**INTERNAL CONTROL SYSTEMS AND FINANCIAL MANAGEMENT IN PUBLIC INSTITUTIONS IN UGANDA: A CASE STUDY OF NATIONAL WATER AND SEWERAGE**

**CORPORATION, ENTEBBE BRANCH (UGANDA)**

**BY**

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# DECLARATION

I **IRAKOZE LAURETTA** declare that this dissertation under the topic “internal control system and financial management in the public institutions basing on a case of National Water and Sewerage Corporation, Entebbe Branch” is my original work and has never been submitted for any award in any higher institution of learning and where other people’s work have been used, due acknowledgement has been made.

Signature: ………………….. Date: …………………………….

**IRAKOZE LAURETTA**

STUDENT

# APPROVAL

This dissertation on the role of internal control systems on financial management in public institutions in Uganda, basing on a case study of National Water and Sewerage Corporation, Entebbe Branch was under my supervision and has been submitted for examination with my approval.

Signature: ………………………

Mr. Owino Joshua (Supervisor)

Date: …………………………….

# DEDICATION

I dedicate this dissertation to my dear family and friends who have supported me throughout my academics.

# ACKNOWLEDGEMENTS

My appreciation goes to my supervisor Mr. Owino Joshua for the tireless effort and time he devoted to me and his invaluable input. Without his guidance I would not have been able to produce such work. Thank you so much for your advice, guidance and encouragement during my research.

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# LIST OF ABBREVIATIONS

CBO : Community Based Organisation

CVI : Content Validity Index

ICS : Internal Control Systems

IT : Information Technology

M&E : Monitoring and evaluation

MIS : Management Information Systems

NGOs : Non-governmental organisations

NWSC : National Water and Sewerage Cooperation

ROA : Return on Assets

ROE : Return on Equity

ROS : Return on sales

SAS : Statement of Accounting Standards

SPSS : Statistical Package for Social Sciences

VFM : Value for Money

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# ABSTRACT

The study examined the role of internal control systems on financial management in public institutions in Uganda basing on a case study of National Water and Sewerage Corporation, Entebbe Branch, i) to examine how internal control system ensures completeness and accuracy of financial information at National Water and Sewerage Corporation, Entebbe Branch, ii) to examine how internal control system enhances operational goals at National Water and Sewerage Corporation, Entebbe Branch iii) to examine how internal control system enhances value for money at National Water and Sewerage Corporation, Entebbe Branch

The study adopted a cross sectional divided in section of research approach, research strategy, research duration and the research classification. The study used a sample size of 71 respondents. It is also shown that the Adjusted R square is .713 which is an indication that 71.3% of the changes that do occur in financial management are due to changes in internal control system. The test also revealed that there is a significant relationship between internal control system and financial management hence the null hypothesis was rejected.

In conclusion, the study notes that the financial management of any organization cannot do without internal control systems as true and fair presentation of financial statement may never be possible if the board and senior management are not committed to providing a well-planned internal control system. In recommendation, the study suggested that the management of the organization should be reviewed periodically so as to cope with modern trends in organizational fraud prevention

# CHAPTER ONE

# INTRODUCTION

# Background to the study

The study examines the role of internal control systems on financial management in public institutions in Uganda. It based on a case study of National Water and Sewerage Corporation, Entebbe Branch.

The study based on a sample of respondents from the financial management team of National Water and Sewerage Corporation Entebbe Branch. In addition, the study also based on a sample of respondents from the general management of the organisation since they are at the forefront of the implementation of internal control systems within the organisation.

The study about the role of internal control on financial management in public institutions warrants research effort and public attention because of the need to ensure efficient and effective acquisition and utilisation of financial resources to enhance financial management. It should be noted that internal control systems are a set of policies and procedures adopted by an entity in ensuring that an organization’s transactions are processed in the appropriate manner to avoid waste, theft and misuse of organization resources and in result of misuse or absence, many public organisations start off well but later fail or remain stagnant in their financial management operations. The study is therefore carried out with an intension of exploring major causes of this situation and to provide recommendations to the issues. In addition, many times financial management has been viewed as the life blood of any organisation and without it, it is hard to run activities of an organisation.

The study focused on Entebbe Branch, National Water and Sewerage Corporation is important because the branch has adapted internal control systems to support the achievement of financial objectives. It was also observed that the corporation has applied systems such as accounting system access controls, physical audits of assets, and standardised financial documentation and weekly trial balances in supporting the financial management of the corporation.

According to Mawanda (2008) internal controls in NWSC are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity’s objectives. As such internal control plays a direct role in influencing financial management as they are charged to provide a reasonable assurance of the reliability of financial reporting, the compliance with laws and regulations and to uphold good corporate governance.

The sample upon which the study is based on is significant because both the financial management team and overall organisation management are directly and indirectly concerned with internal control systems and its implementation which ultimately affects a positive or negative change financial management in an organisation and as such this sample can provide reliable and relevant information about the research study.

According to NWSC financial manual (2015/16) the policy or implementation frameworks of internal control systems are as follows:

* To ensure the completeness and accuracy of financial information.
* To enhance operational goals through periodic reconciliations in the corporation’s accounting system.
* To enhance effective access of accounting systems control
* To maintain consistency in standardised financial documentation for efficient and effective operations.

The aim of this study was to establish whether National Water and Sewerage Corporation, Entebbe Branch achieved above internal control systems policy objectives.

# Statement of the problem

Despite the fact that National Water and Sewerage Corporation, Entebbe Branch has an implemented program for its internal control systems, the organisation still faces problems of poor financial management with fear of extreme cases that may lead to closure.

Internal audit report (2017) pointed out that the cooperation lacks adequate internal control measures and this exposes the financial management to various threats such as, incorrect financial statement and /loss of the company’s assets through, stealing and mismanagement of vital documents which may be done by an employee taking undue advantage, incorrect and unreliable financial records which have led to loss of organizational integrity, non-implementation of accounting policies consistent with the applicable legislation appropriate in presentation of financial statement.

Minute 2117/2018 indicated that internal control issues relating to plumbing materials were inadequate and has made NWSC Entebbe to speed extra budget to acquire materials for new connections yet they were initially in store.

It is therefore upon this that the researcher conducted out a study to establish the role of implementation of internal control systems on financial management in public organisations.

