

**INTERNAL CONTROL AND FINANCIAL PERRFORMANCE OF MANUFACTURING  
INDUSTRIES IN MBALE DISTRICT,UGANDA, A CASE STUDY OF ELGON SPRINGS  
MINERAL WATER COMPANY.**

**BY**

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND  
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## DECLARATION

I, **Gizamba Juma** declare that this research report is the original work and has not been presented for any degree in any other university.

Signed 

Date: 8<sup>th</sup> / 05 / 2019

**GIZAMBA JUMA**

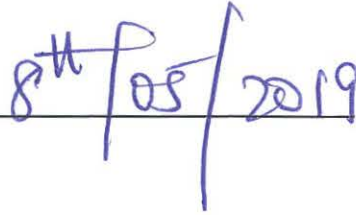
## APPROVAL

"I confirm that the work represented in this research report was carried out by the candidate under my supervision".

Signature: \_\_\_\_\_



Date: \_\_\_\_\_



MRS. IRAU FLORENCE

## **DEDICATION**

This research work is dedicated to my beloved parents Mr. Muduwuni Yunus and Mrs. Nambozo Rehema my brother Masaba Shaban Yunus, Hussein Manyesi and my late sister Aasiya Lunyolo for their great moral and financial support rendered to me throughout this study.

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May God bless you all!

## TABLE OF CONTENTS

DECLARATION.....	i
APPROVAL .....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT.....	iv
LIST OF TABLES.....	ix
ABSTRACT.....	xi
CHAPTER ONE .....	1
INTRODUCTION.....	1
1.0 Introduction.....	1
1.1 Background of the Study .....	1
1.1.1 Historical background.....	1
1.1.2 Theoretical perspective.....	2
1.1.3 Conceptual background.....	3
1.2 Statement of the problem.....	5
1.3 Purpose of the study.....	6
1.4 Research Questions.....	6
1.5 Specific objectives .....	6
1.6 Research hypothesis.....	6
1.7 Scope .....	7
1.7.1 Geographical scope .....	7
1.7.2Content Scope .....	7
1.7.3 Time scope .....	7
1.8 Significance of the study.....	7

<b>CHAPTER TWO</b>	9
<b>LITERATURE REVIEW</b>	9
2.0 Introduction	9
2.1. Theoretical review	9
2.1.1 <i>Contingency theory</i>	9
2.2 Conceptual Framework	12
2.3.1 The concept of Internal controls	13
2.3.2 The concept of financial performance	15
2.4 Related Literature	17
2.4.1 <i>Control environment and financial performance</i>	17
2.4.2 <i>Control activities &amp; financial performance</i>	18
2.4.3 <i>Risk Assessment Process and financial performance</i>	20
2.5 Internal controls and Financial Performance	21
2.6 Research Gaps	23
 <b>CHAPTER THREE</b>	 24
<b>RESEARCH METHODOLOGY</b>	24
3.0. Introduction	24
3.1 Research Design	24
3.2 Population	24
3.3 Sample Size	26
3.5.1 <i>Primary data</i>	27
3.5.2 <i>Secondary data</i>	27
3.7 Data processing, analysis and presentation	28

3.8 Validity and Reliability.....	29
3.8.1 <i>Validity</i> .....	29
3.8.2 <i>Reliability</i> .....	29
3.9 Ethical Consideration.....	30
3.10 Study limitations .....	30
<b>CHAPTER FOUR</b> .....	32
DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS .....	32
4.0 Introduction.....	32
4.1 Demographic Information.....	32
4.1.1 <i>Gender of Respondents</i> .....	33
4.1.2 <i>Age of the Respondents</i> .....	34
4.1.3 <i>Education Status of Respondents</i> .....	36
4.2 Response Rate.....	40
4.2.1 <i>Findings about Control environment and Finance performance.</i> .....	41
4.2.3 <i>Findings about Risk assessment and financial performance</i> .....	46
<b>CHAPTER FIVE</b> .....	49
SUMMARY CONCLUSION AND RECOMMENDATIONS.....	49
5.0 Introduction.....	49
5.1 Summary of Findings.....	49
5.1.1 <i>The effect of control environment on financial performance in manufacturing firms.</i> .....	49
5.1.2 <i>The effects of control activities and financial performance.</i> .....	50
5.1.3 <i>The effect of risk assessment and financial performance on manufacturing firms.</i> .....	50
5.2 Conclusions.....	51



<i>5.2.1 Conclusion on The effect of control environment on financial performance. ....</i>	51
<i>5.2.1 Conclusions on control activities and performance .....</i>	52
<i>5.2.2 Conclusion on The effect of risk assessment and financial performance .....</i>	52
<b>5.3 Recommendations.....</b>	53
<i>5.3.1. Recommendations on Control environment and performance .....</i>	53
<i>5.3.2. Recommendations Control activities and performance .....</i>	54
<i>5.3.3. Recommendations Risk assessment and performance .....</i>	55
<b>5.4 Areas for Further Research .....</b>	55
 <b>REFERENCE.....</b>	56
 <b>APPENDICES.....</b>	58
<b>APPENDIX 1: CONSENT LETTER.....</b>	58
 <b>APPENDIX 2: A Questionnaire to the Respondents of Elgon springs mineral water Company</b>	58

## LIST OF TABLES

Table 3:1 Showing Population and Sample Size Distribution .....	38
Table 4:1. Showing the Gender of Respondents.....	46
Table 4:2. Showing the Age of the Respondents.....	47
Table 4:3. Showing the Level of education .....	50
Table 4:4 Showing the Period of Service of Respondents.....	52
Table 4:5. Showing the Response According to Staff Category .....	54
Table 4:6: Responses on Control environment.....	55
Table 4:7: Responses about Control activities.....	58
Table 4:8: Responses about Risk Assessment .....	60

## LIST OF FIGURES

Figure 4:1. A graph showing the Gender of Respondents .....	45
Figure 4:2. A Pie Chart showing the Age of the Respondents .....	47
Figure 4:3. A pie chart showing the Level of education.....	50
Figure 4:4. Showing the period spent working in the enterprise .....	52

## **ABSTRACT**

The study examined the effect of internal control on financial performance of manufacturing firms in Mbale from which Elgon springs mineral water Company was used as a case study. The research also capitalized on three objectives which require establishing the effect of controlling environment, control activities, and risk assessment on financial performance. In this study, internal control was used as an independent variable whereas financial performance as a dependent variable. The study employed stratified, simple random and purposive sampling techniques to draw representative samples and a sample size of 32 respondents was determined from a population of 35 members using Krejcie and Morgan table. Closes-ended questionnaires with eight point likert scale were used to obtain response. During this research data was carefully collected, classified and analyzed using frequency tables and data was summarized using graphs and charts. The findings of the study revealed that there is a relationship between internal control and financial performance. This is because the three indicators of internal control researched on showed that on average, over 85% of the respondents believed that an effective adaptation of control environment, control activities and risk assessment would ensure effective financial performance to manufacturing firms. Finally, the researcher suggested some recommendations which included an improved effort by management of manufacturing firms to foster internal control through monitoring accountants, strengthening ethical code of conduct and professionalism, improving employee integrity, separation of staff roles and installation of an accounting system that permits works of accounting team to be monitored by others.

## CHAPTER ONE

### INTRODUCTION

#### 1.0 Introduction

This chapter includes the background of the study, problem statement, the purpose of the study, objective of the study, the research questions, the scope of the study, the significance of the study.

#### 1.1 Background of the Study

This background is explored in terms of historical, theoretical, conceptual and contextual perspective.

##### *1.1.1 Historical background.*

**Internal control** is defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of a firm's objectives in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws and regulations and protect the organization's reputation. (Sarbanes and Oxley, 2002).

Internal control worldwide has been practiced for several years due to financial scandals that have been witnessed triggering reaction for tighter regulation and enhanced standards for corporate governance (Sarbanes and Oxley, 2002). For example In America, scandals such as world com and Enron in the year 2002 where investors lost over \$180 billion led to enactment of internal control (Sarbanes and Oxley 2002). Theses major financial scandals were caused by poor internal control systems (Sarbanes and Oxley Act of 2002) tried to address.

Internal control in Uganda and East Africa as a region has developed in the same trend as that of the other states on the continent, though research conducted by Regional Member Countries (RMCs) of the African Development Bank Group (AfDB) show that some control components of effective internal control systems are lacking in these projects (Chambers, 2013). Despite the fact that internal control system is expensive to install and maintain, it gradually evolved over the years with the greatest development occurring at the beginning of 1940's. Not only have the complexities of the business techniques contributed to this development but also the increased size of business units which have encouraged the adoption of methods which while increasing efficiency of business, acts as a safeguard against errors and frauds.

#### ***1.1.2 Theoretical perspective.***

Contingency theory is to be developed from the sociological functionalist theories of organization structure such as the structural approaches to organizational studies by (Woods, 2009). Daft (2012) in his book writes: "Contingency means: one thing depends on other things" and "Contingency theory means: it depends. This theory states that "there is no best way to organize a corporation, lead a company, or to make decisions instead the optimal course of action is contingent upon the internal and external situation." Audit functions are task-oriented and can be loosely structured. The functions also can vary considerably depending on the area of a company under audit and the type of business model, so auditors must carefully manage their inspections and take variables into account to get the job done. The contingency theory also can be applied to an audit team's structure. Typically, audit team managers receive audit projects. They then create ad hoc audit teams for the projects, selecting auditors based on expertise and experience in the subject areas, and on auditor availability, all of which add up to contingencies for any given audit project. Contingency theory is used to describe the relationships between the

context and structure of internal control effectiveness and organizational performance, especially reliability of financial reporting. Empirical study suggests that internal auditors who are specialized and higher in internal audit ability will achieve internal control effectiveness analysis and that the firm will benefit from the organizational effectiveness via internal control mechanism efficiency (Cadez and Guilding, 2008). Contingency theory is an approach to the study of organizational behavior in which explanations are given as to how contingent factors such as technology, culture and the external environment influence the design and function of organizations. In this case contingency theory will be used to study the influence of internal control on financial performance.

