaluate and report an accounting and other controls on operations".
- Internal check, which is exclusively concerned with prevention and early detection of fraud and errors.

- Organization plan is part of internal control where there is definition and allocation of responsibilities, segregation of duties, authorization and approval of all transactions, procedures to ensure that personnel have capabilities commensurate with their responsibilities and adequate supervision made on the internal control system.

Whereas SSERWANGA (1997) put forward the general internal controls in effecting company transactions and appropriate distribution of authority and responsibilities among the different levels of management, UNDERSON (2000) draws attention of the directors in the central of internal management of the business organization through committee's guidance.

#### **2.4. The internal control system's efficiency and the environment:**

RAMASWAMU (1994) noted that in an environment where budgetary control and an effective internal audit functions, there will be an effective internal control.

The same view is given by McDonald (2000) where he said that its difficult to qualify the losses suffered each year by business arising from the use or misuse of information systems. Budgetary control and an effective internal audit according to RAMASWAMU and management of risk as pointed out by McDonald are the kind of environment that enhance the efficiency of the internal control system and hence early detection of fraud and errors in the organization. If accounting procedures are clearly stated in writing, the policies set by management can be.

## **2.5. Limitations of internal controls:**

ADAMS (1992) noted that no internal control system however elaborate can by itself guarantee efficient administration and completeness and accuracy of the records nor can it be proof against fraudulent collusion especially on the part of those holding positions of authority or trust.

The above position by Adams means that those who are entrusted with authority one rides the internal controls sometimes and this leads to inefficient operation of the internal control system and hence poor performance of the organization.

MEIGS (1988) asserts that the extent of internal controls adopted will depend on the cost consideration. This means that it can become cost ineffective when a business organization institutes an internal control system, which absolutely safeguards against fraud, waste and occurrence of errors since costs can exceed the benefits that you are to get out of it.

OLYAMA (1999) in his report pointed out the following limitations:

- The cost of the procedure may be disproportionate to the potential loss due to fraud or errors.
- Most of the controls are directed to anticipate usual types of transactions and not unusual transactions
- The effectiveness of the system is always affected due to carelessness, distraction and misunderstanding of instructions.
- The employees in collusion with others in the business unit or with third parties may find out circumvention of controls.
- The effectiveness of control largely depends on the persons who implement them.

Whereas OLYAMA (1999) and PANY (1988) agree on the same issues that putting in place internal controls would reduce on the risk of fraud and errors, absolute removal of these cannot be achieved easily.

This is because an attempt to absolutely remove fraud and errors in the organizational operations can lead to more costs incurred than what you actually get out of such action. So by implication an organization should put in place such controls that are proportional to the gains

Internal control can provide reasonable, not absolute, assurance that the objectives of an organization will be met. The concept of reasonable assurance implies a high degree of assurance, constrained by the costs and benefits of establishing incremental control procedures. Effective internal control implies the organization generates reliable financial reporting and substantially complies with the laws and regulations that apply to it.

However, whether an organization achieves operational and strategic objectives may depend on factors outside the enterprise, such as competition or technological innovation.

These factors are outside the scope of internal control; therefore, effective internal control provides only timely information or feedback on progress towards the achievement of operational and strategic objectives, but cannot guarantee their achievement.

Internal control involves human action, which introduces the possibility of errors in processing or judgment. Internal control can also be overridden by collusion among employees

The internal control procedures put in place by Uganda Red Cross Society according to society accounting procedures for example the control of assets and financial control mechanisms available in the organization, the Secretary General (SG) is the Chief Executive Officer (CEO) and overseer of the society operations.

The means like requisition books are requisitioned by respective program officers (P.O) at head office which are approved and signed by respective Head of Departments (HOD), Accountants, and the Deputy Secretary General (DSG).

Requests are accompanied by support documents like profoma invoices, and local purchase orders, minutes of tender committee, list of people likely to attend a given event. There after a payment vouchers and cheques are raised by the cashier, these are approved and signed by the Head of Finance & Accounts, the S.G, Chairman Central Governing Board (CGB), Treasurer CGB.

Any monies above 5(five) million shillings, there should be at least three (3) signatories and at least two (2) signatories of any amount below 5million. Some of these funds or monies are transferred electronically and are utilized both at URCS headquarters and its respective branches in Uganda and must be promptly accounted for following the accounting policies and regulations.

For effective and efficient running of URCS, there's need for internal controls not to be undermined as it may be a positive impact on improving accountability of URCS's funds. The literature review above involves the definition, components, objectives and limitations of internal control systems, activities under internal control systems, the internal control system's efficiency and the environment.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0. Introduction:**

This chapter presents and describes an over view of the methods and techniques that were used when carrying out the study and the rationale for selecting the particular techniques or methods. It included the research design, study population, sample size, sampling procedure, research instruments, data collection procedure, data analysis, limitations of the study, and the appendices'.

#### **3.1. Research Design:**

The research design was a case study of Uganda Red Cross at headquarters with a few selected regions/branches. The objective of this research was to analyze/examine the impact of the internal control systems in URCS particularly the finance, accounting and URCS assets controls. In order to achieve this, a descriptive survey and exploratory research design was used since it would enable the researcher to collect as many views as possible from the selected respondents.

#### **3.2. Study Population:**

The study population included staffs of URCS headquarter and a few from the selected branches/regions. Out of the 641 staffs', 60 were sampled by use of random and purposive sampling. These among others included; the Secretary General (S.G), Deputy Secretary General (DSG), Head of Departments (HOD), Programme and Project Coordinators/Officers, Accountants, Internal Auditors, Regional and Branch Coordinators.

### 3.3. Sample Size:

The sample had Sixty (60) respondents involving the top, middle and lower management and this was done through random and purposive sampling. This was by use of questionnaires, interviewing and socializing/interaction with the respondents for clarification. This can be as illustrated in table 1 below.

**Table 1: Showing the composition and selection of the respondents**

<b>Category of respondents</b>	<b>URCS Staff/ population (No. of Staff)</b>	<b>Random Sampling</b>	<b>Purposive Sample selection</b>	<b>Sex</b>	<b>Area/Place</b>
Top Management	20	13		Male (8) & Female (5)	Headquarter
Middle Management	80	18	12	Male (17) & Female(13)	Headquarter Regions/ Branches
Lower Management	541	5	12	Male (9) & Female (8)	Headquarter Regions/ Branches
<b>TOTAL</b>	<b>641</b>	<b>36</b>	<b>24</b>		

Source: Primary data

**Purposive sample selection** included the selected branches of Mbale, Tororo, Kamuli, Kampala South, Kabarole, and Gulu.

**Secondary source** included; Compiled reports, schedules of all departments, literature on internal controls from text books, newspapers and previous researchers.

#### **3.4. Sampling Procedure:**

The researcher used random sampling and purposive techniques from various departments since the URCS consists of many employees and activities throughout the country.

#### **3.5. Research Instruments:**

Different instruments were used to collect data from the respondents. These included the interview guide, questionnaires which consisted of closed ended and a few open ended questions. Use of direct observation and recording methods as a tool of collecting data, examining records, reports of accounting and internal controls put in place by URCS.

#### **3.6. Data Collection Procedure:**

The researcher obtained an introduction letter from Kampala International University (KIU), School of Business and Management (SBM) to URCS head office, permission was granted by URCS head quarter authorities to the researcher to conduct the study. The researcher was assisted by the research assistants who helped her in distributing the questionnaires and interpretation/translation where necessary. Participants willing to provide sufficient and relevant information were guided in the questionnaire filling process and questions were asked by the respondents for clarification.

#### **3.7. Data analysis:**

After collection of data, only correctly filled questionnaires were coded, edited and analyzed for completeness and accuracy. Analysis was carried out by use of frequencies, percentages and true findings were represented by use of tables, graphs or pie charts.

### **3.8. Challenges/limitations of Study:**

Most URCS employees are of field limiting the researcher to get ample time with them. This was solved by approaching some respondents in their selected fields and made appropriate appointments for convenience.