# Purpose of the study

The purpose of the study was to examine the role of internal control systems on financial management in public organisations in Uganda basing on a case study of National Water and Sewerage Corporation, Entebbe Branch.

# Research objectives

The study was guided by the following research objectives:

1. To examine how internal control system ensures completeness and accuracy of financial information at National Water and Sewerage Corporation Entebbe Branch.
2. To examine how internal control system enhances operational goals at National Water and Sewerage Corporation Entebbe Branch.
3. To examine how internal control system enhances value for money at National Water and Sewerage Corporation Entebbe Branch.

# Research questions

1. How does internal control system ensure completeness and accuracy of financial information at National Water and Sewerage Corporation Entebbe Branch?
2. How does internal control system enhance operational goals.at National Water and Sewerage Corporation Entebbe Branch?
3. How has internal control system enhanced value for money at National Water and Sewerage Corporation Entebbe Branch?

# Hypothesis of the study

The study tested the following hypothesis:

H0: There is no significant relationship between internal control systems and financial management in National Water and Sewerage Corporation Entebbe Branch.

H1: There is a significant relationship between internal control systems and financial management National Water and Sewerage Corporation Entebbe Branch.

# Scope of the study

The study was limited to discussing how internal control system ensures accuracy of financial information, operational goals and value for money. Furthermore, the study concentrated on four operational years of the case study that is from 2015-2018 in collecting the most relevant information about the study.

# Significance of the study

Stakeholders who benefited from the findings of the study are identified below:

**To the government**

The study findings may particularly help the government in a better understanding of the internal control systems and how to improve them to meet the expectations of the stakeholders, as well as provide valuable information for future interventions. It intends to inform policies towards setting up of internal control systems, and show how the concept can be used as a powerful financial management tool to improve the way organizations and stakeholders can achieve greater accountability.

**To management (NWSC)** **Entebbe Branch:** The study intends to create awareness to financial managers by enabling them to appreciate the need for implementing internal control systems in its financial strategies. Therefore the significance of this research lays in the hope that findings could contribute to broaden knowledge of various platforms of internal control systems incorporated in financial management of any given organisation.

**To customers:**

The study findings intend to help customers in receiving improved services from the corporation due to expected improved financial management. In addition, the study intends to guide as a way of benefiting customers in case NWSC efficiently and effectively allocate resources.

**To future academicians:** The study intends to help them in gaining an insight about the role of implementing internal control systems and financial management.

# Setting of the study

The study was carried out at National Water and Sewerage Corporation, Entebbe Branch which is located opposite Stanbic Bank in Entebbe Town. NWSC is a water supply and sanitation company in [Uganda](https://en.wikipedia.org/wiki/Uganda). It is wholly owned by the [government of Uganda](https://en.wikipedia.org/wiki/Government_of_Uganda). NWSC was formed by Decree No. 34 in 1972 to serve the urban areas of [Kampala](https://en.wikipedia.org/wiki/Kampala), [Entebbe](https://en.wikipedia.org/wiki/Entebbe), and [Jinja](https://en.wikipedia.org/wiki/Jinja,_Uganda). In 1995, NWSC was re-organized under the NWSC Statute. The company was given more authority and autonomy and the mandate to operate and provide water and sewerage services in areas entrusted to it, on a sound commercial and viable basis. NWSC is planning a new water treatment plant in [Katosi](https://en.wikipedia.org/wiki/Katosi) in Mukono District with the capacity to supply 120,000 cubic meters (120,000,000 L) of water daily. The plans also include the refurbishment of the Ggaba complex of water treatment plants. The Katosi source of water would complement the existing sources that have a daily capacity of 160,000 cubic meters (160,000,000 L). In October 2014, NWSC advertised for a private partner to build, own, and operate a 7 megawatt independent power station to meet the company's energy needs at its Ggaba I, Ggaba II, and Ggaba III water treatment plants. This would lower NWSC's power bill, which stood at approximately UGX:24 billion annually, accounting for 35 percent of total operating expenditure.

# Arrangement of the study

**Chapter one:** Presents introduction to the study.

**Chapter two:** Presents study literature; It highlights literature survey, literature review and the conceptual framework analysis.

**Chapter three:** Presents research methodology. It highlights research design and data collection and management

**Chapter four:** Presents internal control system ensures completeness and accuracy of financial information at National Water and Sewerage Corporation Entebbe Branch.

**Chapter five:** Presents internal control system enhances operational goals at National Water and Sewerage Corporation Entebbe Branch.

**Chapter six:** how internal control system enhances value for money at National Water and Sewerage Corporation Entebbe Branch.

**Chapter seven:** Links the findings to literature review and suggests the way forward internal control and financial management of NWSC Entebbe Branch.

**Chapter eight:** Presents summary and conclusion to the study.

# CHAPTER TWO

# STUDY LITERATURE

This chapter presents the study literature and it is made up of three sections. Section one presents the literature survey, this discusses a comprehensive review of the published and unpublished work from secondary source data in the area of internal control systems to identify gaps that the present study is set to fill. Section two presents literature review which discusses theories and models on financial management that is relevant to the study. The third section presents the conceptual framework which establishes the relationship between the independent and dependent variables of the study.

# Literature survey

This section presents the various studies carried out in Uganda in the field of this study with the view to identify gaps of the existing studies which this study closed.

The researcher surveyed several studies that have been conducted at different times by different researchers. It was found that none of the studies had specifically focused on internal controls and financial management in National water and Sewerage Corporation, Entebbe branch.

Akol (2002) carried out research on internal control systems and their influence on organisation performance in non-government organisation basing on a case study of faith based organisations. The study findings revealed that accounting control comprises the methods and procedures that are mainly concerned with authorization of sections, the safeguarding of assets and the accuracy of the financial records. It was also indicated that good accounting control helps maximize profit and help minimize waste, unintentional errors and frauds. For any organisation, a well-designed control measure is a step towards the achievement of an organizational accountability which in other words means success of organisation. The use of internal control system as a managerial tool for proper accountability has been recently on great increase. However, the study did not discuss how periodic reconciliations can ensure accuracy of financial information.