### *1.1.3 Conceptual background.*

In this study, the main variables will be internal control (serving as an independent variable) and financial performance as a dependent variable. Committee of Sponsoring Organizations (COSO), 1992 and Auditing Practices Board- APB (1999) define **Internal control** as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of a firm's objectives in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws and regulations and protect the organization's reputation. International Accounting Standards (IAS) categorizes internal control types as a plan of organization, segregation of duties, control of documents, safeguarding of assets, competence of staff, arithmetic and accounting controls, recording and record keeping, supervision, authorization and approvals, vacation and rotation of duties, cost feasibility, routine and automatic checks. Treba (2003), states that internal control is a tool for ensuring that a firm realizes its mission and objectives.

The model of internal control system includes;

**Control environment;** ICPAU (2011) described control environment as the foundation for effective internal control, providing discipline and structure by setting the tone at the top influencing the control consciousness of the entity's personnel. It is the foundation for all other components of internal controls. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.

**Control activities;** are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

ICPAU (2011) describes **Monitoring controls** as a process to assess the effectiveness of internal control over time, and involves assessing the design and operations of controls on a timely basis and taking necessary corrective action modified for changes in conditions. *Risk assessment* involves identifying areas in which the greatest threat or risk of inaccuracies or loss exist. To be most efficient, the greatest risk should receive the greatest amount of effort and level of effort and level of control. For example, dollar amount or the nature of the transaction (for instance those that involve cash) might be an indication of the related risk. *Information and*



*communication* is the availability of information and a clear evident plan for communicating responsibilities and expectations is paramount to a good internal control system.

Whereas **financial performance** which is the dependent variable is defined as the ability of a business to meet the required standards, increased market share, improved facilities, ensuring returns, an profitability and total reduction reduction(Florick 2006)

This study is to be conducted in Elgon Springs Mineral water company Ltd which is located on Mbale-Soroti Road Nakaloke, which lies in Nandala Ward in Mbale District, Eastern Uganda. It is located approximately 15 kilometres (9.3 mi), by road, Nakaloke is bordered by Kabwangasi to the east, Namunsi to the southeast, Namagumba to the west. This case study was selected by the researcher because it is a manufacturing company which is believed to possess internal control, hence making it easy to collect data about the concept.

## **1.2 Statement of the problem.**

Despite the efforts to improve controls in the manufacturing companies, firms still struggle with liquidity problems, untimely financial reports, inefficient accountability for firm's financial resources, fraud and misuse of the firm's resources as well as a number of decisions made not yielding the expected results. Furthermore, business transactions are not carried out according to the Generally Accepted Accounting Principles (GAAPs).

In Mbale district most companies are currently facing cases of **Fraud** and **Theft**, internal controls such as reconciling bank statements and internal audit reviews can uncover such cases.(New vision 02/12/2010). This leaves the assets of a firm being improperly safeguarded, records being incomplete and information being inaccurate which often results in misleading financial statements that cannot be relied on by the stakeholders of the firm (Ndifon & Ejorn,)

### **1.3 Purpose of the study**

The main aim of this study is to establish the relationship between the factors enhancing Internal Control and performance in manufacturing firms in Mbale district, a case study of Elgon Springs mineral water Company.

### **1.4 Research Questions**

- (i) What is the effect of control environment and financial performance in manufacturing firms?
- (ii) What is the effect of risk assessment and financial performance in manufacturing firms?
- (iii) What is the relationship between control activities and financial performance?

### **1.5 Specific objectives**

The specific objectives were;

- (i) To examine the effect of control environment on financial performance in manufacturing firms.
- (ii) To determine the effect of risk assessment and financial performance on manufacturing firms.
- (iii) To examine the effects between control activities and financial performance.

### **1.6 Research hypothesis**

This research was tested basing on positive hypothesis that;

**H<sub>1</sub>:** There is no significant relationship between control environment, risk assessment and financial performance.

## **1.7 Scope**

### ***1.7.1 Geographical scope***

The research was carried out at Elgon Springs mineral water company located at Mbale-Soroti road, Mbale district

### ***1.7.2 Content Scope***

In terms of content scope, internal control system was explored to include; control environment, risk assessment, and control activities. The study explored various indicators from the control environment including; integrity and ethical values, staff competence, organization structure, assignment of authority and responsibility and direction & attention provided by the board.

### ***1.7.3 Time scope***

The research proposal period is six months starting with proposal development in September and October 2018, followed by Data collection and Analysis in November, December 2018 and January 2019 thus final presentation of the proposal was February 2019.

## **1.8 Significance of the study**

To the managers (manufacturing firms): this research paper benefited to the management of the firms since it will enable them identify and understand the risk and problems associated with the use of internal controls and performance and how best to combat such problems.

To the Government: the study will help the government in establishing legislation and policies which promote business performance through use of internal controls.

To the general public: the study will be beneficial to the general public through effective and efficient service delivery when different manufacturing firms use internal controls.

To the researcher; this research will enable the researcher to appreciate research skills and appreciate the practical importance of internal controls in businesses.

To the university: the study will add on the existing literature on the effect of internal controls on performance to facilitate further research into the variables by providing a more comprehensive and up-to-date source of primary and secondary data on the study area.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter discusses the existing literature and services to give insight to the researcher about the topic and consistent with the objectives of the study. The chapter included theoretical review, conceptual review, the related studies and research gaps

#### **2.1. Theoretical review**

Various theories have been formulated on internal controls and financial performance. They include contingency theory, among others as discussed below

##### ***2.1.1 Contingency theory***

Contingency theories were developed from the sociological functionalist theories of organization structure such as the structural approaches to organizational studies by (Woods, 2009). Daft (2012) in his book writes: “Contingency means: one thing depends on other things” and “Contingency theory means: it depends.” Audit functions are task-oriented and can be loosely structured. The functions also can vary considerably depending on the area of a company under audit and the type of business model, so auditors must carefully manage their inspections and take variables into account to get the job done. The contingency theory also can be applied to an audit team’s structure.

Typically, audit team managers receive audit projects. They then create ad hoc audit teams for the projects, selecting auditors based on expertise and experience in the subject areas, and on auditor availability, all of which add up to contingencies for any given audit project.

Contingency theory is used to describe the relationships between the context and structure of internal control effectiveness and organizational performance, especially reliability of financial reporting. Empirical study suggests that internal auditors who are specialized and higher in internal audit ability will achieve internal control effectiveness analysis and that the firm will benefit from the organizational effectiveness via internal control mechanism efficiency (Cadez and Guilding, 2008).

Contingency theory is an approach to the study of organizational behavior in which explanations are given as to how contingent factors such as technology, culture and the external environment influence the design and function of organizations. The assumption underlying contingency theory is that no single type of organizational structure is equally applicable to all organizations. Rather, organizational effectiveness is dependent on a fit or match between the type of technology, environmental volatility, the size of the organization, the features of the organizational structure and its information system.

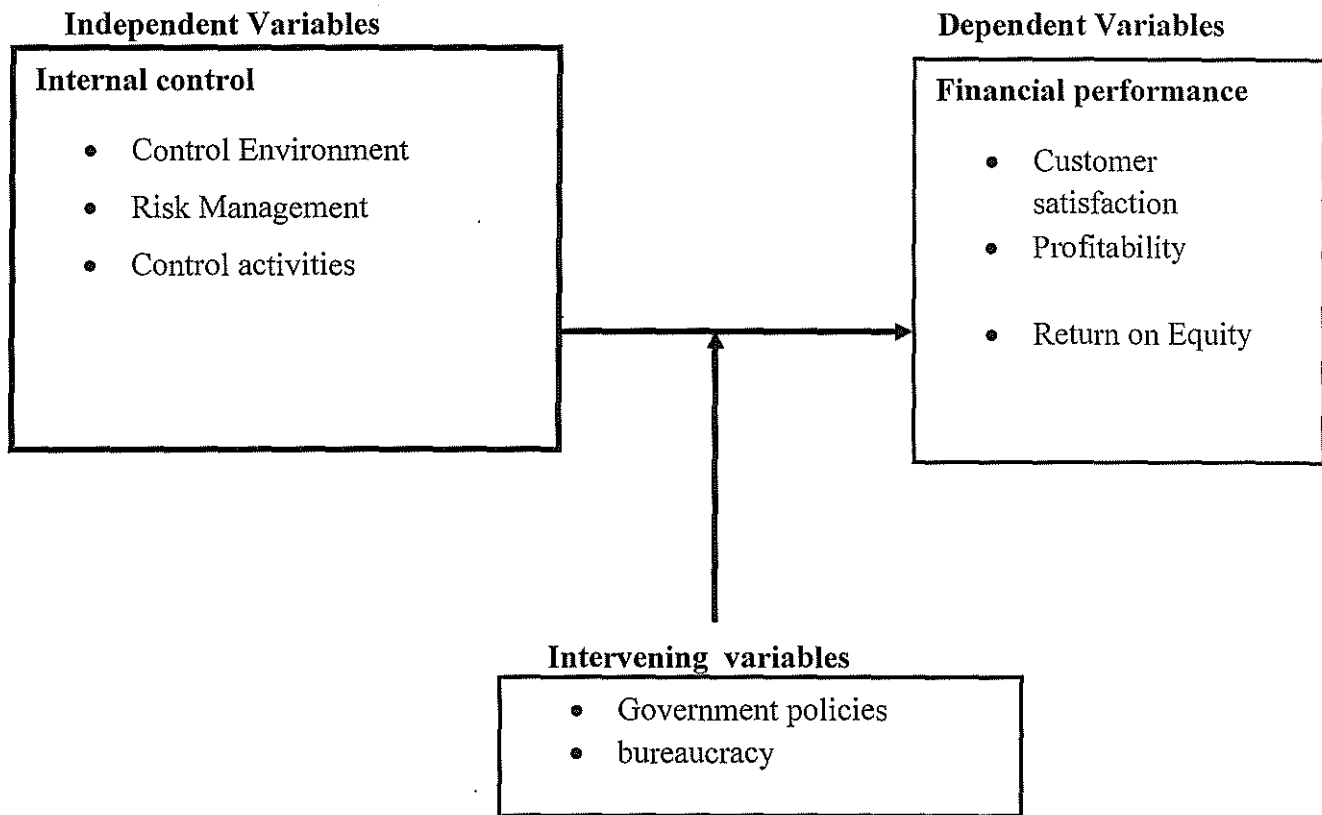
Contingency theory is used to describe the relationships between the context and structure of internal control effectiveness and organizational performance, especially reliability of financial reporting. Empirical study suggests that internal auditors who are specialized and higher in internal audit ability will achieve internal control effectiveness analysis and that the firm will benefit from the organizational effectiveness via internal control mechanism efficiency (Cadez and Guilding, 2008). He identified some factors which impact control environment systems; these are: external environment, technology, structure and size, strategy and national culture. It suggests that the demands imposed by technical tasks in the organization encourage the development of strategies to coordinate and control internal activities. The location of

information in relation to technology and environment has an important influence on organization structure.