- a) Some of the employees were not willing to answer the questionnaire claiming they had no time. However, the researcher solved this through observation and interviewing the respondents for only 5 minutes.
- b) Some of the employees were not interested as they thought the research could not be beneficial to them and the society.
- c) The researcher also lacked enough facilitation like transport, out of pocket, stationery, and limited time period. This was somehow solved where by the researcher used the organization cars if they were moving to the research target area. The organization also paid the researcher whenever they could assign her any work outside her study.
- d) URCS is a very big organization covering the whole country where the researcher was unable to reach yet there could be more helpful data to collect. However the researcher has recommended that there should be more research on all URCS branches for wider information and adequacy.
- e) There was delay in filling and return of the questionnaire, making the researcher also delay in compiling and submitting the report.

However despite of the challenges above, the researcher gained experience whenever she was assigned field and accounting related work during her research, reputation, among others

## CHAPTER FOUR

### 4.0. PRESENTATION AND ANALYSIS OF DATA

#### 4.1. Introduction

This chapter is aimed at finding answers to the study questions of whether Uganda Red Cross Society (URCS) has an internal control system, its effectiveness, and the constraints in its efficient operation and how it has impacted on accountability.

#### 4.2. Findings on existing internal control systems.

This is reflected in question one (1) under management controls which was also backed up by the interview guide in question 5. This aimed at finding out whether there were formal or documented procedures of accountability and whether they define the extent of limits of authority. The response was as shown in the table 2.0 below;

**Table 2.0: Response on the organizational plan**

<b>Response</b>	<b>Frequency (Freq)</b>	<b>Percentage (%)</b>
Yes	60	100
No	0	0
<b>Total</b>	<b>60</b>	<b>100</b>

Source: Primary source

**Table 2.1: Analysis of the findings on organizational plan**

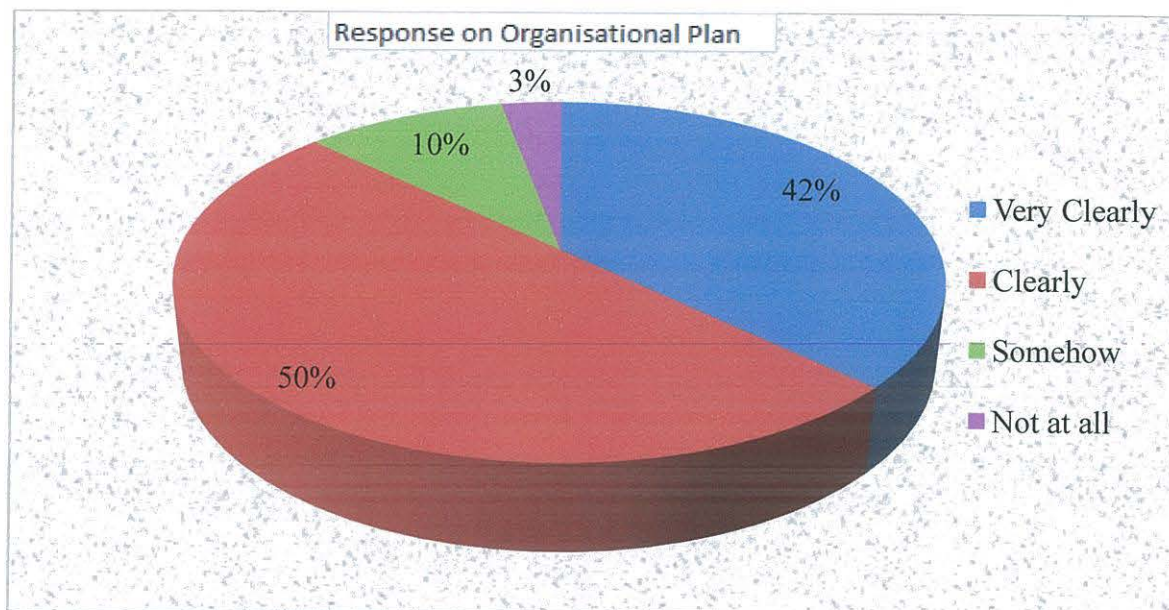
<b>Response</b>	<b>Frequency (Freq)</b>	<b>Percentage (%)</b>
Very clearly	22	37
Clearly	30	50
Somehow	6	10
Not at all	2	3
<b>Total</b>	<b>60</b>	<b>100</b>

Source: Primary data

From the tables above, all respondents agreed that there is an organizational plan as represented by 100% in table 2.0. The analysis show that 37% of the respondents agreed that the procedures or organizational plan show very clearly the authority limits, 50% asserted that it clearly defines the limits of authority, 10% of the respondents asserted that it partially does so and the remaining 3% disagreed.

From this analysis, it is clear that 87% agreed that the organizational plan gives clear limits of authority and therefore since it does so, it enables a smooth flow of activities and accountability.

The above analysis can also be reflected in the pie-chart as below:



Source: Primary data

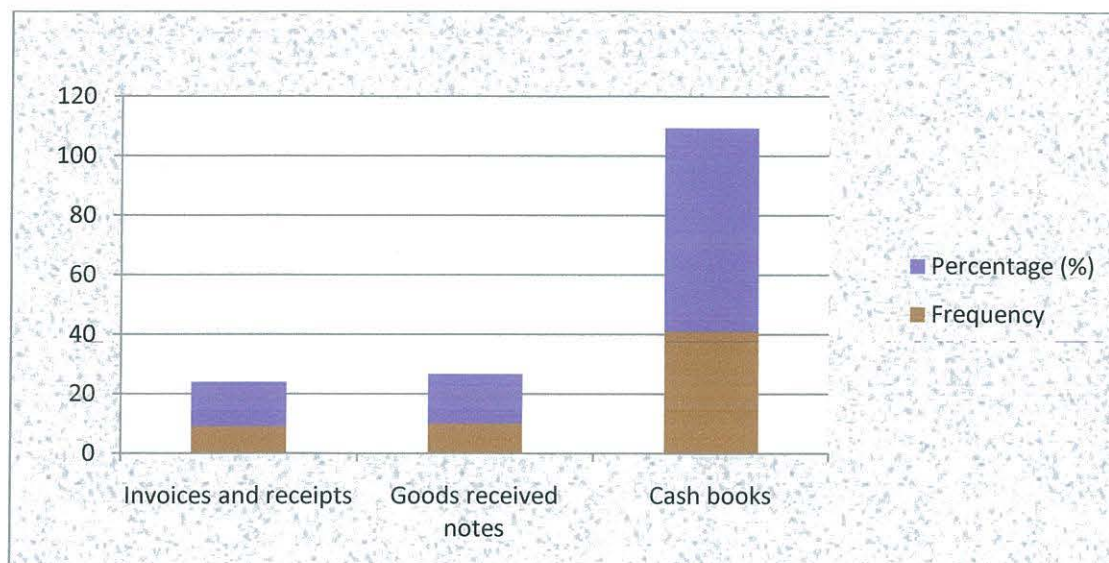
**Question 1 in the implementation controls**, sought to find out the kinds of books/documents kept by URCS which was also supported by the interview guide question 8. The response was as shown as follows in table 3.0.

**Table 3.0: Response on Kind of books kept at URCS.**

Response	Frequency	Percentage (%)
Invoices and receipts	9	15
Goods received notes	10	17
Cash books	41	68
<b>Total</b>	<b>60</b>	<b>100</b>

Source: Primary data

**Table 3.0. Analysis can also be as illustrated in the graph below**

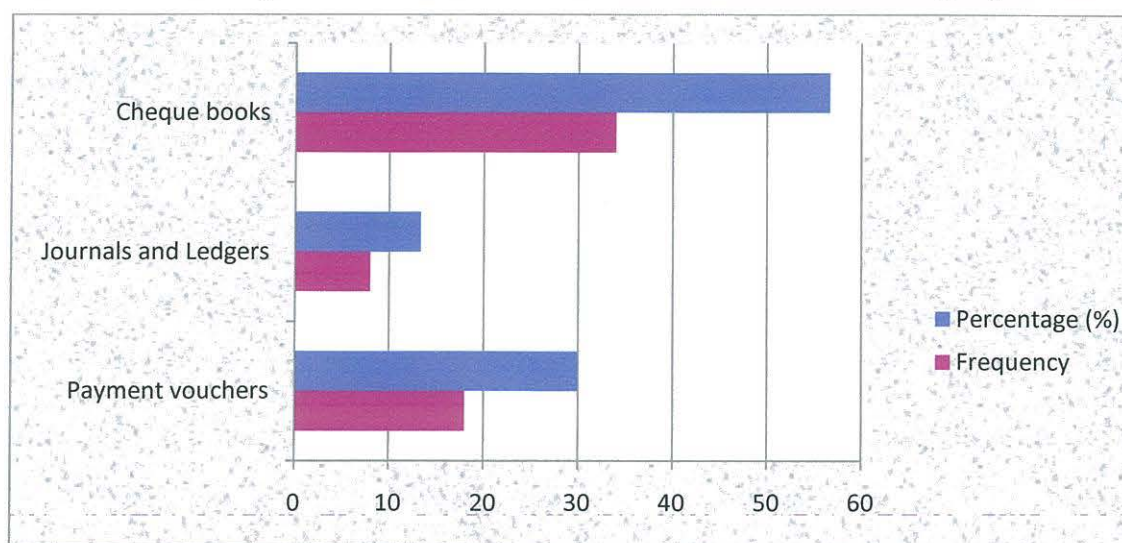


Source: Primary data

**Table 3.1: Response on Kind of books kept at URCS (Continuation).**

Response	Frequency	Percentage (%)
Payment vouchers	18	30
Journals and Ledgers	8	13
Cheque books	34	57
<b>Total</b>	<b>60</b>	<b>100</b>