Nyakundu et al (2014) carried out research about the effects of internal control systems on organisation performance of small and medium scale businesses in Uganda. His study objectives included specifically assessing the relationship between internal control systems and return on investment; and establishing the level of business knowledge of an entrepreneur in internal control systems and its effect on financial management with the main objective of establishing the relationship between internal control systems and organisation performance. In his study, he discussed that the external auditors find it difficult to rely on internal controls systems of small and medium scale enterprises. This is so because such business entities have not established elaborate systems of internal controls, there is no adequate segregation of duties and there are no assurances as to the completeness of recording business transactions. Ongoing monitoring activities of small entities are more likely to be informal and typically performed as part of the overall management of the entity’s operations. Management’s close involvement in operations often will identify significant variances from expectations and inaccuracies in financial data leading to corrective action to the controls. However, Nyakundu et al (2014) failed to mention literature about how standardised financial documentation can enhance value for money.

Okello (2017) studied the role of accounting systems in the performance of public enterprises a case of National Water and Sewerage Corporation Mbale branch. The study used a cross-sectional research design involving both qualitative and quantitative research approaches, primary data was collected from 50 respondents who included branch manager, audit staff, accounts staff, quality control offers, plumbers, field officers and customer service officers using questionnaires, while secondary data was obtained through reviewing literature from books, reports and published journals. A statistical package SPSS was used to process the raw data collected through the questionnaires. The study findings reveal that there was a strong positive relationship between accounting systems and financial performance with r=0.781. However the current study has focused on internal controls and financial management.

Mubiru (2015) studied internal auditing and risk management in National Water and Sewerage Corporation using Mukono branch. The study used a sample of 48 respondents and data was analysed using both descriptive and inferential statistics using SPSS. The result revealed that these was a positive significant relationship between internal auditing and risk management in National Water and Sewerage Corporation with Adjusted R2 =0.54. This study did not address control environment, control activities and compliance with relevant laws which is the concern of the current study.

Ndyomugyenyi (2012) studied computerised accounting systems and financial performance in the public sector, using National water and Sewerage Corporation Entebbe branch. The study was guided by the following objectives: to establish how computerised accounting system has ensured proper recording, maintenance and retrieval of financial records; to establish how computerised accounting system has ensured that all types of financial statements produced are of quality and to identify factors affecting the use of computerised accounting system in NW&SCo Entebbe branch. A sample size of 75 respondents was used and a case study design was employed. The findings revealed that there was a strong positive relationship between computerised accounting system and financial performance in National Water and Sewerage Corporation Entebbe with r= 0.785. The current study has focused on the aspect of Value for money, operational goals and accuracy of financial information as measures of financial management.

Nakabiito (2007) studied the role of financial control in the financial performance of public institutionsusing National Water and Sewerage Corporation, Entebbe branch as a case study. The study revealed that although NWSC had established financial control system, there were cases of unauthorized payments, non-compliance with financial policies and regulations, inadequate accountability and ineffective monitoring of implementation, Nakabiito’s study was quite about control environment, Value for money and accuracy of records which the current study has addressed.

# Literature review

Issues relating to internal control and financial management are not unique to NWSC Entebbe Branch. They have been widely studied by scholars in similar environments elsewhere outside the context of NWSC Entebbe Branch. Below is the review of some of the major studies in this area. The review has been undertaken in order to derive the conceptual framework within which the situation of NWSC Entebbe Branch may be put in its proper perspective.

According to Haller (1992) in the bid to control spending, the Spending authority for the signing officers is normally provided in the annual budget of the organization. In most organizations, the board of directors delegates authority to the signing officers for day to day purchases outlined in the budget. This means that the treasurer does not have to wait for approval at a board meeting every time a new pencil needs to be purchased (provided that pencils/office supplies are included in the budget). Expenditures not included in the budget should be approved by motion at a meeting of the board.

According to Mawanda (2008) internal controls are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity’s objectives. As such internal control plays a direct role in influencing management performance as they are charged to provide a reasonable assurance of the reliability of financial reporting, the compliance with laws and regulations and to uphold good corporate governance.

According to Oyejide (1998) management has the responsibility under the company and allied matter Act (CAMA) to keep adequate accounting records. Management should therefore introduce appropriate controls to prevent or reduce the incidence of irregularities, and intentional errors, including fraud. The risk of fraud can be reduced by ensuring that the key functions which each transaction cycle are always performed by separate individuals.

According to Pandey (2008) as a basis for judging performance, budgeted activity is generally regarded as more appropriate than historical or industry data. The major drawback of using historical data is that inefficiencies in the past performance may be concealed and allowed to continue. Also, changes in economic conditions technology, competition, and personnel make comparisons of present with past performance invalid. Budgeted data are more realistic for performance evaluation because the benchmark minimizes the carry-over of past inefficiencies and reflect changes pertaining to the current period.

According to statement of accounting standards, (SAS) internal control is the combined plan, method and procedures which can safeguard the firm’s assets promote operational efficiency and encourage adherence to prescribed policies.

Alridge (2004) assert that budgeting is very important for NGO’s because it acts as a control measure, they go ahead to mention that the benefits of budgeting almost always clearly outweigh the costs and efforts required by the process. A look in to the future invariably compels top management to set goals and objectives. Budgeting therefore tends to move an organization from a reactionary mode in which management simply reacts to problems, to a controlled mode in which problems are anticipated and positive action is taken.

Alridge, et-al (2013) goes further to state that budgeting can be useful in identifying bottlenecks for example one service department may slow down the preceding departments either due to absenteeism or any other reason, whatever the bottleneck budgeting helps identify it and provides management an opportunity for planning how to solve it before it is too later to affect the organizational performance.

Also according to Robertson and Davis (1988:169) “internal control system is 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.

Although the upsurge in interest in the non-profit institutions in Kenya as a significant social and economic force can be described as recent, the institutions has been around for centuries, with varying degrees of visibility, importance, and strength. The institutions have deep historical roots. The broader social, economic and political experiences in the pre-colonial, colonial and postcolonial period have influenced overall development of the sector. However Petrovits et al (2009) argues that despite the extensive academic literature on internal controls in publicly traded companies, there is little research on internal control systems in the nonprofit sector.

An administrative control comprises of the plan of the organization and all co-ordinates methods and procedures that are concerned with operatically efficiency an adherence to management policies and directives. This is also known as operational controls.

Appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Performance is measured by either subjective or objective criteria; arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms. Kent (1994) found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed.