In uncertain environments with non-routine technology, information is frequently internal. Where environments are certain, or where technology is routine, information is external. The dimensions of structure and control include authority structure and activities structure, i.e., rules and procedures that determine the discretion of individuals. Authority relates to social power. In the contingency model, decentralized authority is more appropriate where uncertain environments or non-routine technology exist. Centralized authority is more appropriate when environments are certain (Cadez and Guilding, 2008). Contingency theory states that “the design and use of control systems is contingent upon the context of the organizational setting in which these controls operate,” (Fisher, 1998). Therefore the idea of contingency theory is that the selection and use of a management control system is contingent on a variety of internal and external factors. It is therefore clear that, factors such as external environment, technology, structure and size, strategy and national culture impact management control systems.

## 2.2 Conceptual Framework

This is the diagrammatic representation of variables and it shows the linkage of variables under their variable units.



**Source:** Adopted and modified in reference to Adams (2002), Martin & Terblance (2003) model

The framework above has been developed in respect to information obtained from Adams (2002), as well as Terblance (2003) model. According to this model, there are internal control components that must be present in order to conclude that internal control is effective i.e. Control environment, Risk assessment, control activities, information & communication and monitoring. The dimensions of the independent variable selected in this study include; control activities,



control environment as well as monitoring activities. The framework further illustrates the intended results in respect to financial performance including; compliance with the rules and regulations, efficiency in financial reporting, quality assurance in financial reporting, effective audit system, record keeping and transparency.

Therefore, the establishment of demanding internal control will have a positive impact on the financial performance in manufacturing firms. It can help an entity achieve its performance and profitability targets, and prevent loss of resources. It can help ensure reliable financial reporting. In addition, it can help ensure that the institution complies with laws and regulations, avoiding damage to its reputation and other consequences. To sum up, it can help an entity get to where it wants to go, and avoid pitfalls and surprises along the way.

## **2.3 Conceptual Review**

This comprehensively explains the conceptual framework as seen below.

### **2.3.1 The concept of Internal controls**

Internal controls are often not well understood in business. They contend that controls may be shunned in enterprises that perceive them as onerous rules that exist primarily to make work more difficult or cumbersome. They believe that internal controls should be recognized as the policies, procedures, practices and organizational structures that ensure desirable positive outcomes and mitigate potential negative consequences. Simply put, internal controls are exercise of common sense. You are practicing internal control when you; lock your car doors, keep copies of your tax returns, save for a car or retirement, lock your house/ gate while away etc.

According to ISACA (2016), internal controls are the policies, procedures, practices and organizational structures that provide central oversight so that individual business units can work

together to follow optimal courses of action to minimize risk and provide value to stakeholders. They contend that an internal control system should be designed that includes control practice areas that are integral to the organization's success.

The system should identify risk, but it should not be used only as a risk management tool. They asserted that the responsibility for internal controls is owned by many different levels in an enterprise. This view is supported by IFAC (2012) and they argued that the organization should determine the various roles and responsibilities with respect to internal control, including the governing body, management at all levels, employees, and internal and external assurance providers, as well as coordinate the collaboration among participants.

ACCA (2017) described internal control as the collection of mechanisms whereby an organization tries to ensure that all its transactions are properly authorized and recorded, and that its assets are safeguarded.

They believe that the proper management of business means that there has to be a good system of internal control in place if directors and other managers are going to exercise their stewardship responsibilities correctly. ICPAU (2011) defined Internal control as the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability, of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Internal control is construed to mean, measures and standard operations applied by the management, board of directors and other personnel to provide reasonable assurance regarding the achievement of financial performance through; quality assurance, efficient financial reporting, compliance with rules and regulations, effectiveness in audit system, as well as transparency. This

view is also supported by Kurt et al (2001), who noted that internal control is a process effected by the entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories; reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Other scholars have described internal control system to mean set procedures purposely put in place to correct errors and irregularities that may invade the system and alter the financial statement. Errors not detected affect the reliability of the financial statements and generally financial performance of an institution. In the same context, Amaka (2012), Davis (1988) defined "internal control system as a set of client procedures both computerized and manual imposed on the accounting system for the purpose of preventing, detecting and correcting errors and irregularities that might enter the system and thereby affect the firm's financial statement.

According to ACCA (2017), computer systems have two sorts of controls: general and application controls. They describe general controls as controls over the access to the computer and its records, the development of programs, prevention of unauthorized changes to the system, to ensure that regular backups are taken, the implementation and use of antivirus programs and firewall defenses.

### **2.3.2 The concept of financial performance**

Kang'aru (2016) defines Financial performance in broader sense refers to the degree to which financial objectives are being or have been accomplished and is an important aspect of financial risk management. Financial performance is a measure of company's policies and operations in monetary terms. It is a general measure of a firm's overall financial health over a given period, and

it can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Kang'aru (2016), Davies (2005) observed that positive financial performance in a firm may be achieved by eradicating waste in benefits services processes and systems. They stated that the critical success factor for a firm is the degree to which it fulfills its set objectives and mission in terms of being efficient, effective and economical. The information obtained from a sound internal control system as reflected from financial statements will provide a report on a firm's financial performance and position that is useful to a wide range of users for assessing the stewardship and making economic decisions.

It is important to note that public sector entities are created to provide public goods and services to the general public and as such financial performance indicators in the private sector may not be applicable to the public sector. The PEFA framework assesses and reports on the strength and weaknesses of financial management using 31 performance indicators. The 31 performance indicators are grouped into seven pillars namely; budget reliability, transparency of public finances, management of assets & liabilities, policy based fiscal strategy & budgeting, predictability & control in budget execution, accounting & reporting and external scrutiny & audit. PEA was developed by seven partners: The European Commission, International Monetary Fund, World Bank, and the governments of France, Norway, Switzerland and United Kingdom

## 2.4 Related Literature

### 2.4.1 *Control environment and financial performance*

The control environment is a key component and a basis of other internal controls. This also determines the success of the other aspects in an institution. It emphasizes the consciousness of the employees, competence, ethical values and attitudes of the personnel in an institution

ICPAU (2011) described control environment as the foundation for effective internal control, providing discipline and structure by setting the tone at the top influencing the control consciousness of the entity's personnel. It is the foundation for all other components of internal controls.

Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.

With the control environment, it is easier for an institution to pass polices, or regulations that will inform decision making regarding proper accountability, transparency, as well as financial discipline. This is so helpful in ensuring a positive financial performance. More so, the ethics and integrity is an important key factor in terms of shaping the behavior of management of manufacturing firms.

In addition this can be helpful in terms of compliance to the rules and regulation and hence a good financial performance. Ntongo (2012), Anthony (2004) noted that control environment sets the tone for the organization, influencing the consciousness of its people. It is the foundation for all the other components of internal controls. Additionally Jenny et al (2006) assert, "a governing board and management enhance an organization's control environment when they establish and

effectively communicate written policies and procedures, a code of ethics, and standards of conduct”.

The COSO (2013) framework outlines five principles of the control environment that management must consider while instituting the internal control system. They include; demonstrate commitment to integrity, ensure that the board exercises oversight responsibility, establish structures, reporting lines, authorities and responsibilities, demonstrate commitment to a competent workforce and hold people accountable. Therefore, a good control environment in manufacturing firm contributes a lot towards good financial performance if the principles set out are observed.

For example holding staff accountable and commitment to integrity enforces adherence to policies in place. This creates a better control environment, which may lead to good financial performance. On the other hand, Ntongo (2012), Ishumgisa (2001) noted that control environment makes organizational members aware of the job requirements and efficiency expected of them to carry out tasks that translate in the overall organizational performance.

#### ***2.4.2 Control activities & financial performance***

The control activities are either tools or procedures designed to help the management to achieve an organization or institution's set objectives. There are many activities that may be outlined in an institution to ensure that the required procedures are followed or compliance to the existing policies. In the due process, we expect an institution to improve its financial performance over time. “Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives.

Control activities occur throughout the organization, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Control activities usually involve two elements: a policy establishing what should be done and procedures to effect the policy. All policies must be implemented thoughtfully, conscientiously and consistently", (Anduuru, 2005).

In addition, certain organizations or institution may not implement the same action points as well as directives to achieve their set goals. In manufacturing firms, setting policies and required procedures is an important tool to ensure that financial performance is a success; for example setting up necessary procedures for the internal audit system and managing student's funds among others. It is equally important to note that controls activities are executed in the right manner or in an ethical way.

There are many control activities management can use to counter the risks that threaten an organization's success. Most of them can be grouped into four categories: directive, preventive, detective and corrective control activities. Directive control activities are designed to guide an organization toward its desired outcome. Most directive control activities take the form of laws, regulations, guidelines, policies and written procedures. Detective control activities are designed to identify undesirable events that do occur, and alert management about what has happened. This enables management to take corrective action promptly.

In Uganda, every manufacturing firm sets policies and guidelines or regulations for smooth running of different activities. These directive control activities would be very helpful in terms of minimizing errors, fraud among other challenges related to financial control. The effectiveness of these policies or guideline may be determined by the implementers; for example accounting

officers, are meant to follow the set accounting procedure of an institution. This will translate into good financial performance.

According to COSO (2013) Framework, principle No.12 was integrated in relation to control activities, it states that the organization deploys control activities through policies that establish what is expected and procedures that put policies into action. The control activities also involve internal audits, it is equally important for an institution to establish an internal audit department as well as the regulatory audit. A Regulatory Audit is conducted in accordance with the

#### ***2.4.3 Risk Assessment Process and financial performance***

Risk assessment is one of the elements of internal control. An entity's risk assessment process is its process for identifying and responding to business risks and the results thereof. For financial reporting purposes, the entity's risk assessment process includes how management identifies risks relevant to the preparation of financial statements that give a true and fair view (or are presented fairly, in all material respects) in accordance with the entity's applicable financial reporting framework, estimates their significance, assesses the likelihood of their occurrence, and decides upon actions to manage them.