**Table 3.1: Analysis can also be as illustrated in the bar graph below**



Source: Primary data

From the tables, table 3.0 shows that, 15% of the respondents agreed that URCS uses the invoices and receipts, 17% asserted that there is use of goods received notes, while 68% agreed that the society has and uses cash books. In table 3.1, 30% of the respondents asserted that there is use of payment vouchers, 13% agreed that journals and ledger exist and they are being used, while 57% asserted that the society keeps and uses cheque books. In the analysis above, there's an indication that payment vouchers, cash and cheque books are largely kept and used as represented in the tables above compared to others.

In addition during the research, by observation and interview of the respondents in respective fields (branches), it was established that some of the books with less percentage are mainly used at the society headquarters where the biggest section of accounts and procurement/logistics are based. The above analysis shows that URCS Keeps the books suggested and in this essence helps in proper accounting and reduced fraud.

**Question 10** in the implementation controls sought to find out whether URCS has accounts, internal audit, and finance manuals and whether these manuals are regularly used and applied. This is because these manuals help in the proper flow of instructions and hence effectiveness in the control system. The response was as below.

**Table 4.0: Response on presence of manuals**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Yes	54	90
No	3	5
No response	3	5
<b>Total</b>	<b>60</b>	<b>100</b>

Source: Primary source

**Table 4.1: Shows the analysis of the above table on the manuals are regularly used and applied.**

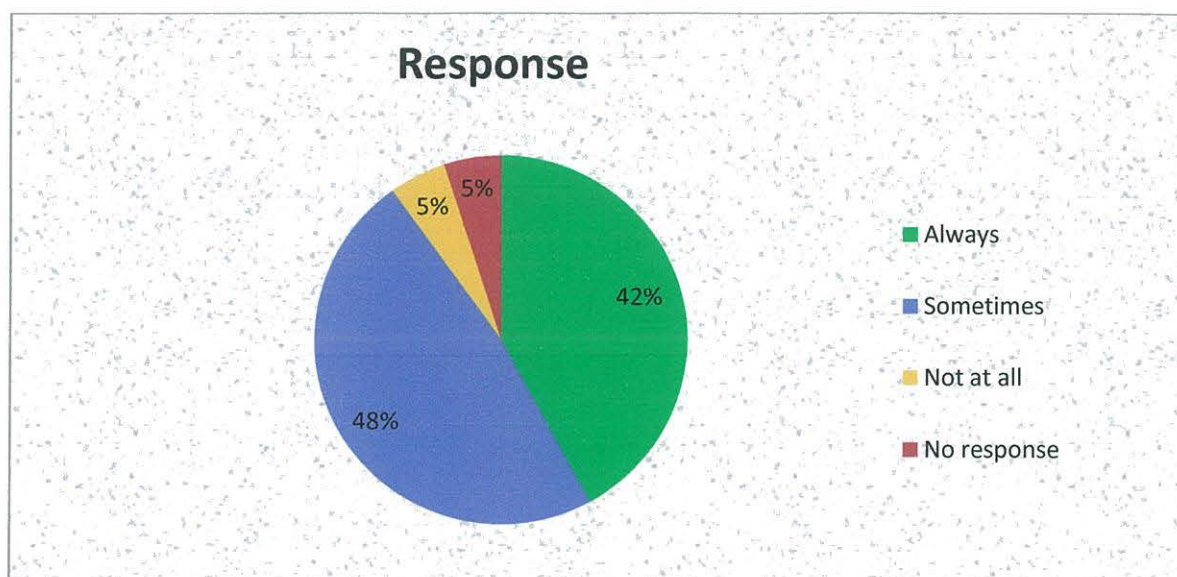
<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Always	25	42
Sometimes	29	48
Not at all	3	5
No response	3	5
<b>Total</b>	<b>60</b>	<b>100</b>

Source: Primary data

From the table above, 42% of the respondents agreed that the accounts, internal audit and finance manuals exist in the organization, they always show clear procedures, regularly used and applied, 48% agreed that the manuals sometimes give clear procedures and regularly used, 5% disagreed with this, as well as 5% of the respondents did not select or identify anything.

This in essence shows that there is an internal control system as pertains procedures which streamlines activities in the organization hence errors and fraud are minimized though care must be taken on awareness shown by respondents who asserted that there is partial and no clarity in procedures as well as those who did not select anything. This may indicate that those who did not select anything could be ignorant of the society accounting manuals, thus need for great orientation to all staff.

**The above can also be reflected in the pie chart as shown below:**



Source: Primary data

**Question 1, 2, 3, 4, and 5** under internal controls on organizational policies sought to find out whether organizational policies in general are in place and whether they are followed.

**Table 5.0: Analysis of the findings on the existence and implementation of organization policies**

Question	Response									
	Always		Sometimes		Once in a while		Not at all		Total	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
1	5	8	11	18	34	57	10	17	<b>60</b>	<b>100</b>
2	34	57	20	33	6	10	0	0	<b>60</b>	<b>100</b>
3	43	72	17	28	0	0	0	0	<b>60</b>	<b>100</b>
4	41	68	19	32	0	0	0	0	<b>60</b>	<b>100</b>
5	52	87	8	13	0	0	0	0	<b>60</b>	<b>100</b>

Source: Primary data

The above analysis shows that, with question one(1), 8% of the respondents asserted that they always consult with their superiors for instructions, 18% asserted that they sometimes consult, 57% asserted that they once in a while consult their superiors for instructions, as 17% asserted that they do not consult for instruction.

**Question 2** as indicated above, 57% agreed that they always participate in decision making, 33% asserted that they sometimes participate and 10% agreed that once in a while participate in decision making.

**In question 3,** 72% asserted that employees normally work for the time that is expected of them without supervision, while 28% asserted that sometimes employees work for the expected time.

**Analysis of question 4** shows that 68% of the respondents asserted that strict adherence to rules and regulations is a priority in the society, while 32% agreed that sometimes it's a priority.

**Question 5** Analysis indicates that, 87% of the respondents asserted that it is always managers who are involved in the purchase of capital items, and 13% asserted that it's sometimes the managers involved. Generally this shows that there is an internal control on the policies expected for the weak responses, however, there still holds some gaps in the internal control system as represented and analyzed above.

#### **4.3. Effectiveness and implementation of internal controls**

This section sought to discover the adequacy and implementation of internal controls in URCS.

##### **4.3.1. Segregation of duties**

Questions 4 sought to establish whether there was segregation of duties in various departments and which types of segregations are implemented in URCS under the implementation of controls and interview guide question 10, the response was as in the table 6.0 and pie chart below.