Arel B. et al (2005) opines that an organization should have a plan of its activities which should define and allocate responsibilities that is every function should be monitored by a specific person who may be called “responsible officer.” Adequate lines reporting for all aspect the organization operations, including controls should be clearly stated and the delegation of authority and responsibility should be clearly specified

Budgeting is useful to NGO’s because it coordinates and integrates the organizations resources. The budgeting process requires that managers open up lines of communication within the organization: Up and down organizational lines from subordinates to supervisors, and across organizational lines between managers of different departments.

Chenhall et.al ((2010) argues that Public organisations have become increasingly important in addressing humanitarian issues relating to welfare and developmental aid. Nevertheless, they face increasing pressure to demonstrate service delivery in cost efficient ways. This creates tension over delivering welfare services while operating within the constraints of cost management. The application of management control systems has the potential to help in the effective and efficient delivery of services, but such an approach is relatively new and is sometimes at odds with the customary informal controls that have been applied in Public organisations.

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).

Coordination across organizational lines is necessary due to interdependence of activities. For example, purchasing managers integrate their plans with production requirements; production managers use the sales budgets to help them anticipate and plan for materials, employees and productive facilities, and personnel must know the needs of all the departments before it can plan for new employee needs training requirements.

Financial consultants Stern Stewart & Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments. This ranking is based on eight more traditional aspects of financial management including: total return for one and three years, sales growth for one and three years, profit growth for one and three years, net margin, and return on equity.

Gateeba (2010) observed that many donors view the Public organisations as a better alternative to governmental agencies in getting services and assistance to those in need, especially in countries that are burdened by political favoritism and corruption. However, Public organisations have also been involved in scandals that are as a result of having less than credible governance structure.

High-profile organizational failures typically lead to the imposition of additional rules and requirements, as well as to subsequent time-consuming and costly compliance efforts. With the right kind of internal controls, it will enable an organization to capitalize on opportunities while offsetting the threats and can actually save time and money and promotes the creation and preservation of value.

Hinks, G (2005) indicates that budgeting in organizations services as a benchmark against which actual results are measured and performance of individual managers evaluated. Significant variations from planned results may require explanations and in some cases, corrective action by the individuals responsible for the results. One benefit of benchmark is that managers will know what is expected of them.

Holt T. (2006) notes that this concerns the physical custody of assets and involves procedures and security measures designed to limit access to authorized personnel only. These include both direct and indirect access via documentations. These controls assume importance in the case of valuable, portable, exchangeable or desirable assets. Physical control can also be achieved by electronic means in a computerized environment for example through the use of electronic I.D cards, password to restrict access to particular file.

However, the quality of the design of internal controls is very critical to the success of an organization. Yang (2009) confirms that to ensure the efficiency of internal controls, managers have to pay attention to the design of internal controls. It is important to ensure that internal controls are used to support Public organisations in achieving their objectives by managing risks, while complying with rules, regulations, and organizational policies. Public organisations should therefore make internal control part of risk management and integrate both in its overall governance system.

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of operations, and includes regular management and supervisory activities, and other actions personnel take in performing their duties that assess the quality of internal control system performance (Colbert & Bowen, 1996).

Internal control systems operate at different levels of effectiveness. Determining whether a particular internal control system is effective is a judgment resulting from an assessment of whether the five components - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are present and functioning. Effective controls provide reasonable assurance regarding the accomplishment of established objectives (Anduuru, 2005).

Kenyan non-profit institutionscomprises thousands of non-state and non-commercial organizations, small and large, registered and unregistered, rural or urban-based, sometimes doing quite dissimilar things. Diversity remains one of the noticeable characteristics of the sector. The main types are Public organisations, CBOs and self-help groups, cooperative societies and other associations. Other types include clubs of various shades, welfare organizations such as the home town associations, unions, trusts and foundations. There are also kinship and other traditional groups, and religious organizations such as those focused on welfare and service provisioning. (Kanyinga: 2007)

Managers are required to use the resources entrusted to them in the furtherance of the entity’s objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial management of an entity. John J. Morris (2011) believes that Enterprise Resource Planning systems provide a mechanism to deliver fast, accurate financial reporting with built-in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

One of the prime means of control is the separation of duties. This reduces the risk of internal manipulation, accidental error and increases the element of checking. Functions which should be separated in an organization financial management include: initiation (officer or person who decides to give out the loan), Execution (the person who keeps the money to be loan out) and recording (the person who records the whole process in the book).system development and daily operations have to be considered in molding the internal control system to be full proof against fraud. (Bongani N. 2013)

The control environment, as established by the organization's administration, sets the tone of an institution and influences the control consciousness of its people (Whittington and Pany, 2001). Management attitude should be committed to ethical business practices and to following the established control procedures. This is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include: Integrity and ethical values; the commitment to competence; leadership philosophy and operating style; and the way management assigns authority and responsibility, and organizes and develops its people.

The internal control system should be evaluated periodically to expose any lapses present, to know how strong or weak the system is. Management is in the position to override controls, which it has established, for its own interest.

The role of management in any organization involves the planning and control of the operations of the organization to ensure that there in accordance with plans. (Walter and Will 1982-6).the totality of the procedure is to ensure that the internal control system is effective on its operators.

The SAS (statement of accounting standard) further explains that internal control maybe categorized as either accounting or administrative controls. Accounting control is concerned with the plan of the organization and all the co- coordinated methods and procedures which are implemented with a view of safeguarding assets and enhancing reliability of financial records.

The scope and frequency of separate evaluations depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported immediately to top administration and governing boards. Internal control systems change over time. The way controls are applied may evolve once effective procedures can become less effective due to the arrival of new personnel, varying effectiveness of training and supervision, time and resources constraints, or additional pressures. Furthermore, circumstances for which the internal control system was originally designed also may change. Because of changing conditions, management needs to determine whether the internal control system continues to be relevant and able to address new risks (Roth, 1997).

The United Kingdom Auditing practices committee (1979) defined internal control as “the whole system of control, financial and otherwise established by management in order to carry on the business of the enterprise in an orderly band effective manner to ensure adherence to managerial policies and directives, safeguard the assets and ensure as far as possible the completeness and accuracy of the records the prevention and detection of errors the fraud ,and the timely preparation of financial information”.

There should be procedure to ensure that personnel have capabilities commensurate with their responsibility. Inevitably, the proper functioning of any stem depends on the competence and integrity of those operating it. The qualifications, selection and training as well as the personal characteristics of the personnel involved are important features to be considered in setting up any control system especially in financial management. (Soudani S. 2013).