For example, the entity's risk assessment process may address how the entity considers the possibility of unrecorded transactions or identifies and analyzes significant estimates recorded in the financial statements (KASNEB 2011). Risks relevant to reliable financial reporting also relate to specific events or transactions. Shah (2011) asserts that one would incur more risk if he decides to invest in shares rather than Government bonds. However he asserts that risk and expected return move in tandem; the greater the risk the greater the expected return.



Chandra (2002) note that Risk is everywhere and surrounds our personal activities or professional lives. Though it is difficult to eliminate completely, one can minimize risk by employing risk assessment techniques in his personal and professional capacity. Richie (1989) indicates that data protection is a must, appropriate security measure, shall be taken against unauthorized access or alteration, disclosure or destruction of personal data against accidental loss or destruction.

Management may be aware of risks related to these objectives without the use of a formal process but through direct personal involvement with employees and outside parties (ISA UK and Ireland 315, COSO: 2005). This literature also brings to conclusion that there is a significant relationship between risk assessment and financial performance. This is as a result of the effective monitoring of financial activities to reduce the risks of manufacturing firms.

## **2.5 Internal controls and Financial Performance**

In every institution, all aspects or activities require funds or cash transfers to run them. The success of financial performance may depend on various factors including good financial control among other. The management and specific officers in an institution are employed to carry out internal auditing and accountabilities to ensure that there is transparency.

In relation to financial control, Amaka, (2012), explained that financial internal controls addresses the need to ensure that the assets of the company is protected, Protecting against improper disbursement of the assets for the company, Assuring and securing the accuracy and reliability of all accounting, financial and other operating information of the company.

According to Amaka (2012), there must be certain procedures an institution sets to ensure good financial performance. This study intends to explore the relationship between internal controls

(Control environment, Monitoring activities and Control activities) and financial performance (accounting & reporting, budget reliability and transparency of funds).

Howard (1973) emphasized the relevancy of internal auditing, which he says makes it easier for monitoring the internal control system. Therefore, a good internal audit system is one of the key elements of the internal control system. Similarly, Kamau (2014) asserted that the internal control system including internal audits are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization.

Several studies have also showed a significant relationship between the internal controls and financial performance using quantitative data. Kamau (2014) reviewed an earlier study conducted by Mawanda (2008) about the effects of internal control system on financial performance in manufacturing firms in Uganda. He concluded; 'That there was a significant relationship between internal control system and financial performance'. Mawanda (2008) derived his results from a quantitative approach looking at the control activities, control environment as well as the internal audit.

However, in this study, it intends to explore more about lived experiences of the staff, management about the internal control and financial performance in manufacturing firms using both qualitative and quantitative approaches. Whereas earlier studies on the subject measured financial performance in terms of liquidity, accountability, and reporting, in this study the researcher ought to explore financial performance in terms of budget reliability, accounting & reporting and transparency of public funds. Some scholars believe financial performance can be measured basing on how efficient the institution is.

According to Ndifon et al (2014), Mawanda (2008), performance is defined as the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. They assert that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives.

## **2.6 Research Gaps**

Earlier studies carried out on the subject indicate that there is a significant relationship between internal controls and financial performance of an organization or companies. However, in most of those studies carried out, focus has always been on liquidity, accountability, reporting, return on capital employed, asset turn over etc. other than financial performance. More so such studies have not exploited the indicators of internal control which include; control environment, risk assessment and control activities, which this study did. This study intended to explore the relationship between internal controls (Control environment, risk assessment and Control activities) and financial performance (accounting & reporting, budget reliability and transparency of funds).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0.Introduction**

This chapter deals with the research design, population of study, sample size, sampling procedure, data sources, data collection instruments, validity and reliability of the instruments, research procedure, data analysis, ethical considerations in the study and limitations to the study.

#### **3.1 Research Design**

This study used a cross-sectional survey research design. Cross-sectional design was used because it allows the study of how given variables interact at one specific time (Amin, 2005) the choice of this approach and the designs is dependent on the nature of the study variables. Churchill (1991) notes that descriptive study can be used when the purpose is to describe the characteristics of certain items, estimate proportions of people who behave in certain ways and make specific predictions exploratory in nature. The design attempted to collect data from a sample of the population and described existing phenomenon with reference to manufacturing companies in Uganda a case of Elgon springs Mineral Water Company.

#### **3.2 Population**

Population refers to the complete set of individuals (subjects), objects or events having common observable characteristics in which the researcher is interested in studying (Agyedu et al., 2010). The population for this study was focused on all the administrative staff (35) of Elgon springs Mineral Water Company. However, due to limited time, the researcher did not study the whole population and hence selected a sample of thirty two (32) respondents. As Neuman (2006) puts

it, that by sampling, the primary goal of researchers is to get a small collection of units from a much larger collection or population, such that the researcher can study a smaller group and produce accurate generalizations about a larger group.

**Table 3.2 Showing Population and Sample Size Distribution**

<b>Categories</b>	<b>Target population</b>	<b>Sample from the population of micro and medium enterprise</b>	<b>Sampling procedure</b>
Accountants	04	04	Purposive
Auditors	02	02	Purposive
Marketers	10	09	Purposive
Procurement officers	05	04	Purposive
Secretaries	08	08	Purposive
Quality assurance	06	05	Purposive
<b>Total</b>	<b>35</b>	<b>32</b>	

**Source:** Primary Data

### 3.3 Sample Size

The researcher sampled (25) respondents out of the total population (35) of administrative staff of Elgon springs Mineral Water Company. This particular sample size was selected because it was easier to manage and it was enough to generate findings as well as to generalize the findings to a bigger population.

**Where;**

n=sample size; N=target population;=0.05 level of significance.

$$n = \frac{n}{1 + Ne^2}$$

$$n = \frac{35}{1 + 35 (0.05)(0.05)}$$

$$n = \frac{35}{1 + 35 \times 0.0025}$$

$$n = \frac{35}{1.0875}$$

$$n = 32.18$$

### **3.4 Methods of data collection and instruments**

#### **Self-administered Questionnaires**

The research instrument included the self-Administered Questionnaire (SAQs). SAQs was used because they were the most suitable in the most sample survey that involves a large number of respondents (Amin, 2005). In addition, (SAQs) were very suitable for the target respondents given their levels of English literacy. Finally, SAQs consume less time and money compared to other methods (Alston & Bowels, 1998) the researcher derived the questionnaires to the sampled population and collect them after some time. This was advantageous because it gave the respondent ample time to answer the questionnaire items.

It was preferred when the question require the respondents to consult other sources like; documents, textbooks, individuals, and internet. This led to appropriate and effective responses.

#### ***3.5.1 Primary data***

Primary data are the original data collected for a specific research goal or information that one has acquired from questionnaire, interview or observations. A primary source of data was chosen because there was a need to obtain information at first hand from the selected respondents within Elgon springs Mineral Water Company staff members. Structured questionnaire were used to solicit information from respondents.

#### ***3.5.2 Secondary data***

Secondary data are data originally collected for a different study, used again for a new study or purpose. The researcher used articles from the internet, journals, documented reports and information from Elgon springs Mineral Water Company.

### 3.6 Data Collection Instruments

Structured questionnaires were used as the main data collection instrument. Closed questions provide a more structured response for better recommendation, the researcher used the drop and pick method.

A five point likert scale ranging from strongly agree to strongly disagree was used to measure the importance the respondents attached to the independent variables. While the dependent variable would be measured based on the recent year's annual reports information as performance indicators,

Secondary data was used to supplement the data received from questionnaires. Independent variables consisted of internal controls which includes risk assessment and control activities.

The dependent variable constituted performance of manufacturing companies which includes the performance indicators, both financial and non-financial.

### 3.7 Data processing, analysis and presentation

Data was collected, checked for completeness, categorized and coded and entered into a computer system where it was summarized into frequency tables, charts and graphs.

**Quantitative data** was presented in the form of descriptive statistics using frequency tables.

**Qualitative data** was sorted and graphed into themes. There after the researcher evaluated and analyze the adequacy of information in answering the research questions through coding the data, identifying categories and parameters that emerge in the response to the variables of the study. Qualitative data was presented using narrative text.



### **3.8 Validity and Reliability**

#### **3.8.1 Validity**

To ensure content validity of the instruments, the researcher requested a panel of six (6) experts: three (3) professors and Three (3) senior lecturers to validate the instrument. The experts had to sighted-out relevance, semantics and clarity of questions in the instrument in view of the problem; objectives research questions, hypotheses and literature. The experts was requested to rate validity/relevancy of each item/question using the following codes: VH = very high, H= High, M = Moderate, L= Low. After, the researcher collected the questionnaires and establish a content validity index using excel, to computer the percentage, means and statistical package for social scientist to identify the relationship. All the distributed (10) questionnaire returned which is 100% valid

#### **3.8.2 Reliability**

The researcher ensured reliability or the degree of consistency and precision in which the measuring of instruments was demonstrated (Amin, 2005). In establishing the reliability of the instrument, a test-retest method was used, in which 20 selected small and medium enterprise was used in a similar city, to ascertain the consistency of the instrument. Cronbach's (2004) alpha coefficient was used to assess the internal consistency. The instrument was considered reliable when its score were 0.70 and above, thus reliable for the study. Responses from the first time (test) was compared to responses of the second test (re-test).

### 3.9 Ethical Consideration

Objectivity, this involved using an independent mind and not depending on others to make an assessment..

Anonymity and confidentiality, the names of identification of respondents which was anonymous and information collected from the form was treated with the utmost confidentiality, integrity and a researcher act honestly, fairly and respectfully to the stakeholders that was involved in the study.

Competence, the researcher accurately attributed the sources of information in an effort to celebrate the works of past scholars or researchers. The researcher worked to ensure that plagiarism occurs. The researcher worked according to generally acceptable norms of research.