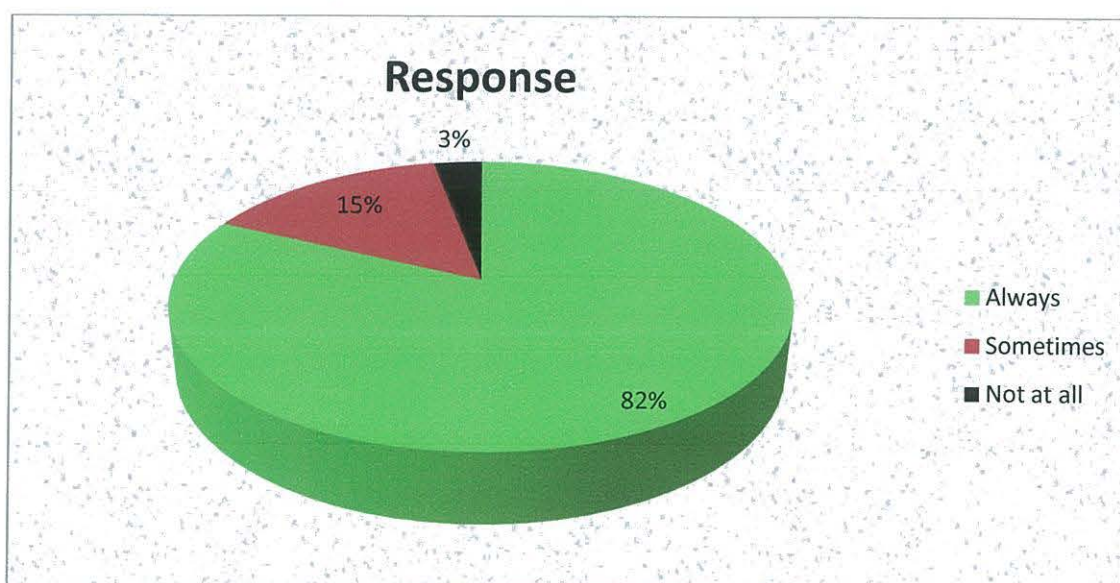
**Table 6.0: Analysis of findings on segregation in various departments**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Always	49	82
Sometimes	9	15
Not at all	2	3
<b>Total</b>	<b>60</b>	<b>100</b>

Source: Primary data

From the analysis, 82% of the respondents asserted that, there's always segregation of duties in the various departments, 15% asserted that sometimes there is segregation and 3% rejected there being segregation in the departments. This showed that there is segregation in URCS as represented with 82% of the respondents but the extent of implementation is inadequate as represented by 15% indicating sometimes and 3% not at all of the respondents.

The above can be represented on a pie chart as follows



Source: Primary data

Basing on the response in question 4/table above, the various areas that are segregated in the different activities are as represented in the analysis table 7.0 below.

**Table 7.0: Shows the analysis of the findings on segregation of different activities.**

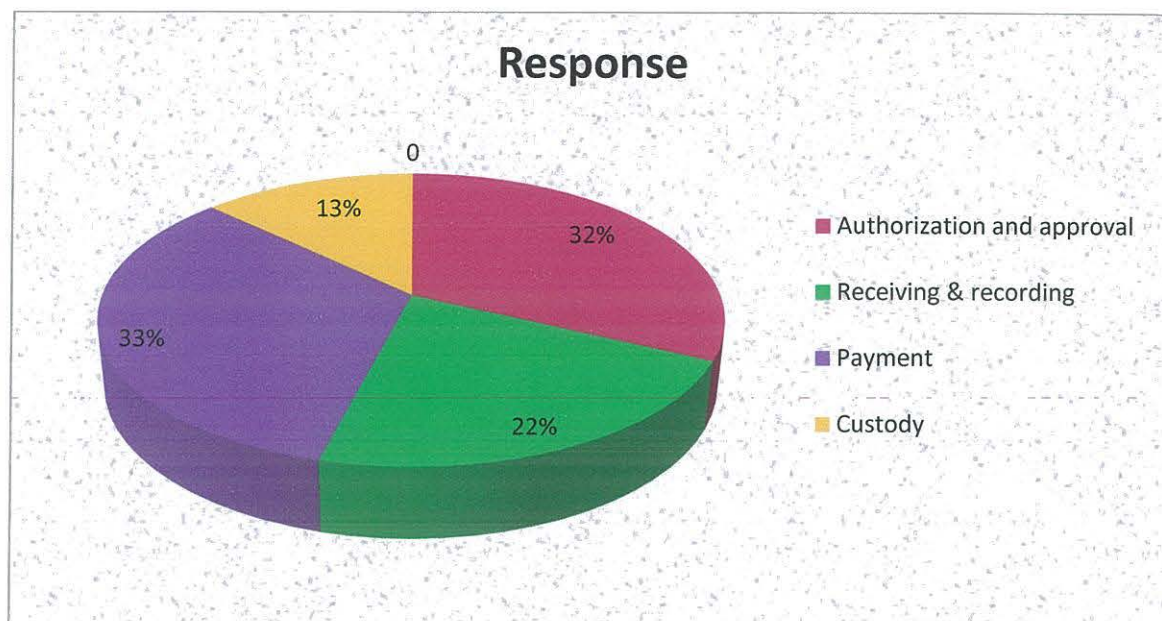
<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Authorization and approval	19	32
Receiving and recording	13	22
Payment	20	33
Custody	8	13
<b>Total</b>	<b>60</b>	<b>100</b>

Source: Primary data

From the analysis above, 32% of the respondents agreed that authorization and approval is segregated and 22% for receiving and recording. 33% also agreed that payment is segregated whereas 13% asserted that custody is also segregated

The overall effect is that the above areas are segregated in URCS as represented in table 7 response. This helps in reducing the level of fraud that would occur if all the above were under a single officer or department.

This can also be represented in the pie chart below:



Source: Primary data

**Question 19 and 21** under the implementation controls sought to find out whether receipts and payments are segregated. Response was as in the table 8.0.

**Table 8.0: Analysis of findings on segregation of receipts and payments.**

Question	Response							
	Procurement Officer		Program Officer		Finance officer		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
11	49	81.7	7	11.7	4	6.7	<b>60</b>	<b>100</b>
12	7	11.7	3	5	50	83.3	<b>60</b>	<b>100</b>

Source: Primary data

From the above analysis, 81.7% of the respondents to question 11 asserted that the procurement officer/department is responsible for receipts of purchases, 11.7% asserted that it is the program/requisition officer, while 6.7% asserted that it is the finance officer.

This generally showed that there is segregation of duties in these areas but there's also a weakness as per the response above that, the Program and finance officers are responsible for the requisition, authorizing payment, and receipts of purchases as represented by 11.7% and 6.7% respectively. This may lead to errors and fraud as some payments can be authorized for goods not received.

Also response to question 12 indicated that 11.7% of the respondents asserted that the procurement officer/department makes payments for purchases, 5% asserted that the program/requisition officer makes payments, and 83.3% asserted that it is the finance officer who makes such payments. This also indicates payments of purchases are done by the finance officer as represented with 83.3% but it still holds a weakness as indicated above with 16.7%.

#### **4.3.2. Errors and Fraud:**

This section dealt with those questions in the questionnaire and interview guide that sought to find out the areas which are prone to fraud, measures in place that reduce on fraud and errors, preparation of financial statements, entry and reconciliation of control accounts/books of accounts. This can be traced under managerial controls in questions 2, 3, 8, questions 5 and 6 under implementation controls and tables below illustrate the above.

**Table 9.0: Response on areas that are prone to fraud in question 2;**

<b>Response</b>	<b>Frequency (Freq)</b>	<b>Percentage (%)</b>
Yes	51	85
No	9	15
<b>Total</b>	<b>60</b>	<b>100</b>

**Table 9.1: Analysis of the findings on the areas that are prone to fraud**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Procurement/Logistics	26	43
Accounts	15	25
Auditing	10	17
Not at all	9	15
Total	60	100

Source: Primary data

From the above analysis, 85% of the respondents agreed that there are areas which are prone to fraud as 15% rejected that there are no areas that are prone to fraud. Therefore in an analysis of the findings the response in 9., indicates that 43% of the respondents asserted that it is procurement/logistics that is prone to fraud, 25% Accounts, 17% auditing, and 15% asserted that there are no areas prone to fraud.