They mention internal control devices to include; use of budgetary techniques, production standards, inspection laboratories, employee training and time & motion studies among others. According Bakibinga 2001, corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of managers.

Verschoor (1999) however, mentions other financial measures to include value of long-term investment, financial soundness, and use of corporate assets. He also talks of non-financial managements measures to include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility. Hitt, et al., (1996) mention accounting- based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

Whittington (2001), talks about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that “Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization”

# Conceptual framework

# Figure 2.1: A conceptual framework showing a relationship between the independent and dependent variable.

Independent variable Dependent variable

**Financial management**

* Accuracy of financial information
* Operational goals
* Value for money

**Internal control systems**

* Control environment
* Control activities
* Compliance with relevant laws
* Periodic reconciliations

s

**Intervening variable**

* Qualifications
* Experience
* Ethical practice
* Technology

**Source: Adapted from Soudani S. (2013) and modified by the researcher**

The conceptual framework reflects two variables of the study; internal control systems as the independent variable and financial management as the dependent variable. In other words, it’s conceptualized that financial management depends on implementation of internal control systems. In this study, the indicators of elements under internal control systems can lead to a direct effect in financial management and performance in an organisation.

In the same way, it can be argued that negative relationship between the elements of internal control systems can lead to negative results in the elements under financial management. However, despite the relationship between the independent variable and dependent variable, other intervening variables exist and can ultimately affect both implementation of internal control systems and financial management.

For instance, periodic reconciliations can lead to accuracy of financial information; however, despite this fact an external factor such as experience of staff can affect this phenomenon and bring about another result.

# CHAPTER THREE

# METHODOLOGY

# Introduction

This chapter presents the methods and procedures that were used to conduct the study; highlighting the research design study population, sample size as well as the sampling procedure or techniques. The methods and tools that were used for data collection, procedures followed during the collection of data and data analysis techniques are also discussed.

# Research design

According to Owen (1996) a research design is an outline of how an investigation is carried out and indicates how data is collected, what instruments were used and how the data was collected and analyzed. Under this section the following are identified, and explained research approach, research strategy, and research duration and research classification.

# Research approach

The study used a cross sectional approach, the research approach is important because it is used to test the validity of the research hypothesis. The phenomenological approach is where the researcher directly asks questions to the respondents. This research approach allowed the interviewer to probe the richness of respondent’s emotions and motivations related to the topic. The researchers also used qualitative data to help clarify hypothesis, beliefs, and attitudes about internal control systems and financial management. The study also adopted positivism approach to derive a hypothesis; this means that it is a combination of both positivism and phenomenological approaches.

# Research strategy

Research strategy is a [methodology](http://www.dissertationhelpservice.com/Research-Methodology-Help-Service.html) that helps the researcher to examine the research issue. According to Saunders (2003), research strategy is a general plan that helps researcher in answering the research questions in a systematic way. As such, the study used a case study as the research strategy and it is NWSC, Entebbe Branch. This involved an up-close in depth and detailed examination of NWSC, Entebbe Branch in how internal control systems enhance financial management. The case study strategy analyzed persons, events, decisions and policies to internal control systems.

# Research duration

The study adapted a longitudinal approach, this bases on four operational years from 2015-2018 because the researcher believed this is enough time to provide the most relevant information for the study.

# Research classification

The study used quantitative and qualitative techniques. It involved collecting and converting data into numerical form hence use of statistical calculations where conclusions were drawn. In order to predict possible relationship between the variables the study used various instruments such as self-administered questionnaire and materials such as observation check lists. It also described, explain, discuss and interpret the data collected

# Limitations of the study

This section identifies the challenges the researcher faced while carrying out the study.

**Financial:** The researcher faced a problem of inadequate funds to cater for transport and stationery. The researcher used a relatively small sample so as to minimize on the cost and also get some financial support from well-wishers.

**Time**: The researcher faced a problem of inadequate time required for the research study. Comprehensive research study involves a great deal of collecting, analyzing and processing hence requires a lot of time which was not enough for the researcher. However the researcher overcame this limitation by designing a work plan or timeframe which served as a guide in time management.

Inflexible design: The survey method has its inherent risk of subjectivity of respondents as every respondent interprets the questionnaire in their own understanding, however survey design was used, its limitation accepted and conclusions made and this did not affect the results of the study.

# Study population

The study population targeted 87 individuals and comprised of manager, M&E, internal control team, accountants, audit team and staff, I.T personnel that work hand in hand to ensure that NWSC, Entebbe Branch objectives are achieved. These were chosen because they are expected to have enough knowledge required in understanding of internal control systems at NWSC, Entebbe Branch.

# Sample size and selection method

The researcher used judgmental sampling selecting respondents deemed knowledgeable and positioned to provide policy issues on the study.

The study used the Yamane formula (1967:886) sample determination because the target population from which the sample size is to be determined is more that 5% of the study population.

**Where**

n = Sample size

N= Population size

e = margin of error at 95% confidence level

e = Margin of error/0.05

n = N

1 + N (e2)

n= 87

1 + 87 (0.052)

n= 87

1 + 87(0.0025)

n= 71

# Table 3.1: Population and sample size distribution

|  |  |  |  |
| --- | --- | --- | --- |
| **Respondents** | **Population** | **Sample size** | **Sampling method** |
| Managers | 7 | 7 | Census |
| M&E | 14 | 12 | Purposive sampling |
| Internal control team | 20 | 16 | Purposive sampling |
| Support staff | 30 | 25 | Simple random sampling |
| I.T | 10 | 8 | Simple random sampling |
| Audit | 6 | 4 | Purposive sampling |
| **Total** | **87** | **71** |  |

**Source: Primary data**

# Background information of respondents

In this section, respondents were asked to provide their background information

# Gender of respondents

Respondents were asked to identify the gender in which they belonged to, results to the question are obtained in table 3.2

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 3.2: Gender | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 31 | 43.7 | 43.7 | 43.7 |
| Female | 40 | 56.3 | 56.3 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 3.2 indicate that 43.7% were males while 56.3% were females. This means that the study did not suffer from gender bias since all respondents were well represented in terms of gender.