### 3.10 Study limitations

The researcher encountered a few limitations during the research especially when it comes to intervening. They include; ***Time:*** the researcher faced a challenge of limited time to beat the deadlines as stipulated in the time scope. ***Financial challenges:*** the researcher also faced financial challenges while carrying out the study. This however was solved through adjusting the estimated budget by minimizing expenses as much as possible. For instance, by doing the entire research for themselves without including any research assistance like typing. ***Language barrier:*** the researcher found it difficult to communicate with the multi-ethnics. This was due to a variety of languages spoken especially by the employees in the local government. ***Rigidity of information due to competition:*** the researcher was faced with low responses from the respondents since they were afraid that the researcher may be seeking information to take up

their jobs, especially for staff members. ***Reluctance to respond:*** some of the respondents were reluctant to give the required information, as they were uneasy and suspicious of the information to be gathered and thinking that the data was to be used for other motives against them. However this was solved by assuring the respondents that, the research was purely for academic purpose.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS**

#### **4.0 Introduction**

This chapter presents the findings from the study as well as the interpretation and analysis of both the primary and secondary data with reference to Internal control and Financial Performance of manufacturing industries in Mbale district. This was done mainly through questionnaire to the selected respondents. The study was carried out with the aim of providing answers to the research questions in chapter one using the methodology described in chapter three. In the presentation of findings, tables were used to present frequencies, percentages, correlation and regression results used to describe and analyzed findings, and draw conclusions. The data obtained from the field were presented and analyzed with descriptive statistics to provide answers for the research questions (questionnaires) from the selected respondents.

#### **4.1 Demographic Information**

The researcher investigated some demographic information of the respondents including age, gender, education level and period worked; to generate a more accurate picture of the group of persons who had knowledge about or were responsible for the internal activities inside the company.

#### **4.1.1 Gender of Respondents**

The gender of the respondents was captured and categorized into male and female. The study captured gender to establish the participative level and responsive generic concern of the respondents. Gender of respondents is illustrated in table 4:1.

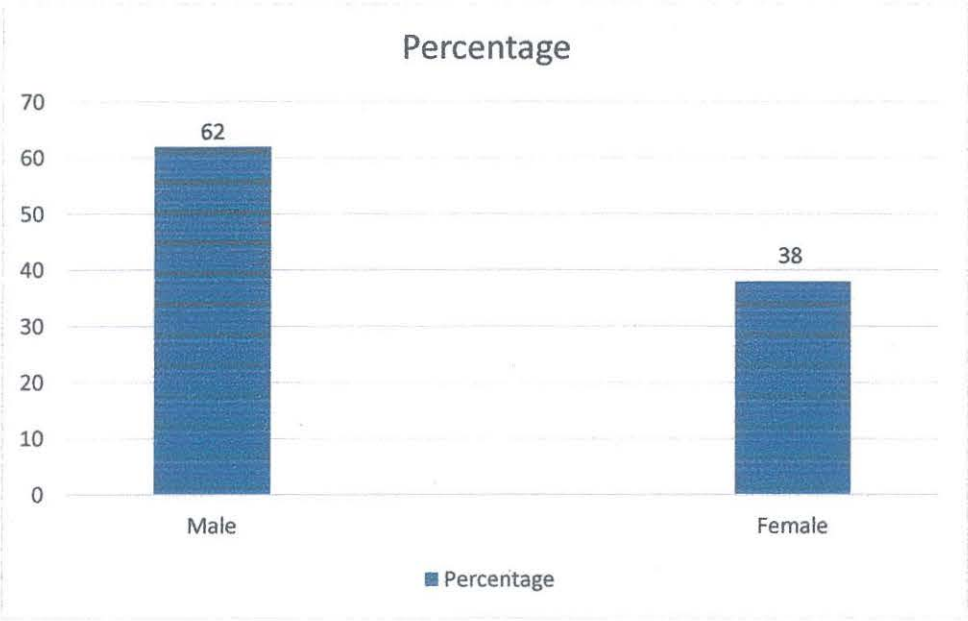
**Table 4:1 Showing the Gender of Respondents**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Male	20	63
Female	12	38
<b>Total</b>	<b>32</b>	<b>100</b>

**Source: Primary Data**

From the table 4:1 above, 63% of the respondents were male, and 38% were female. This implies that there was no gender bias in the study. To supplement this, the staff list, (2018) showed that the company had employed more male than female employees. However the study did not recognise variations in responses based on gender, although the previous study conducted by Gabsiin, (2013) had revealed that Internal control in Uganda varied depending on gender.

**Figure 4:1. A graph showing the Gender of Respondents**



**Source: Primary data**

From the table 4:1 above, 63% of the respondents were male, and 38% were female. This implies that there was no gender bias in the study. To supplement this, the staff list, (2018) showed that the company had employed more male than female employees. However the study did not recognise variations in responses based on gender, although the previous study conducted by Gabsiin, (2013) had revealed that Internal control in Uganda varied depending on gender.

**4.1.2 Age of the Respondents**

The age distribution of the respondents was captured to ascertain the distribution of the age to gain an insight about successive planning at Elgon springs Mineral Water Company as far as internal control was concerned and the results are illustrated in Table 4:2.

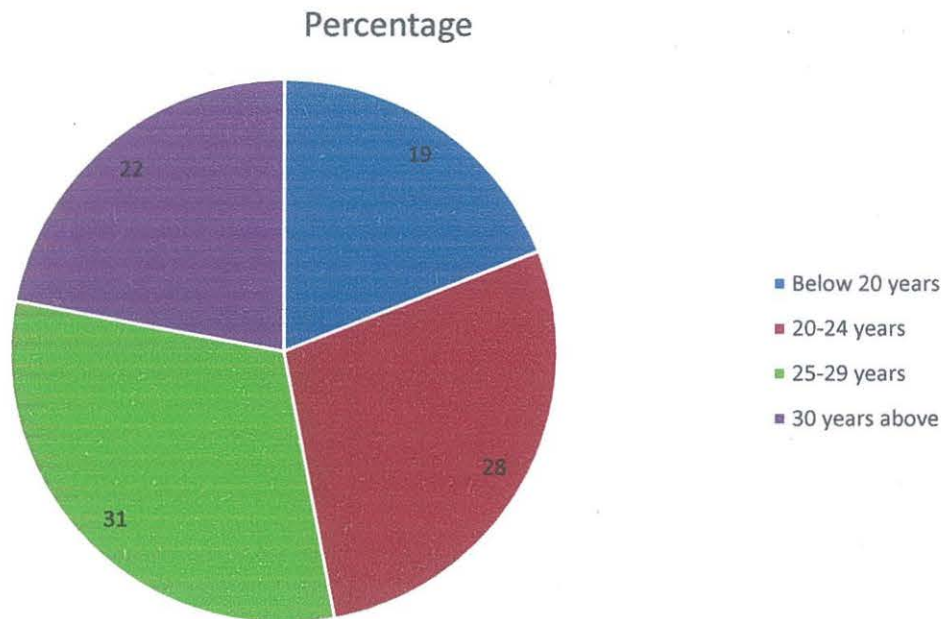
**Table 4:2. Showing the Age of the Respondents**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Below 20 years	6	19
20-24years	9	28
25-29years	10	31
30years and above	7	22
<b>Total</b>	<b>32</b>	<b>100</b>

**Source: Primary Data**

From the table 4:2 above 19% of the respondents were below 20 years of age, 28% were between 20 to 24 years of age, 31% were between 25 to 29 years, and 22% were 30 years and above. This implies that respondents were mature enough to answer questions in the questionnaire and that there is a balance in age categories of workers which indicated good successive planning.

**Figure 4:2. A Pie Chart showing the Age of the Respondents**



**Source: Primary Data**

From the table 4:2 above 19% of the respondents were below 20 years of age, 28% were between 20 to 24 years of age, 31% were between 25 to 29 years, and 22% were 30 years and above. This implies that respondents were mature enough to answer questions in the questionnaire and that there is a balance in age categories of workers which indicated good successive planning.

#### ***4.1.3 Education Status of Respondents***

The researcher was interested in the level of education of respondents in order to establish whether employees had the required knowledge, understanding and skills to perform their duties and understand the policies and guidelines pertaining to internal control and financial performance. The education status of respondents is illustrated in table 4:3.



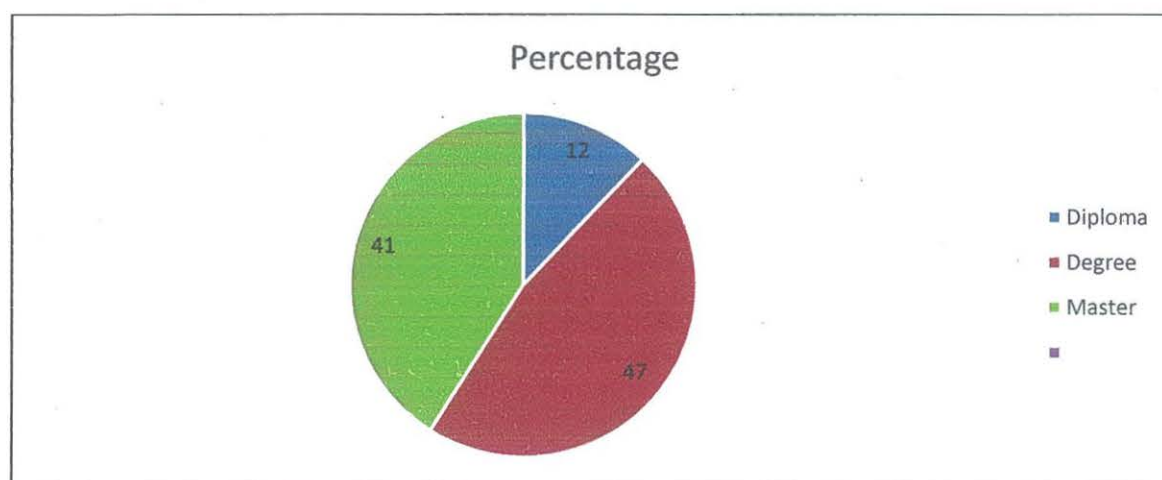
**Table 4:3. Showing the Level of education**

Response	Frequency	Percentage (%)
Diploma	04	12
Degree	15	47
Masters	13	41
<b>Total</b>	<b>32</b>	<b>100</b>

**Source: Primary Data**

From the table 4:3 above, 12% were Diploma holders, and 47% Degree Holders and 41% of the respondents are Masters Holders. This implied that all respondents had attained a certain level of formal education that would help them in understanding the policies and guidelines internal control and that the responses given would be perceived to be a true expression of their understanding of internal control practices and financial performance.