**Question 8**, under managerial controls sought on the preparation of financial statement and the response of the findings were as follows

**Table 9.2: Analysis of the findings on the preparation of financial statements in URCS.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Monthly	12	20
Quarterly	34	57
Semi-Annually	0	0
Annually	14	23
<b>Total</b>	<b>60</b>	<b>100</b>

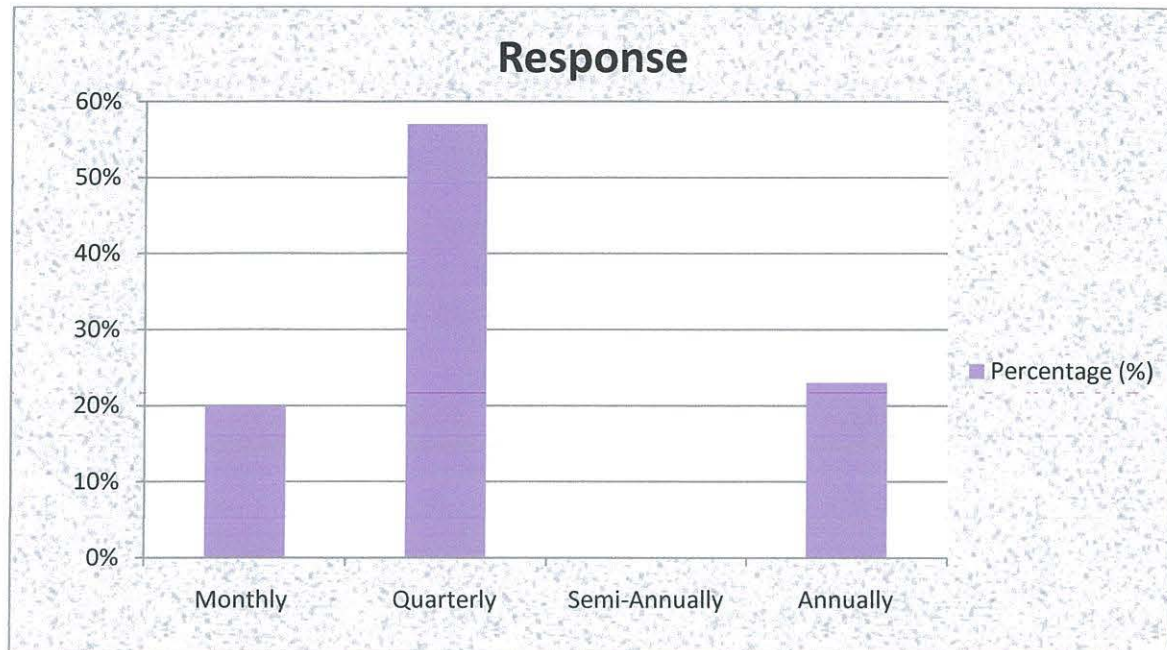
Source: Primary data

From the above analysis, 20% of the respondents agreed that financial statements are prepared monthly, 57% asserted that they are prepared quarterly as well as annually with also 23% of the respondents. This indicated that financial statements are prepared more on quarterly basis, in this case it helps in reducing fraud and errors beforehand, however some errors can occur before the end of the quarter.

To this analysis, it was established that at least all staff (respondents) are aware of the preparation of financial statements as nobody rejected.

The financial statements at URCS include trial balances, income statements, and balance sheet, Quarterly reports, among others.

**This bar graph can also represent the analysis in the table 9.2 above;**



**Table 9.3: Shows the analysis of reconciliation of control accounts with ledgers and bank balances (question 5 and 6)**

Response	Frequency	Percentage (%)
Always	12	20
Sometimes	42	70
Not at all	6	10
<b>Total</b>	<b>60</b>	<b>100</b>

Source: Primary data

From the above analysis, 20% of the respondents asserted that, always there are reconciliations with ledgers and bank balances, 75% asserted that it is sometimes, and 10% rejected this, this may show some weakness in the controls systems and persons concerned leading to fraud and error.

**Question 2, 3, 7, 9, and 13** under implementation of controls and question 5 under managerial controls, sought to find out how fraud and errors were being minimized in URCS and the response was as in table below;

**Table 10.0: Shows analysis on the findings on how fraud and errors were being minimized in URCS**

Question	Response							
	Always		Sometimes		Not at all		Total	
	Freq	%	Freq	%	Freq	%	Freq	%
2	13	21.7	41	68.3	6	10	<b>60</b>	<b>100</b>
3	43	71.7	17	28.3	0	0	<b>60</b>	<b>100</b>
5	45	75	15	25	0	0	<b>60</b>	<b>100</b>
7	15	25	37	61.7	8	13.3	<b>60</b>	<b>100</b>
9	40	66.7	20	33.3	0	0	<b>60</b>	<b>100</b>
13	17	28.3	32	53.3	11	18.3	<b>60</b>	<b>100</b>

Source: Primary data

From the above analysis in question 2, 90% of the respondents asserted that independent person's keep accounting documents under safe custody, and 10% rejected. However, more of some times represented a bigger percentage and 10% rejected indicated that there are some gaps to be attended to.

That's' during the study, the researcher established that some of the accountabilities submitted to respective accountants are being misplaced and they are called to re-account or else they are deducted from their salary, thus poor safe custody. In question 3 as illustrated in the above table 100% of the respondents asserted that transactions are produced through journals and are authorized before they are processed. This is represented with 71.7% and 28.3 % of respondents who asserted that it is always and sometimes respectively

In question 5 of the managerial controls, 75% of the respondents asserted that always management has control over authorization and approval of transaction, while 25% asserted management sometimes has control.

Question 7 shows that 25% of the respondents asserted that they make comparisons between organization records and outside the organization, 61.7% agreed that sometimes and 13.3% rejected. In question 9, 66.7% of the respondents asserted that documents used in recording are serially pre-determined, and 33.3% agreed that they sometimes. In question 13, 28.3% of the respondents asserted that right procedures are always followed when acquiring stock/assets, while 53.3% asserted that it is sometimes, and 18.3% rejected.

In general, the above analysis shows that there are limited internal controls on errors and fraud being implemented as indicated in the table above to those respondents who asserted that controls are sometimes or not at all implemented. Otherwise care needs to be taken specifically on those areas where the response indicated a lower percentage, especially where respondents selected sometimes and not at all.

#### 4.3.3. Competence of staff and the existence and effectiveness of finance and audit committees:

Under managerial controls, question 4, 6, and 7 sought to find out the competence of staff, existence and involvement of the finance committee. Also in question 8 under the implementation of controls, sought to establish whether there was an audit department and its effectiveness and how it can help in minimizing fraud and error

**Table 11.0: Analysis of findings on URCS Staff's competence.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Excellent	5	8
Very Good	32	53
Good	23	38
Poor	0	0
<b>Total</b>	<b>60</b>	<b>100</b>

Source: Primary data

The above analysis shows that, 8% asserted that the competence of staff is excellent, 53% agreed that the staff competence is very good, and 38% asserted it's good. Very good with a leading percentage can boost the organization upon its reputation and survival. However, there should be steps taken for staff development so as more percentage is in excellence and very good.

**Table 11.1: Analysis of findings on the existence and involvement of the finance committee in the approval of department budgets.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Yes (It exists and is involved in approval)	49	82
No (It does not exists and is not involved in approval)	3	5
I don't know	8	13
<b>Total</b>	<b>60</b>	<b>100</b>

Source: Primary data

In the table above shows that 82% asserted that the finance committee exists in URCS and it is involved in the approval of budgets, 5% asserted that there is no a finance committee therefore no involvement, and the 13% of the respondents asserted that they do not know.

**Table 11.2. Analysis of the existence of the internal audit and the level of review of transactions being processed**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Always	23	38
Sometimes	30	50
Not at all	7	12
<b>Total</b>	<b>60</b>	<b>100</b>

Source: Primary data

The internal audit department exists in URCS as illustrated above with 38% of the respondents who asserted that it exists and reviews the transactions being processed, 50% of the respondents asserted that sometimes the audit department reviews the transaction being processed and 12% rejected.

#### 4.4. The impact of internal controls on accountability in URCS Organization.

In question 22, under the implementation of internal controls sought to examine the impact of internal controls on accountability and the response was as follows.

**Table 12.0: Analysis of findings on the impact of the internal controls on accountability**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Timely accountability and reporting	13	22
Quality (authentic) accountability	12	20
Recording keeping	26	43
Early transfer of funds	9	15
Total	60	100

Source: Primary source

From the analysis above, 22% of the respondents asserted that internal controls have positively impacted on accountability leading to timely accountability, leaving the 78% as negative impact, this shows that there is a weakness which can lead to misappropriation of funds, fraud and hence loss of reputation to the donor who may in the later stage be discouraged from transferring more funds. 20% asserted that led to quality accountability, record keeping with 43% and early transfer of funds with 15%.