# Age group of respondents (in years)

Respondents were also asked to identify the age brackets they belonged to and results to the question are captured in table 3.3

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 3.3: Age group (in years) | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 20-29 years | 19 | 26.8 | 26.8 | 26.8 |
| 30-39 years | 30 | 42.3 | 42.3 | 69.0 |
| 40-49 years | 10 | 14.1 | 14.1 | 83.1 |
| 50 and above | 12 | 16.9 | 16.9 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to the results in table 3.3, it is revealed that 26.8% were aged between the age of 20-29 years, 42.3% were aged between 30-39 years, 14.1% were aged between 40-49 years while 16.9% were aged 50 and above. The results can be interpreted to mean that all respondents are mature and have a good understanding of the concept and practice of internal control system hence provided reliable data.

# The period of years served in NWSC, Entebbe Branch

The number of years served in the cooperation was important to determine the validity of information collected from respondents. The results to the question are summarised in table 3.4

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 3.4: The period of years served in NWSC | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Below 2 years | 18 | 25.4 | 25.4 | 25.4 |
| 2-5 years | 35 | 49.3 | 49.3 | 74.6 |
| 6-10 years | 7 | 9.9 | 9.9 | 84.5 |
| Above 10 years | 11 | 15.5 | 15.5 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 3.4, it is indicated that 25.4% of the respondents had served in the cooperation for a period of below 2 years, 49.3% had served for a period between 2-5 years, and 9.9% had served for a period between 6-10 years while 15.5% had served for a period above 10 years. The results reveal that respondents had served in the corporation for a reasonable number of years to have attained enough knowledge to understand the operational dimensions involved in internal control system, this is an important finding since they can provide reliable information about the study.

# Sampling techniques

According to McCabe (2005), sampling methods are important in identifying the population of interest. In this study, the following are the sampling methods that were used. The researcher used purposive method of sampling to select respondents from monitoring and evaluation team plus internal control team. This method is important because it is dictated by the nature of the study which aims at getting information from specific respondents.

Convenience sampling was used by the researcher for convenience purposes of accessibility and proximity for the researcher in data collection.

Simple random sampling was also used to select respondents from support staff and audit department. This technique is important because it gave respondents equal chances of participating in the study and as such eliminating elements of bias.

# Data collection sources

According to Weiner, (1995), data collection is a standout amongst the most essential stages in carrying on a research. It helps in figuring out what sort of data is needed

**Primary data**

The study used face to face interviews in order to save time and the primary data was collected using structured questionnaires that were self-administered by the respondents.

**Secondary data**

Secondary data was collected through document reviews and other sources such as textbooks, business reports/ manuals, journals so as to get enough relevant information about the research topic.

# Data collection methods

Ormrod, (2001) states that data collection methods are an important aspect of any type of research study. Inaccurate data collection can role the results of a study and ultimately lead to invalid results.

# Questionnaire survey

According to Allen (2010), a questionnaire is a data collection method consisting of a series of questions and other prompts for the purpose of gathering information from respondents. The study used this data collection method because it is limited to the fact that respondents must be able to read questions and respond to them and it saves time.

The questionnaire comprised of statements requiring the respondents to opt for one out of the five opinions using the 5-point Likert scale with strongly disagree=1, disagree=2, not sure=3, agree=4 and strongly agree=5.

# Interviewing

In this study, the researcher used unstructured interviews on the entire distribution of the sample size. The unstructured interviews contained closed-ended questions that were asked in any order because this interview method is more flexible as questions can be adapted and changed depending on the respondent’s answer. This method of interviewing was used to make sure the group interact with each other and not drift off topic.

# Data collection procedure

In order to collect required data from National Water and Sewerage Corporation, Entebbe Branch the researcher obtained an introductory letter from the Dean of School of Business Administration of Nkumba University. The letter was delivered to the Branch Manager at to seek permission to conduct the research in their organisation.

# Data collection instruments

According to Abawi (2014), these are important in collecting valid and reliable information of the study.

**Self-administered questionnaire forms**

This was the main research instrument that was used to gather primary data from the individual respondents. The study made cross ended questions and sought information from the respondents to get information about the current trend of internal control systems in the area of study using self-administered questions.

**Interview guide**

Face to face interviews were conducted alongside self administered questionnaires so as to enhance response to questions generally regarded as sensitive. The researcher used structured and face to face interviews because they provide first-hand information; data was collected because it is less costly and has the ability to clarify questions.

# Validity of the instrument

The instrument was given to two experts who gave opinions on the relevance of the questions using a 5- point scale of relevant to not relevant. It was further pre-tested by administering it to probable respondents (n=10) and test the understandability of the items under an output validity test. The validity of the instruments was calculated using the constant validity index (CVI). Results revealed that the validity range was 0.969 (96.9%) which is above 0.7, this is in the acceptable range.

CVI= No of items \*100

Total Items

CVI= 31 \* 100

32

CVI= 96.9%

# Reliability of the instrument

To ascertain reliability of the instrument, the study referred to Cronbach (1951). This is important because it enabled the researcher to make conclusions of the study. Reliability of the questionnaire items were tested using the Cronbach’s alpha coefficient. Reliability of this study’s instruments was ascertained by pre-testing the questionnaires and interview guide in the field. The researcher established the reliability of the questionnaire using reliability analysis r value. The researcher gave questionnaire and interview guides to the same groups of respondents twice, but at different times, thus re-testing was done. The results of the Cronbach’s alpha are summarised in table 3.5

|  |  |
| --- | --- |
| Table 3.5: Reliability Statistics | |
| Cronbach's Alpha | N of Items |
| .994 | 28 |

# Data processing

The collected data was edited, coded and cross checked for completeness using Ms Excel and transported to SPSS for analysis.

# Data analysis

After processing the summarized data was analysed using both descriptive statistics and inferential statistics made use of frequencies and percentages while inferential statistics based on correlation and regression analysis to test the hypothesis for generalization.

# Ethical considerations

Ethical issues were considered during data collection, the researcher obeyed the rules and rights of the respondents. This was done so as to ensure that the right to privacy and protection of the respondents was not infringed. Assurance of no other use of the information given apart from the study purpose was also granted.

Furthermore, in relation to ethics and confidentiality in research, the researcher ensured the responsibility of ensuring that information about the subjects and the results remained confidential and that they are used for no purpose other than the research for which it was intended (Mason and, 2007). In all cases, informed consent and confidentiality standards was implemented and clearly explained to respondents.