**Figure 4:3. A pie chart showing the Level of education**



**Source: Primary Data**

From the table 4:3 above, 12% were Diploma holders, and 47% Degree Holders and 41% of the respondents are Masters Holders. This implied that all respondents had attained a certain level of formal education that would help them in understanding the policies and guidelines internal control and that the responses given would be perceived to be a true expression of their understanding of internal control practices and financial performance.

#### ***4.1.4 Period of Service of Respondents***

Another category the study used to find out demographic information about respondents was the period of service. The researcher intended to find out, for how long the respondents had worked in Elgon springs mineral water Company to ensure that the respondents actually had knowledge and confidence about what they were talking about. The findings from this category are as stated in the table 4.4.

**Table 4:4. Showing the Period of Service of Respondents**

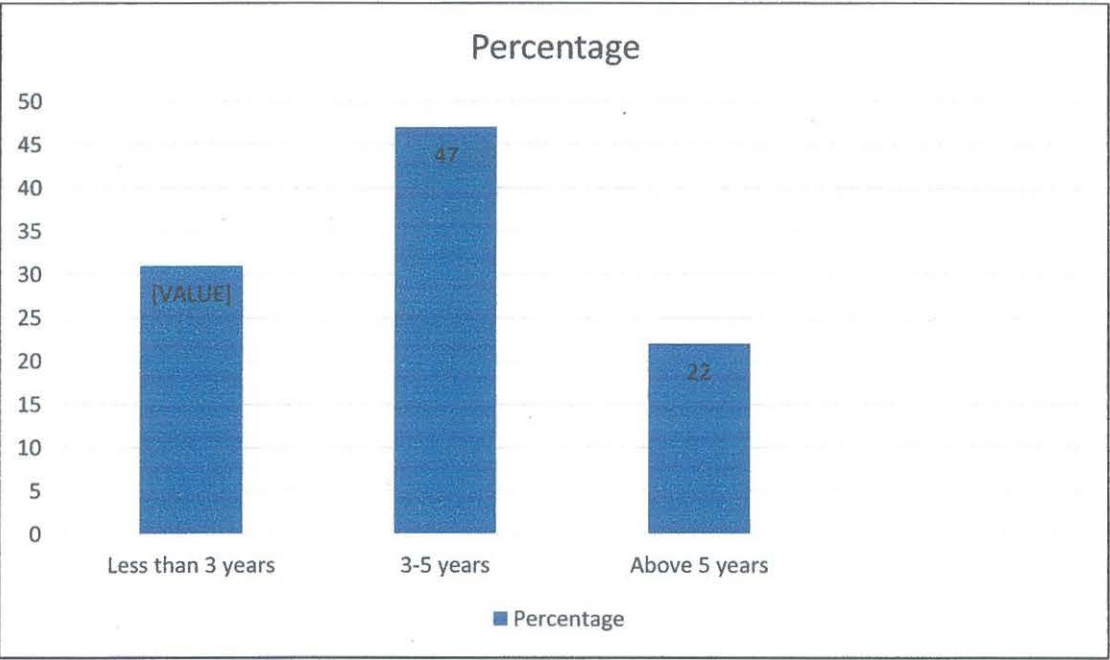
<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Less than 3years	10	31
3-5years	15	47
Above 5years	7	22
<b>Total</b>	<b>32</b>	<b>100</b>

**Source: Primary Data**

From the table 4.4 above it reflects the number of years the respondents had been employed in service of Elgon springs company. 31% of responses had not completed a year at Elgon springs in Mbale district. 47% was in the range of 1 to 5 years in Elgon springs in Mbale district. 22%

had served between 5 to 10 year and This implies that more than half of the respondents had worked at Elgon springs company for a period of over 5 years therefore they had experience with the company’s internal control activities and financial performance for the period under study. This was an indication that the information given by respondents during the study may be reliable.

**Figure 4:4. Showing the period spent working in the enterprise**



**Source: Primary Data**

From the table 4.4 above it reflects the number of years the respondents had been employed in service of Elgon springs company. 31% of responses had not completed a year at Elgon springs in Mbale district. 47% was in the range of 1 to 5 years in Elgon springs in Mbale district. 22% had served between 5 to 10 year and This implies that more than half of the respondents had worked at Elgon springs company for a period of over 5 years therefore they had experience with the company’s internal control activities and financial performance for the period under study.

This was an indication that the information given by respondents during the study may be reliable.

## 4.2 Response Rate

Response rate (also known as completion rate or return rate in survey research) refers to the number of people who answered the questionnaires divided by the number of people in the sample. Questionnaires were handed to 32 members of staff of Elgon springs Mineral Water Company and the respondents were requested to return them. Out of 32 questionnaires, only 20 fully filled questionnaires were returned which represent a response rate of 63%.

**Table 4.5. Showing the Response According to Staff Category**

Category of Staff	Sample Size	Actual Response	Percentage response per category
Accountants	4	4	100%
Auditors	2	2	100%
Marketers	9	5	55%
Procurement officers	4	2	50%
Quality assurance personnels	5	2	25%
Secretaries	8	5	62%
<b>Total</b>	<b>32</b>	<b>20</b>	<b>63.5%</b>

**Source: Primary Data (2019)**

From Table 4.5, it can be seen that a fair spread of responses were received from different categories of staff with in the company. It is also noted that all Finance staff selected- Accountants and Auditors, returned their questionnaire at 100% response rate, representing a

combined 30% of all received responses. 5 marketers returned their questionnaires out of the 9 selected, representing 55% response rate in the Marketing category and 20% of total responses received. Majority of the respondents representing 50% of received responses came from marketing and secretaries. The study was representative because most respondents selected gave their views in regards to internal control practices and financial performance of Elgon springs mineral water Company in Mbale district.

#### ***4.2.1 Findings about Control environment and Finance performance.***

This subsection focused on the ethical values, competence, consciousness of the employees and their attitudes and how they influence financial performance. The study inquired as to whether The management develops employees with great ethics and integrity which improves internal control in the company; whether The management is committed to the operation of the internal control system and others as seen below, the results about Elgon springs company's control environment are presented in table 4.6.

**Table 4.6: Responses on Control environment and Financial performance of Elgon springs Mineral Water Company.**

Response	Strongly Agree		Agree		Not Sure		Disagree		Strongly Disagree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
The management develops employees with great ethics and integrity.	20	63	4	13	2	5	0	0	6	19	32	100

The management is committed to the operation of the internal control system	18	56	10	31	0	0	3	10	1	3	32	100
Appropriate measures are taken to correct misfeasance in operation of finance management	25	78	2	6	3	10	1	3	1	3	32	100
The management employs competent staff who are able to effectively apply GAAP in financial management which reduces on try and errors	16	50	10	31	4	13	2	5	0	0	32	100
The management provides feedback to the junior officers about the operation of the systems.	22	69	3	10	5	16	0	0	2	5	32	100
Elgon springs company has an objective, independent and active audit committee.	20	63	6	19	3	10	2	5	1	3	32	100
The management acts with a great degree of integrity in execution of their roles.	22	69	5	16	3	10	1	3	1	3	32	100

**Source: Primary Data, 2018**

From the table above, on the Control environment of Elgon springs Mineral Water Company, 63% strongly agreed that Elgon springs develops employees with great ethics and integrity, 13%

agreeing as well, while 5% respondents were recorded for not being sure, 0% disagreed and 19% strongly disagreed. 56% of the respondents strongly agreed that the management is committed to the operation of the internal control system, 31% agreed, 0% of the respondents were not sure, 3% disagreed and 3% strongly disagreed as well. I am familiar with the appropriate measures which are taken to correct misfeasance in operation of finance management had 78% respondents who strongly agreed, 6% agreed, 10% were not sure, while 3% disagreed and 3% strongly disagreed. The management employs competent staff who are able to effectively apply GAAP in financial management which reduces on try and errors had 50% who strongly agreed, 31% agreed, 13% were not sure, 5% disagreed and 0% strongly disagreed.. on whether The management provides feedback to the junior officers about the operation of the system had 69% of the respondents who strongly agreed, 10% agreed, 16% were not sure, 0% disagreed and 5% strongly disagreed. Elgon Springs Company has an objective, independent and active audit committee had 63% of the respondents who strongly agreed, 19% agreed, 10% were not sure, 5% disagreed and 3% strongly disagreed. The management acts with a great degree of integrity in execution of their roles had 69% respondents who strongly agreed, 16% agreed, 10% were not sure, while 3% disagreed and 3% strongly disagreed.

From the perspective of Control environment of Elgon springs Mineral Water Company, the data collected is presented majority of the respondents who strongly agreed and agreed. It implies that in Elgon springs company, Control environment impacts much towards its performance according to the analysis made above.

#### 4.2.2 Findings about Control activities and financial performance of Elgon springs.

This subsection focused on activates that are outlined in an institution to ensure that the required procedures are followed. So in due process the institution is expected to improve its financial performance. The study intended to find out the practices involved in control activities: Whether. Elgon springs mineral water Company employs all the four control activities of directive, preventive, detective and corrective to ensure smooth implementation of polices and guidelines, whether the institution clearly separates staff roles and others as seen below. Table 4.7 presents the results about the company's control activities.