#### 4.5. Constraints in the Internal Control Systems.

Literally constraints in the internal controls were established through interview and focused discussions with the respondents, which yielded the following.

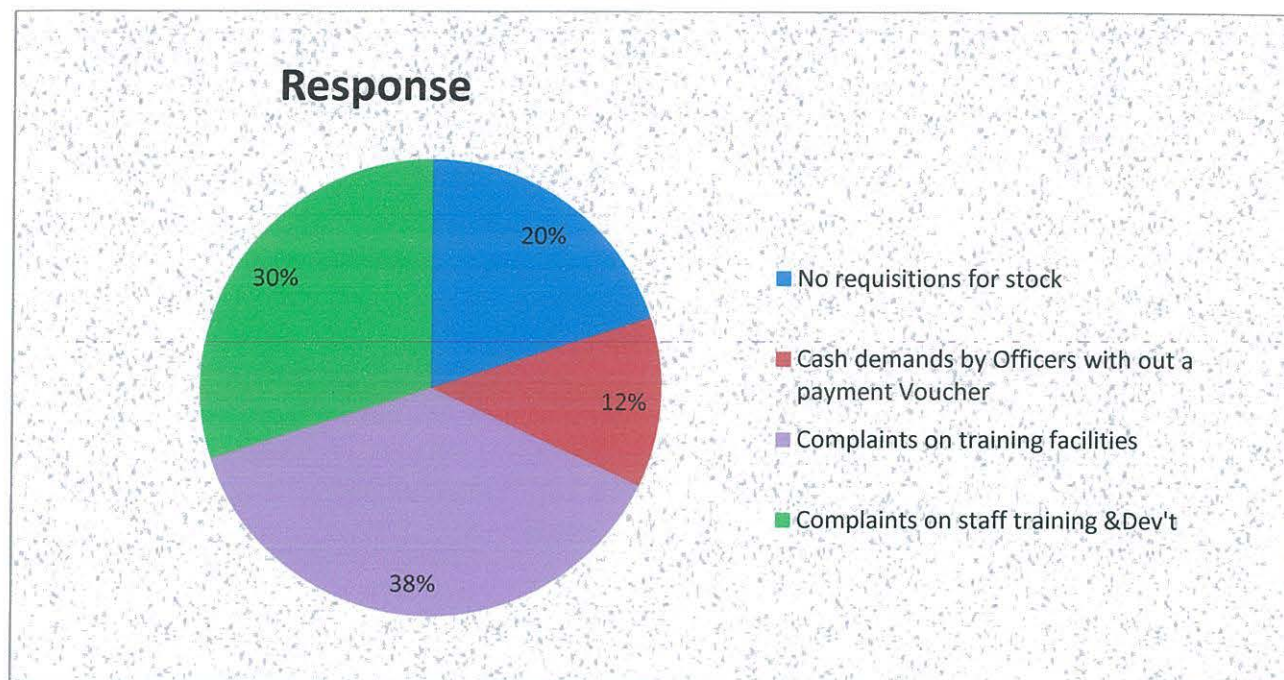
**Table 13: Analysis of findings on constraints in the internal control system**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
No requisitions for stock	12	20
Cash demands by respective Officers without a payment Voucher	7	12
Complaints on training facilities	23	38
Complaints on staff training /orientation/rewards & development	18	30
<b>Total</b>	<b>60</b>	<b>100</b>

**Source: Primary data**

- (i) 38% and 30% of the respondents issued complaints about training facilities, rewards and development to the employees respectively. They asserted that the organization lacks the initiatives to train, retain, reward and develop its staff even when there are possibilities for them to get trained and rewarded. This may demoralizes them and some can decide to leave the organization, thus labour turnover. 20% for no requisitions and 12% of the respondents asserted that there cash demands by respective officers which could be a threat to the organization

**The above can also be represented in the pie chart below;**



Source: Primary data

- (ii) Although the organization plan is in place, the employees take long to look at it and be where they fall in terms of control and authority. This implied that the organizational plan is placed in places which are inappropriate for the employees, and this affects their work.
- (iii) Also from the study was established that there was poor rotation of duties. The employees since time of recruitment have never even rotated; this would cause a problem of collusion through the development of interpersonal relationship.

- (iv) The study also revealed a weakness over control of cash. Payments are always made out of cash and even banking of such cash is not immediate. This can lead to misappropriation of funds.
- (v) It was also discovered that much as URCS has the internal audit department, URCS does not have an audit committee but just a finance committee which sometimes plays the role of the audit committee. Thus, this is a weakness as fraud may go on unnoticed or discovered late.
- (vi) The researcher also discovered that not all URCS staffs are well conversant with accounting and financial management aspects (policies), making it difficult to inefficiently use and account for funds provided.
- (vii) Through the observation and interview process, the researcher established that, all financial transactions are posted and reconciled by only 3(three) Senior Accountants out of URCS fifteen (15) qualified Accountants (seniors inclusive). These include 6regional accountants and 9 at head office. This can delay the process of posting transactions and producing monthly, quarterly and financial reports.
- (viii) By observation and simple analysis, the researcher discovered that some supplies are received before the local purchase order is received. Looking at the date of the local purchase order and the one on the delivery note, there's clear evidence that the policy is not followed. In an ideal situation, the date on the LPO should be before the date on the delivery note.

## **CHAPTER FIVE**

### **5.0. CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1. Introduction:**

The researcher made conclusions and recommendations on her findings regarding existence, effectiveness, and constraints of internal control system of URCS.

#### **5.2. Conclusions:**

The analysis of the study in chapter four revealed that URCS does have an established internal control system. The controls are actually operational for example accounting policies and regulations, segregation of duties, authorization limits, preventive, detective, and physical controls, among others. However, it is important to note that despite the existence of an internal control system, its effectiveness as far as implementation is concerned, is inadequate to ensure a true and fair picture of financial statements.

This fact is evident from the weaknesses cited in different areas discussed under various findings of the study. The major weaknesses in the current internal control system of URCS were cited as follows;

- (i) There is inappropriate location of the organizational plan since some of the respondents asserted as having not seen the organizational plan and accounting policies in the URCS.
- (ii) There is inadequate use of manuals hence leading to faulty procedures being followed.
- (iii) URCS management has a lot of bureaucracy and to a great extent delays some activities or response especially incases of emergency.

- (iv) There is inadequate use of the various accounting books in URCS. This may increase the errors and fraud rate since some transactions can go without being recorded.
- (v) Job descriptions are not being followed appropriately since they are not so much emphasized.
- (vi) Inadequate segregation of duties between receipts and payment of goods in the organization.
- (vii) Limited training and motivation facilities extended to workers, this can lead to continuous labour turn over.
- (viii) Override of internal controls by top management and this also includes role conflicts among the organization staff.
- (ix) Lack of fully set up audit and accounts committee at head office, and no accounting systems set at branch level to easy posting of transactions so as to save time and cost of coming to head office by regional accountants.
- (x) Slow or delay in URCS activities implementation and accountability

The internal controls are a must for all companies/organizations for effectiveness and this was stated by Sejpal in the Daily Monitor of Tuesday, May 16, 2006 (pg 17). Internal controls are necessary to monitor the profitability goals of the organisation, enhancing accountability and protecting the assets of the business/organization.

In order to deal with rapidly changing business environment and equally fast moving economic and competitive conditions, internal controls will enable minimize loss of assets, ensure reliability of financial reporting and compliance with regulatory requirements. Internal control however, is a means and not an absolute solution to zero business and financial risk.