# CHAPTER FOUR

# INTERNAL CONTROL SYSTEM AND COMPLETENESS AND ACCURACY OF FINANCIAL INFORMATION AT NWSC, ENTEBBE BRANCH

# Introduction

This chapter deals with the first objective of the study which is; how internal control system has ensured completeness and accuracy of financial information at National Water and Sewerage Corporation, Entebbe Branch.

Turnbull (1999) asserts that there is no such thing as a perfect internal control system, as all organisations operate in a dynamic environment: just as some risks recede into insignificance, new risks will emerge, some of which will be difficult or impossible to anticipate. The purpose of any control system should therefore be to provide **reasonable assurance** that the organisation can meet its objectives.

In public organisations, the **board of directors** is responsible for ensuring that appropriate internal controls are in place. Their accountability is to the shareholders, as the directors act as their agents. In turn, the directors may consider it prudent to establish a dedicated internal control function. The point at which this decision is taken will depend on the extent to which the benefits of function will outweigh the costs.

# The organisation has a well-developed computerised internal control system

The respondents were asked to identify whether the organisation has a well-developed computerised internal control system. The results are obtained in table 4.1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.1: The organization has a well-developed computerized internal control system | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 8 | 11.3 | 11.3 | 11.3 |
| Agree | 41 | 57.7 | 57.7 | 69.0 |
| Strongly agree | 22 | 31.0 | 31.0 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 4.1, it is indicated that 11.3% were not sure, 57.7% agreed while 31.0% strongly agreed respectively to the statement. Results showed that 88.7% of the respondents generally agreed to the statement, this means that the computerised internal control system can save costs and improve transaction processing. During an interview session, a respondent from Information technology department stated that;

*“NWSC has a good internal control system that encompasses the whole system of control both financial and administrative to carry out the operations of the corporation in an orderly manner to bring about sanity in the entire corporation. The computerised internal control system is operated by professionals and greatly simplifies the exercise of audit trails and fraudulent practice”.*

# Financial reports are evaluated every quarter

In regard to this question, respondents were asked whether the corporation evaluates financial reports every quarter and results to the question are summarised in table 4.2

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.2: Financial reports are evaluated every quarter | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 10 | 14.1 | 14.1 | 14.1 |
| Disagree | 9 | 12.7 | 12.7 | 26.8 |
| Not sure | 8 | 11.3 | 11.3 | 38.0 |
| Agree | 21 | 29.6 | 29.6 | 67.6 |
| Strongly agree | 23 | 32.4 | 32.4 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

Results in table 4.2 above show that 14.1% strongly disagreed, 12.7% disagreed, 11.3% were not sure, 29.6% agreed while 32.4% strongly agreed to the statement. The results show that majority of the respondents generally agreed, this was represented by a combined percentage of 62.0%, this means that NWSC, Entebbe Branch ensures reporting of all its expenses and revenues. Respondents stated that financial reports are evaluated each quarter to inform the management of the corporation on the progress towards the organisation plan. It was also stated that each evaluation report contains corporation’s performance for the relevant quarter against the approved financial plan, its key activities, performance measures, financial statements and capital work schedule. This means that responsible authorities are informed about the corporation’s activity performance.

# The reports are always generated at the right time when needed by stakeholders

Respondents were asked whether reports are always generated at the right time when needed by the stakeholders. The results to the question are captured in table 4.3

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.3: The reports are always generated at the right time when needed by the stakeholders | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 10 | 14.1 | 14.1 | 14.1 |
| Disagree | 8 | 11.3 | 11.3 | 25.4 |
| Not sure | 5 | 7.0 | 7.0 | 32.4 |
| Agree | 25 | 35.2 | 35.2 | 67.6 |
| Strongly agree | 23 | 32.4 | 32.4 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 4.3, results revealed that 14.1% strongly agreed to the statement, 11.3% disagreed, 7.0% were not sure, 35.2% agreed while 32.4% strongly agreed. The interpretation of the findings basing on the majority response of respondents who generally agreed, this means that decision making in reference to corporations financial statements/ position is always delivered in a timely manner. Respondents stated that the computerised internal control system is conducted in a step by step screening process which is fast due to personnel experience in internal control. This means that stakeholders are fast in decision making due to timely provision of reports.

# NWSC, Entebbe Branch uses the system to record transactions on a regular basis

The respondents were also asked whether NWSC, Entebbe Branch uses the system to record transactions on a regular basis. Results are represented in table 4.4

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.4: NWSC, Entebbe Branch uses the system to record transactions on a regular basis | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 12 | 16.9 | 16.9 | 16.9 |
| Agree | 30 | 42.3 | 42.3 | 59.2 |
| Strongly agree | 29 | 40.8 | 40.8 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 4.4, it is indicated that 16.9% of the respondents were not sure, 42.3% agreed while 40.8% strongly agreed to the question respectively. This means that the corporation has an advantage in benefit of financial information, timely reporting and financial efficiency. Respondents expressed that management realizes that accounting software excels at analyzing the business practices and letting them quickly identify how money flows through operations. It was also noted that NWSC, Entebbe Branch appreciates how computerized internal control systems can generate extensive data to generate various reports. For this purpose management emphasizes the use of the system for all transactions on a regular basis.

# There is timely processing of financial information

Respondents were also asked whether there is timely processing of financial information, results to the question are summarised in table 4.5

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.5: There is timely processing of financial information | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 18 | 25.4 | 25.4 | 25.4 |
| Disagree | 21 | 29.6 | 29.6 | 54.9 |
| Not sure | 5 | 7.0 | 7.0 | 62.0 |
| Agree | 20 | 28.2 | 28.2 | 90.1 |
| Strongly agree | 7 | 9.9 | 9.9 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

According to results in table 4.5, it is indicated that 25.4% of the respondents strongly disagreed to the statement, 29.6% disagreed, 7.0% were not sure, 28.2% agreed while 9.9% strongly agreed. Majority of the respondents that is 55.0% of the respondents generally disagreed to the statement; this can be implied to mean that the internal control system personnel primarily responsible for maintenance and operations of the control function don’t understand the concept’s basics. During one of the interview sessions, one respondent expressed that;