**Table 4.7: Responses about Control activities and Financial Performance of Elgon springs Mineral Water Company**

Response	Strongly Agree		Agree		Not Sure		Disagree		Strongly Disagree		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
Company employs all the four control activities of directive, preventive, detective and corrective.	25	78	4	13	2	6	1	3	0	0	32	100
Your institution clearly separates staff roles	26	81	4	13	2	6	0	0	0	0	32	100
Every employee's work checked by the others to ensure transparency.	19	59	5	16	4	13	2	6	2	6	32	100
Corrective actions are taken to address weaknesses in internal control	23	79	6	19	2	6	1	3	0	0	32	100



Staff members are trained to implement the accounting and financial management system	26	81	5	16	1	3	0	0	0	0	32	100
Your institution has a well-developed Chart of Accounts	18	56	6	19	3	9	2	6	3	9	32	100
Your departments have budget reviews where actual expenditure is compared with budgeted	20	63	1	3	3	8	7	22	1	3	32	100

**Source: Primary Data, 2018**

The data collected above shows that in line with the Responses about Control activities of Elgon springs Mineral Water Company, the Company employs all the four control activities of directive, preventive, detective and corrective had 78% of the respondents who strongly agreed, 13% agreed, 6% disagreed, 3% respondents were not sure and 0% strongly disagreed. I am conversant about my institution clearly separating staff roles had 81% of the respondents who strongly agreed, 13% agreed, 6% disagreed, 0% of the respondents strongly disagreed and 0% were not sure. Every employee's work checked by the others to ensure transparency had 59% of the respondents who strongly agreed, 16% agreed, 13% disagreed, 6% of the respondents were not sure and 6% strongly disagreed. 79% of the respondents strongly agreed that Corrective actions are taken to address weaknesses in internal control, 19% agreed, 6% disagreed and 3% of the respondents strongly disagreed and 0% of the respondents were not sure. Staff members are trained to implement the accounting and financial management system had 81% of the respondents who strongly agreed, 16% agreed, 3% were not sure, 0% disagreed and 0% of the respondents strongly disagreed. Your institution has a well-developed Chart of Accounts had

56% of the respondents who strongly agreed, 19% agreed, 9% were not sure, 6% disagreed and 9% of the respondents strongly disagreed. Your departments have budget reviews where actual expenditure is compared with budgeted had 63% of the respondents who strongly agreed, 3% agreed, 8% disagreed, 22% of the respondents were not sure and 3% strongly disagreed.

From the response on Control activities of Elgon springs Mineral Water Company, of the respondents who strongly agreed and agreed, it's evident that there is an impact on the financial performance.

#### **4.2.3 Findings about Risk assessment and financial performance**

This subsection focused on how Elgon springs limited works on identifying and responding to business risks and the results thereof, whether Management has defined appropriate objectives for the organization to fall so as to reduce on risky decisions how management identifies risks relevant to the preparation of financial statements that give a true and fair view and others.

**Table 4.8: Responses about Risk Assessment and Financial performance of Elgon springs Mineral Water Company**

Response	Strongly Agree		Agree		Not Sure		Disagree		Strongly Disagree		Total	
	F	%		%	F	%	F	%	F	%	F	%
Management in your company has defined appropriate objectives for the organization to fall so as to reduce on risky decisions	12	38	8	25	7	22	2	6	3	9	32	100
Management identifies risks that affect achievement of the organizational	21	66	2	6	5	16	2	6	2	6	32	100

objectives												
Management has a criteria to ascertain which fraud-related risks to the organization	13	41	8	25	6	18	4	13	1	3	32	100
Management has put in place mechanisms for mitigation of critical risks that may result from fraud	13	41	8	25	5	16	3	9	3	9	32	100
Management is aware of risks related to organization objectives without the use of a formal process but through direct personal involvement with employees and outside parties	20	63	6	18	4	13	1	3	1	3	32	100
Your organization puts appropriate financial data protection measures against unauthorized access and accidental losses	13	41	7	22	5	16	4	13	3	9	32	100
Management employs risk assessment techniques in a professional capacity	20	63	5	16	5	16	2	6	0	0	32	100

**Source: Primary Data, 2019**

From the table above table on the Risk Assessment at Elgon springs Mineral Water Company ,

Management y has defined appropriate objectives for the organization to fall so as to reduce on risky decisions had 38% of the respondents strongly agreed, 25% of the respondents agreed, 22% were not sure, 6% disagreed and 9% of the respondents strongly disagreed. I am knowledgeable about Management identifying risks that affect achievement of the organizational objectives had

66% of the respondents who strongly agreed, 6% agreed, 16% were not sure, 6% disagreed and 6% strongly disagreed. Management has a criteria to ascertain which fraud-related risks to the organization had 41% of the respondents who strongly agreed, 25% agreed, 16% were not sure, 9% disagreed and 9% strongly disagreed. Management is aware of risks related to organization objectives without the use of a formal process but through direct personal involvement with employees and outside parties has 63% of the respondents who strongly agreed, 18% of the respondents were not sure 13% agreed, 3% who disagreed and 3% who strongly disagreed. Your organization puts appropriate financial data protection measures against unauthorized access and accidental losses had 41% of the respondents who strongly agreed, 22% agreed 16% were not sure and 13% disagreed and 9% strongly disagreed. Inventory is sold within 90 days had 72% of the respondents who strongly agreed, 12% agreed 8% were not sure and 5% disagreed and 3% strongly disagreed. Management employs risk assessment techniques in a professional capacity had 63% of the respondents who strongly agreed, 16% of the respondents were not sure 16% agreed, 6% who disagreed and 0% who strongly disagreed.

The responses on the Risk Assessment at Elgon springs Mineral Water Company showing those who Strongly agree and Agree in percentages, The findings imply that, since the largest number of respondents agreed with the aspect that internal controls cannot operate without Risk assessment.

## CHAPTER FIVE

### SUMMARY CONCLUSION AND RECOMMENDATIONS

#### 5.0 Introduction

This chapter presents a summary of major findings from the study, conclusions resulting from the study, recommendations derived from the study, and ends with the suggested areas of further research. The study indeed provided a challenging but yet enriching wealth of experience putting the different parts of the study together.

#### 5.1 Summary of Findings

The general objective of the study was to 'establish the relationship between the factors enhancing Internal Control and performance in manufacturing firms in Mbale district'. Below is the summary of findings, objective by objective.

##### 5.1.1 *The effect of control environment on financial performance in manufacturing firms.*

On the aspect of control environment on financial performance in manufacturing firms in Mbale district, the data collected is presented majority of the respondents who strongly agreed and agreed were that 76% agreed that the management develops employees with great ethics and integrity. The management is committed to the operation of the internal control system had 87%, I am familiar with Appropriate measures taken to correct misfeasance in operation of finance management had 84% of the respondents, 81% of the respondents agreed that The management employs competent staff who are able to effectively apply GAAP in financial management which reduces on try and errors as well and The management provides feedback to the junior officers about the operation of the systems Had 79% and finally, The management acts with a great degree of integrity in execution of their roles had 85%.

### **5.1.2    *The effects of control activities and financial performance.***

On the effects of control activities on financial performance of Elgon springs company, it was established that Company employs all the four control activities of directive, preventive, detective and corrective had 91%, I am knowledgeable that my institution clearly separates staff roles had 94%, Every employee's work checked by the others to ensure transparency had 75%, Corrective actions are taken to address weaknesses in internal control had 98% and Staff members are trained to implement the accounting and financial management system had 97%, Your institution has a well-developed Chart of Accounts had 75%and finally Your departments have budget reviews where actual expenditure is compared with budgeted had 69%.

The findings imply that, since the largest number of respondents agreed with the aspect that internal control cannot operate without Risk assessment, risk assessment has got an impact towards internal control practices.

### **5.1.3    *The effect of risk assessment and financial performance on manufacturing firms.***

On the response to risk assessment and financial performance on manufacturing firms., of the respondents who strongly agreed and agreed, it's evident that there is an impact, majority respondents were that Management in their company has defined appropriate objectives for the organization to fall so as to reduce on risky decisions with 63%, I am conversant about Management identifying risks that affect achievement of the organizational objectives had 72%, Management has a criteria to ascertain which fraud-related risks to the organization had 66%, Management has put in place mechanisms for mitigation of critical risks that may result from fraud had 66%, Management is aware of risks related to organization objectives without the use of a formal process but through direct personal involvement with employees and outside parties had 81%, Your organization puts appropriate financial data protection measures against

unauthorized access and accidental losses had 63% and finally Management employs risk assessment techniques in a professional capacity had 79%.

## **5.2 Conclusions**

The purpose of the study was to establish the relationship between the factors enhancing Internal Control and performance in manufacturing firms in Mbale district and it was carried out on the three research objectives which included to: To examine the effect of control environment on financial performance in manufacturing firms, To determine the effect of risk assessment and financial performance on manufacturing firms, To examine the effects between control activities and financial performance of Elgon springs mineral water company

### ***5.2.1 Conclusion on The effect of control environment on financial performance.***

From the above findings therefore it is conclusive enough to say that there is a significant relationship between that control environment as one of the components of internal controls and financial performance for a manufacturing company. This conclusion is attributed to the number of respondents who strongly agreed and agreed that the management develops employees with great ethics and integrity. , The management is committed to the operation of the internal control system had 87%, I am familiar with Appropriate measures taken to correct misfeasance in operation of finance management had 84% of the respondents, 81% of the respondents agreed that The management employs competent staff who are able to effectively apply GAAP in financial management which reduces on try and errors as well and The management provides feedback to the junior officers about the operation of the systems Had 79% and finally , The management acts with a great degree of integrity in execution of their roles had 85%.

### ***5.2.1 Conclusions on control activities and performance***

It is evident enough to conclude also by saying that control activities cause significant effect to financial performance basing on the findings presented above in this chapter. Research shows that if each staff member's role is clearly separated by management, there would be easy identification of tasks which later would make someone accountable for any work not well done. This conclusion is attributed to the number of respondents who strongly agreed and agreed that Company employs all the four control activities of directive, preventive, detective and corrective had 91%, I am knowledgeable that my institution clearly separates staff roles had 94%, Every employee's work checked by the others to ensure transparency had 75%, Corrective actions are taken to address weaknesses in internal control had 98% and Staff members are trained to implement the accounting and financial management system had 97%, Your institution has a well-developed Chart of Accounts had 75%and finally Your departments have budget reviews where actual expenditure is compared with budgeted had 69%.

### ***5.2.2 Conclusion on The effect of risk assessment and financial performance***

In a view of findings on risk assessment therefore we can conclusively say that there is an effect that the concept of internal control system causes to financial performance of any manufacturing organization. This is attributed to the fact that risks which are likely to cause any financial losses are identified earlier before they explode into adverse effect. This conclusion is attributed to the number of respondents who strongly agreed and agreed that Management in their company has defined appropriate objectives for the organization to fall so as to reduce on risky decisions with 63%, I am conversant about Management identifying risks that affect achievement of the organizational objectives had 72%, Management has a criteria to ascertain which fraud-related risks to the organization had 66%, Management has put in place mechanisms for mitigation of



critical risks that may result from fraud had 66%, Management is aware of risks related to organization objectives without the use of a formal process but through direct personal involvement with employees and outside parties had 81%, Your organization puts appropriate financial data protection measures against unauthorized access and accidental losses had 63% and finally Management employs risk assessment techniques in a professional capacity had 79%.