### **5.3. Recommendations:**

Basing on the findings in chapter four as per the research, was intended and the conclusions drawn from this, the researcher recommends the following;

- (i) Management should make copies of organizational plan and distribute to all staffs in different departments especially on recruitment of new staff and the existing ones in case of amendment of plans so as the employees can be updated for efficient and consistence in working.
- (ii) In addition to the above, management should create organizational library where all employees can easily access and view all URCS manuals
- (iii) Emphasis should be put on the use of the various accounting books to be able to control the flow of assets of the company and to be able to show a true and fair view of the financial statements.
- (iv) Copies of job description need to be made so that each employee is given a personal copy, this can enhance performance.
- (v) Management should take an initiative to separate the duties of receipts and payments for goods purchased by the firm since it can reduce on fraud and errors.
- (vi) Surprise and internal checks by management should be made on the accounts, staff records to reduce or eliminate fraud.
- (vii) There should be a fully pledged audit committee instituted at the head office and internal audit department at branch levels.
- (viii) Management should extend training opportunities to the staff since it increases on their competence and motivation.
- (ix) Regular preparations of financial statements to minimize fraud and errors
- (x) Increase frequency of branch audits

- (xi) Strengthen supervision of staff and segregation of duties.
- (xii) Review authorization limits and carry out regular appraisal of staff.
- (xiii) Recruitment of branch accountants and regular review of accounts and financial management manuals/procedures.
- (xiv) Placement and Establishment of branch and regional computers with internet and accounting systems for effectiveness.
- (xv) Management should always review and monitor URCS rules and regulations
- (xvi) Emphasis on tight security, whereby there should be clear indication of visiting time and have a place where staff meet their visitors. Those entering the organization premises should be checked when entering and leaving the premises.
- (xvii) Follow up of plans to ensure application of control procedures in place
- (xviii) Individual regular audit and feedback on compliance level
- (xix) Complete and regular dissemination and understanding of the internal audit function and the internal controls to all officers
- (xx) Management should ensure regular reviews on adequacy of the internal controls and accounting systems.
- (xxi) Should also ensure constant involvement of the internal audit function/team in the appraisal of the controls.
- (xxii) Management should ensure that all accountabilities submitted should thoroughly be checked by respective P.O's, HOD's and accountants before approval.
- (xxiii) Computerization of the systems to ensure efficiency and effectiveness

#### **5.4. Areas of Further Research**

In order to properly examine the impact of internal control and come up with formidable solutions/ recommendations, there is need to carry a similar study in all branches and sub-branches of URCS organization so that effective examination is done and hence appropriate solutions are generated to improve the effectiveness of internal controls country wide.

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- ❖ Government Accountability Office – Standards for Internal Control management and Evaluation Tool, and OMB A-123 Management Accountability and Control.

## **APPENDIX I**

### **Research Instruments**

#### **(a) Questionnaire**

Dear sir/madam,

I am a student of Kampala International University, offering a Bachelors degree in Business administration 2007-10 carrying out a research study for three months (April, June, and July 2010). The purpose of the study is to examine the impact of internal control systems on accountability in Organizations, Uganda Red Cross Society headquarters as a case study.

Your answers are going to be used for academic purposes in partial fulfillment of the requirements for the award of a Bachelors degree in Business Administration and will be treated with utmost confidentiality. It is only through your response that the work can be completed well.

Please, I kindly request you to spare for me little of your time to answer the following questions. You are requested to simply tick the appropriate box(s) provided and some few questions require filling in.

Thank you for your time.

### Personal information (General)

a) Gender                      Male      ☐                      Female      ☐

b) What position do you hold in this organization? (Optional)

.....

c) How long have you been working in this organization? (Optional)

.....

### Managerial controls (Top and Middle Management)

1. Are there formal or documented procedures of accountability?

(a)      Yes.                      ☐                      (b).      No.                      ☐

If so, does it define the extent of the limits of authority?

(a)      Very clearly                      ☐                      (c)      Some how                      ☐

(b)      Clearly                      ☐                      (d)      Not at all                      ☐

2. Are there any areas, which are prone to fraud and if so specify?

(a).      Yes.                      (b).      No.

If yes specify as below;

(a) Purchasing/Logistics                      ☐                      (c) Auditing                      ☐

(b) Accounts                      ☐                      (d) Not at all                      ☐

3. What measures has management put in place to reduce on the fraud associated with those areas mentioned above?

(a) Segregation                      ☐                      (c) Authorization limits                      ☐

(b) Insurance and secur                      ☐                      (d) None of these                      ☐

4. How do you rate the competence of the staff?

(a) Excellent ☐ (c) Good ☐

(b) Very good ☐ (d) Poor ☐

5. Management has control over authorization and approval of transactions, limits access to assets like cash, organizational vehicles, computers, and furniture, among others. ☐

(a) Always ☐ (c) Not at all

(b) Sometimes ☐ (d) Once in a while ☐

6. Is there a finance committee in this organization?

(a) Yes ☐ (b). ☐ (C). I don't know ☐  
No

7. Is the finance committee involved in the approval of departmental budget? ☐ ☐

(a) Yes ☐ (c).I don't know  
(b).No

8. How often are financial statements prepared?, for example; Statement of comprehensive Income (Income statement), Statement of financial position (Balance sheet) and Trial balances.

(a) Monthly ☐ (c) Semi-annually ☐

(b) Quarterly ☐ (d) Annually ☐

**Internal controls on organizational policies: (Top and Middle Management)**

1. Are employees expected to consult with their superiors for instructions even when they know what to do?

(a) Always <input style="width: 50px;" type="text"/>	(c) Once in a while <input style="width: 50px;" type="text"/>
(b) Sometimes <input style="width: 50px;" type="text"/>	(d) Not at all <input style="width: 50px;" type="text"/>
  
2. How often are employees in your department given chance to participate in decision-making?

(a) Always <input style="width: 50px;" type="text"/>	(c) Once in a while <input style="width: 50px;" type="text"/>
(b) Sometimes <input style="width: 50px;" type="text"/>	(d) Not at all <input style="width: 50px;" type="text"/>
  
3. Do most of the employees work for the hours of work expected of them without supervision.

(a) Always <input style="width: 50px;" type="text"/>	(c) Once in a while <input style="width: 50px;" type="text"/>
(b) Sometimes <input style="width: 50px;" type="text"/>	(d) Not at all <input style="width: 50px;" type="text"/>
  
4. Strict adherence to rules and regulations is a priority in this organization?

(a) Always <input style="width: 50px;" type="text"/>	(c). Once in a while <input style="width: 50px;" type="text"/>
(b) Sometimes <input style="width: 50px;" type="text"/>	(d). Not at all <input style="width: 50px;" type="text"/>
  
5. Is it only managers who are involved in the purchase of capital items?

(a) Always <input style="width: 50px;" type="text"/>	(c) Once in a while <input style="width: 50px;" type="text"/>
(b) Sometimes <input style="width: 50px;" type="text"/>	(d) Not at all <input style="width: 50px;" type="text"/>

**Implementation of internal controls (Top, Middle, and Lower Management)**

1. What books of accounts/accounting documents does your organization keep?

- |                           |                          |                          |                          |
|---------------------------|--------------------------|--------------------------|--------------------------|
| (a) Payment vouchers      | <input type="checkbox"/> | (d) Goods received notes | <input type="checkbox"/> |
| (b) Journals and ledgers  | <input type="checkbox"/> | (e) Cash books           | <input type="checkbox"/> |
| (c) Invoices and receipts | <input type="checkbox"/> | (f) Cheque books         | <input type="checkbox"/> |

2. Does an independent person keep accounting documents/books under safe custody?

- |                 |                          |
|-----------------|--------------------------|
| (a). Always     | <input type="checkbox"/> |
| (b). Sometimes  | <input type="checkbox"/> |
| (c). Not at all | <input type="checkbox"/> |

3. Are URCS transactions produced through the journals, and authorized before they are processed?

- |                |                          |                      |                          |
|----------------|--------------------------|----------------------|--------------------------|
| (a). Always    | <input type="checkbox"/> | (C). Once in a while | <input type="checkbox"/> |
| (b). Sometimes | <input type="checkbox"/> | (d). Not at all      | <input type="checkbox"/> |

4. Do you always have any segregation of duties in your department (organization/branch)

- |                |                          |                 |                          |
|----------------|--------------------------|-----------------|--------------------------|
| (a). Always    | <input type="checkbox"/> | (c). Not at all | <input type="checkbox"/> |
| (b). Sometimes | <input type="checkbox"/> |                 |                          |

Specify the kind(s) of segregation in this organization.