### **5.3 Recommendations**

From the above summary and conclusions from the findings, the study made the following recommendations, objective by objective.

#### ***5.3.1. Recommendations on Control environment and performance***

From the findings and conclusions stated above it is important to note that there is a great work that still recommended to be done for Internal Control objectives to be effectively implemented especially with manufacturing companies. From this very component of control environment, there is a need to inform financial employees of what constitutes control environment and how important it is in ensuring internal control and financial performance. For example there is a need to improve how an organization lays-out its financial management system.

There is also a need to improve the way management monitors the implementation of internal control system for the organization and also provide feedback to the implementers regarding the results attained. Whenever feedback is provided, the variances of budgeted and actual output would then be reviewed and collective action taken.

It also suggested that the integrity presented by management of an organization especially with finance officers play an important role in financial management, and hence there is a need to foster such in an organization. There is a need to communicate ethical values to all levels in an organization as this will keep company's employee's honesty, integrity and confidentiality. The

ethical values stated would see an organization having an objective, independent and an active audit committee which all are the indicators of effective financial performance

### ***5.3.2. Recommendations Control activities and performance***

It recommended that there is a need for manufacturing companies' management to clearly outline the roles that each employee is meant to do and later alone evaluated to determine the performance. This ensures that an employee is questionable to only his own tasks performed by him/her and hence accountable for any mistakes.

It is also recommended that organizations employ technical system that allows each employee to review the other. This also increases control against fraud. For better control against fraud and to ensure effective financial and accounting system, organizations of manufacturing industries need to train its staff to work in finance department.

This will equip finance officers with relevant skills that will enable them work with honesty and integrity. It is also recommended that valuable information of the organization should be restricted from being accessed by junior employees and third parties to avoid those who may wish to use it for malicious acts. For an organization to perform better financially, an organized and well developed chart of accountants needs to be in place to manage financial related challenges. Budget controls are as well very important for any manufacturing organization and any variances of budgeted and actual figures reviewed so that its root cause is addressed effectively.

### ***5.3.3. Recommendations Risk assessment and performance***

It is further recommended that management put in place a system that identifies risks that affect achievement of set objectives. Such objectives should however first be defined and the risks which might hinder their attainment identified and addressed before they are absorbed within organization's operations. This should be accompanied by ascertaining the fraud-related risks that are more critical and addressed first.

There is a need to put financial protection measures in place to safeguard unauthorized access to very valuable information and accidental losses like fire or theft. This can be done through insuring such information and/or employing high tech security or use of inflammable drawers or heavy locks. This provides security to the information. It is also recommended that management should involve employees, suppliers, clients and other stakeholders of manufacturing companies into financial related objectives in order to include their views. Such decisions are believed to reap big since the parties involved are the implementers of programs drawn by top officials.

### **5.4 Areas for Further Research**

This research study has covered small part of selected theories and it is possible to deepen the study in order to get a detailed framework and discover more internal control practices for financial performance. Therefore, the researcher suggests further future studies on:

- An assessment on the impact of internal control on financial performance
- Internal control constraints/barriers and financial performance

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## APPENDICES

### APPENDIX 1: CONSENT LETTER

A Questionnaire to the Respondents of Elgon springs mineral water Company

**Dear Sir/Madam,**

I am **Gizamaba juma** a student from the college of Economics And Management at Kampala International University. I humbly ask you to participate in this research on internal control and financial performance that will be carried out in your reputable manufacturing company. This study is purely for academic purpose, thus it will not be disclosed in any other way for any other cause. It is a partial requirement for the award of Bachelor's Degree in Business Administration (Accounting and Finance option) at the already mentioned institution.

You are cordially requested to spare some time and fill this simple questionnaire. The information obtained through this questionnaire shall be used for the mentioned purpose and shall be taken with utmost confidentiality. For this reason, I don't seek to know the name or identity of any respondent.

Yours faithfully

.....

GIZAMBA JUMA (RESEARCHER)

## APPENDIX 2:

### SECTION A: DEMODGRAPHIC INFORMATION

**1. Gender**

(1) Female ☐ (2) Male ☐

**2. Age**

(1) 20-30 ☐ (2) 31-40 ☐ (3) 41-50 ☐ (4) 51-60 ☐  
(5) 61-70 ☐ (6) Over 70 years ☐

**3. Level of Education**

(1) Informal ☐ (2) Primary ☐ (3) Secondary ☐ (4) Tertiary ☐

**4. Under which of the following designation do you belong?**

(1) Accountants ☐ (2) Marketers ☐ (3) Secretaries ☐ (4) Auditors ☐

**5. How long have you been operating your business?**

(1) 1-3 year ☐ (2) 3-5 years ☐ (3) 5-7 years ☐ (4) Over 10 years ☐

## SECTION B: CONTROL ENVIRONMENT AND FINANCE PERFORMANCE

**Instructions:** Respond to the statement using the scale provided "Strongly agree (SA), Agree (A), Neutral (N), Disagree (D), strongly disagree (SD). Tick (I) the boxes that most closely match your opinion.

INTERNAL CONTROL INDICATOR	MEASUREMENT SCALE				
	SA	A	N	D	SD
<b>Control environment</b>					
1. The management of Elgon springs Mineral Water Company develops employees with great ethics and integrity which improves internal control in the company					
2. The management is committed to the operation of the internal control system which increases supervision of every employee					
3. Appropriate measures are taken to correct misfeasance in operation of your Accounting & Finance Management System					
4. The management employees competent staff who are able to effectively apply GAAP in financial management which reduces on try and errors					
5. The management provides feedback to the junior officers about the operation of the systems which creates an environment that is professional oriented					



6. Elgon springs Mineral Water Company has an objective, independent and active audit committee					
7. Ethical values are upheld in all management decisions of your institution					
8. The management acts with a great degree of integrity in execution of their roles					

### SECTION C: CONTROL ACTIVITIES AND FINANCIAL PERFORMANCE

**Instructions:** Respond to the statement using the scale provided “Strongly agree (**SA**), Agree (**A**), Neutral (**N**), Disagree (**D**), strongly disagree (**SD**). Tick (✓) the boxes that most closely match your opinion.

INTERNAL CONTROL INDICATOR	MEASUREMENT SCALE				
Control procedures/ activities	SA	A	N	D	SD
1. Elgon springs Mineral Water Company employs all the four control activities of directive, preventive, detective and corrective to ensure smooth implementation of policies and guidelines					
2. Your institution clearly separates staff roles					

3. Every employee's work checked by the others to ensure transparency					
4. Corrective actions are taken to address weaknesses in internal control					
5. Staff members are trained to implement the accounting and financial management system					
6. It is not impossible for any staff to have access to all valuable information without the consent of senior staff					
7. Your institution has a well-developed Chart of Accounts					
8. Controls are put in place to exclude incurring expenditure in excess of allocated funds					

#### SECTION D: RISK ASSESSMENT AND FINANCIAL PERFORMANCE

**Instructions:** Respond to the statement using the scale provided "Strongly agree (SA), Agree (A), Neutral (N), Disagree (D), strongly disagree (SD). Tick (/) the boxes that most closely match your opinion.

INTERNAL CONTROL INDICATOR	MEASUREMENT SCALE				
Risk assessment	SA	A	N	D	SD
1. Management in your company has defined appropriate objectives for the organization to fall so as to reduce on risky decisions					
2. Management identifies risks that affect achievement of the organizational objectives					
3. Management has a criteria to ascertain which fraud-related risks to the organization are most critical					
4. Management has put in place mechanisms for mitigation of critical risks that may result from fraud					
5. Management is aware of risks related to organization objectives without the use of a formal process but through direct					

personal involvement with employees and outside parties					
6. Management employs risk assessment techniques in a professional capacity					
7. Your organization puts appropriate financial data protection measures against unauthorized access and accidental losses					

**“THANKS YOU FOR YOUR RESPONSE”**

**COLLEGE OF ECONOMICS AND MANAGEMENT  
DEPARTMENT OF ACCOUNTING AND FINANCE**

**APRIL, 03<sup>rd</sup>/2019**

To whom it may concern

Dear Sir/Madam,

**RE: INTRODUCTORY LETTER FOR GIZAMBA JUMA 1161-05014-04247**

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

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

**TOPIC: - INTERNAL CONTROL AND FINANCIAL PERFORMANCE  
OF MANUFACTURING INDUSTRIES IN MBALE  
DISTRICT**

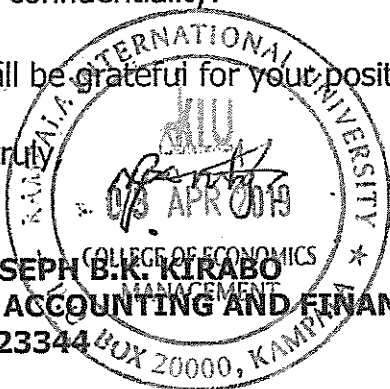
**CASE STUDY: - ELGON SPRINGS MINERAL WATER COMPANY**

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

We shall be grateful for your positive response.

Yours truly

**DR. JOSEPH B.K. KIRABO**  
**HQD - ACCOUNTING AND FINANCE**  
**0772323344**



# GON SPRINGS MINERAL WATER CO. LTD

P.O BOX 2470  
Mbale- Soroti Road (Nakaloke Town)

GON SPRINGS MINERAL WATER CO. LTD

10th April, 2019

P.O BOX 2470,

Mbale Uganda

Our Ref: CR /204/1

Our Ref: .....

Mr. Head of Accounting & Finance,

Impala International University,

P.O BOX 20000,

Impala, UGANDA

## ACCEPTANCE OF Mr. GIZAMBA JUMA FOR FIELD RESEARCH IN ELGON SPRINGS MINERAL WATER CO. LTD

We acknowledge receipt of your letter dated 08th April, 2019 regarding the research information of the above mentioned student.

The purpose of this letter therefore, is to inform you that we have accepted him to carry out his research in **ELGON SPRINGS MINERAL WATER CO. LTD** located on Mbale- Soroti road

We have also advised to avail the evaluation criteria to the work based supervisor to guide the student appropriately.