- |                                 |                          |              |                          |
|---------------------------------|--------------------------|--------------|--------------------------|
| (a). Authorization and approval | <input type="checkbox"/> | (c). Payment | <input type="checkbox"/> |
| (b). Receiving & Recording      | <input type="checkbox"/> | (e). Custody | <input type="checkbox"/> |

5. Are the control accounts made for each kind of transaction entered into?

(a). Always ☐

(b). Sometimes ☐

(c). Not at all ☐

6. Do you carry out reconciliation of control accounts with ledgers and bank balances

(a). Always ☐

(b). Sometimes ☐

(c) Not at all ☐

7. Do you make comparisons between the records prepared in the organization with those from outside your organization?

(a). Always ☐

(b). Sometimes ☐

(c). Not at all ☐

8. Is there an internal audit department?

(a). Yes. (b). No.

If yes, do you rate it as effective concerning the review of transactions being processed?

(a) Always ☐

(c) Not at all ☐

(b) Sometimes ☐

(d) Once in a while ☐

9. Are the documents used in the recording serially pre-determined?

(a). Always ☐

(b). Sometimes ☐

(c). Not at all ☐

10. Does the organization have accounts, internal audit and finance manuals

(a). Yes ☐

(b). No ☐

If yes, are the manuals regularly used and applied?

(a). Always ☐

(b). Sometimes ☐

(c). Not at all ☐

11. Who is responsible for the receipts of purchases

(a). Procurement officer ☐

(b). Finance Officer ☐

(c). Programme/Requisition Officer ☐

12. Who makes payments for purchases?

(a). Procurement officer ☐

(b). Finance Officer ☐

(c). Programme/Requisition Officer ☐

13. Are the right procedures normally followed when acquiring stock/assets?

(a). Always ☐

(b). Sometimes ☐

(c). Not at all ☐

14. How has the internal controls impacted on accountability in this organization?.

a). Timely accountability ☐

(b). Quality (authentic)

accountability ☐

(c). Record keeping ☐

(d). Timely reporting ☐

(e). Early transfer of funds ☐

15. In your opinion, what are the strength and weaknesses of internal controls on accountability?

(i). Strength

.....  
.....  
.....

(ii). Weaknesses:

.....  
.....  
.....

16. In your opinion, what are your suggestions of improving the effectiveness of the internal control system on accountability in this organization?

.....  
.....  
.....  
.....  
.....  
.....  
.....

Thank you for your cooperation, and your contributions to this study are greatly appreciated

Signed.....

Date.....

## **APPENDIX I**

### **(b). Interview guide**

Dear sir/madam,

My name is Esther Namalea, a student of Kampala International University, offering a Bachelors degree in Business administration 2007-10. I am carrying out a research study which will cover three (3) months (April, June and July 2010). The purpose of the study is to examine the impact of internal control systems on accountability in Organizations, Uganda Red Cross Society headquarters as a case study.

I kindly request you to avail me with some of your little time and we have some small interaction as you are of value to me as per this study. Your answers and interactions are going to be used for academic purposes in partial fulfillment of the requirements for the award of a Bachelors degree in Business Administration and will be treated with utmost confidentiality. It is only through your response that the work can be completed well.

You are free to ask me any question both at the beginning of this interview and at the end.

Thank you so much for your time.

1. Gender      Male/Female                      Or.    Name (Optional) .....

2. What position do you hold in this organization? (Optional)

.....

3. How long have you been working in this organization? (Optional)

.....

4. Are there any internal controls in your organization?, if yes, please outline them.

.....

.....

5. Are there formal or documented procedures of accountability?

(a).    Yes.                      (b).    No.

If so, does it define the extent of the limits of authority?

(a).    Very clearly

(b).    Clearly

(c).    Somehow

(d).    Never

6. Are there any areas, which are prone to fraud and if so specify?

(a).    Yes.                      (b).    No.

If yes, specify on the following;

(a).    Purchasing/Logistics                      (b).    Accounts

(c).    Auditing

(d).    Other's (specify).....

7. Are employees in your department given chance to participate in decision-making? (a). Yes. (b). No.

a. If yes, at what level (e.g. Strategic, Tactical or Operational, or Both)

b. If No, why?

.....

8. What books of accounts does your organization keep?

.....

.....

9. Are the transactions authorized before they are processed?

(a). Always

(b). Sometimes

(c). Not at all

10. Is there any segregation of duties in your department (organization)

(a). Yes.

(b). No.

Specify;.....

11. Does an independent person keep these accounting documents under safe custody?

(a). Yes.

(b). No

If yes, who?.....

12. Does management limit access to assets like cash, organization vehicles and others?

(a). Yes.

(b). No.

(i). Always, (ii) Sometimes, (iii) Once in a while, (iv) Not at all

13. Are the right procedures normally followed when acquiring stock/assets?

.....  
.....

14. In your opinion, what are the strength and weaknesses of internal controls on accountability?

(i). Strength

.....  
.....

(ii). Weaknesses:

.....  
.....

15. In your opinion, what are your suggestions of improving the effectiveness of the internal control system on accountability in this organization?

.....  
.....  
.....  
.....

Thank you so much, it has been my pleasure sharing with me your view, knowledge, and experience.

***“Be Blessed”***

## **APPENDIX I**

### **(c). Observation guide**

The researcher collected some data by use of observation throughout the research process. This was done both at headquarters and the selected regions/branches/fields.

The researcher worked together with URCS staff which made her able to experience the internal controls put in place, how they are utilized and how the staffs adhere to the finance and accounts rules and regulations.

The researcher was also able to observe how the organization operates right from the lower to top management of URCS, for example, organization day to day activities, assets and the human resource. This was analyzed under chapter four and chapter five.

## APPENDIX II

### TIME FRAME OF THE STUDY

No.	Particulars	2010 Time Period
1.	Proposal writing , presentation and submission	April
2.	Year III : Semester II Examinations	May
3.	Data collection	June
4.	Report analysis/ writing/ editing	July
5.	Report submission	30 <sup>th</sup> July

### APPENDIX III

#### THE BUDGET AND EXPENDITURE OF THE STUDY

<b>Particulars</b>	<b>Budget 2010 (April, June, July) (UG. Shs)</b>	<b>Expenditure 2010 (April, June, July) (UG. Shs)</b>	<b>Variance 2010 (April, June, July) (UG. Shs)</b>
Stationery	200,000	350,000	-150,000
Data collection	500,000	650,000	-150,000
Literature collection	100,000	100,000	0
Miscellaneous	300,000	200,000	100,000
<b>G. Total</b>	<b>1,100,000</b>	<b>1,300,000</b>	<b>-200,000</b>

## APPENDIX IV

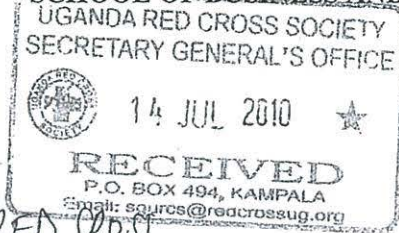
### Letter of Introduction



**KAMPALA  
INTERNATIONAL  
UNIVERSITY**

Ggaba Road, Kansanga \* PO BOX 20000 Kampala, Uganda  
Tel: +256 (0) 41 - 266 813 \* Fax: +256 (0) 41 - 501 974  
E-mail: admin@kiu.ac.ug \* Website: http://www.kiu.ac.ug

**OFFICE OF THE H.O.D FINANCE AND ACCOUNTING.  
SCHOOL OF BUSINESS AND MANAGEMENT**



Date: 15<sup>th</sup> / 03 / 2010

To:

UGANDA RED CROSS  
SOCIETY  
P.O. Box 494  
LUMUMBA AVENUE  
KAMPALA

Dear Sir/Madam

RE: NAMALEA ESTHER ..... REG.NO: BBA/17719/71/04

This is to certify that the above mentioned is a bonafide student of Kampala International University at the School of Management, he/she is pursuing a Three years, Six semester Programme in Bachelors of ..... BUSINESS ADMINISTRATION ..... and she/he is in ..... 3<sup>RD</sup> ..... year ..... 2<sup>ND</sup> ..... semester.

He/she wishes to carry out research

on THE IMPACT OF INTERNAL CONTROLS ON  
ACCOUNTABILITY IN ORGANISATIONS.

[CASE STUDY: UGANDA RED CROSS SOCIETY - HEAD QUARTERS]

Any assistance extended to him/her will be highly appreciated. B.N. JUNE & AUG 2010

Thank you,

Yours sincerely,

Mr. OMARA THAMPSON

H.O.D

FINANCE AND ACCOUNTING