*“NWSC has personnel who work on the internal control system software lack the system’s knowledge. This has been a common problem as most have been terminated several times. However, without that intrinsic knowledge, the financial information input decisions quickly goes astray, and the output of the computerized internal control system becomes hopelessly trashed. Some employees also feel like management does not understand that accounting knowledge is essential in the successful implementation and use of most any internal control systems and the reports it produces”*

# The control system can easily detect accounting errors within the accounts

On this question, respondents were asked whether control system can easily detect accounting errors within the accounts. Results are represented in table 4.6

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.6: The control system can easily detect accounting errors within the accounts | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 10 | 14.1 | 14.1 | 14.1 |
| Disagree | 8 | 11.3 | 11.3 | 25.4 |
| Not sure | 10 | 14.1 | 14.1 | 39.4 |
| Agree | 23 | 32.4 | 32.4 | 71.8 |
| Strongly agree | 20 | 28.2 | 28.2 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.6 show that majority of the respondents that is 14.1% strongly disagreed to the statement, 11.3% disagreed, 14.1% were not sure, 32.4% agreed while 28.2% strongly agreed. The results show that a combined percentage of 60.6% generally agreed, this means that that internal control systems at NWSC, Entebbe Branch are programmed to reduce on human errors as a result of inaccurate inventory counts, billing for too large or small amounts, incorrect receipt totals. Respondents stated that the software has an installation provision of various offers which reduces chances of recording wrong numbers. It was further stated that accounting errors can sometimes take a very long time to correct, and the smallest mistake can cost a company a lot of money in the long run. This is why more and more companies are hiring skilled professionals who are proficient in accounting software

# The internal control system forwards the reports to various stakeholders

Respondents were also asked whether internal control system forwards the financial information reports to various stakeholders. The results to the question are obtained in table 4.7

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.7: The internal control system forwards the reports to various stakeholders | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 12 | 16.9 | 16.9 | 16.9 |
| Disagree | 9 | 12.7 | 12.7 | 29.6 |
| Not sure | 8 | 11.3 | 11.3 | 40.8 |
| Agree | 19 | 26.8 | 26.8 | 67.6 |
| Strongly agree | 23 | 32.4 | 32.4 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 4.7, it is revealed that 16.9% and 12.7% strongly disagreed and disagreed respectively stating that internal control system is not the only way to forward reports to stakeholders, 11.3% were not sure, 26.8% agreed while 32.4% strongly agreed respectively, since majority of respondents generally agreed it can be interpreted to mean that computerized internal control systems allows the corporation to keep up to date financial information and forward thinking on how to run the company. During one of the interview session, it was revealed that;

*‘The internal control system at NWSC,* *Entebbe Branch instantly electronically sends back to office via wireless technology our engineers written worksheets in ‘real time’ digitally, this enables us to operate a paperless office system whilst ensuring our customers receive their completed written worksheets. This allows us to promptly perform any additional works required and provide quotations to our stakeholders if required by return”.*

# Financial reports are quickly generated

The respondents were asked whether financial reports are quickly generated. The results to the question are represented in table 4.8

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.8: Financial reports are quickly generated | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 11 | 15.5 | 15.5 | 15.5 |
| Disagree | 14 | 19.7 | 19.7 | 35.2 |
| Not sure | 6 | 8.5 | 8.5 | 43.7 |
| Agree | 24 | 33.8 | 33.8 | 77.5 |
| Strongly agree | 16 | 22.5 | 22.5 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 4.8, results indicate that 15.5% strongly disagreed, 19.7% disagreed, 8.5% were not sure, and these stated that they did not have prior access to knowledge about the internal control system operations. In addition, 33.8% agreed while 22.5% strongly agreed respectively. Since majority of the respondents generally agreed, it means that the corporation has skilled and qualified accounts staff to operate the internal control system, hence generate financial reports quickly. Respondents expressed that management ensures to hire people with the right combination of education and work experience in regards to how to use the system, this leads to data being accurately entered into the system.

# Internal control systems helps NWSC, Entebbe Branch determine financial situation

Furthermore, respondents were also asked whether the internal control systems help NWSC, Entebbe Branch determine financial situation and results to the question are captured in table 4.9

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.9: Internal control helps NWSC, Entebbe Branch determine financial situation | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 8 | 11.3 | 11.3 | 11.3 |
| Disagree | 10 | 14.1 | 14.1 | 25.4 |
| Not sure | 8 | 11.3 | 11.3 | 36.6 |
| Agree | 27 | 38.0 | 38.0 | 74.6 |
| Strongly agree | 18 | 25.4 | 25.4 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 4.9 indicate that majority of the respondents generally agreed to the statement, this was represented by 38.0% and 25.4% who agreed and strongly agreed respectively. This means that the systems in place ensure the reliability and integrity of financial information by enabling managers have access to accurate, timely and complete information. Respondents further stated that internal control systems can produce positive or negative effects; their combined end product plays a front role in determining the overall worth of the corporation. This means that in determining financial situation, the combined effects of the quality of internal controls helps evaluators asses operational efficiency, process effectiveness and the competence of NWSC, Entebbe Branch management

# There is adequate segregation of duties among employees of NWSC, Entebbe Branch

Respondents were asked whether employees of NWSC, Entebbe Branch have adequate segregation of duties. Responses to the question are represented in table 4.10

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.10: There is adequate segregation of duties among employees of NWSC | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 2 | 2.8 | 2.8 | 2.8 |
| Disagree | 4 | 5.6 | 5.6 | 8.5 |
| Not sure | 7 | 9.9 | 9.9 | 18.3 |
| Agree | 20 | 28.2 | 28.2 | 46.5 |
| Strongly agree | 38 | 53.5 | 53.5 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

Results in table 4.10 indicate that majority of respondents generally agreed to the statement, this was represented by 28.2% and 53.5% who agreed and strongly agreed respectively. Since this was the majority, one can conclude that the corporation has an effective internal control system. Respondents also stated that no one person has responsibility for doing everything. It was also stated that activities such as authorisation, recording and custody of assets is always performed by different employees. This means that enough people are involved in handling of funds received so that employees feel protected.

# Management provides continuous feedback to the users of the accounting system about new updates

Respondents were also asked whether management provides continuous feedback to the users of the accounting system about new updates. Responses to the question are summarised in table 4.11

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.11: Management provides continuous feedback to the users of the accounting system about new updates | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 22 | 31.0 | 31.0 | 31.0 |
| Disagree | 29 | 40.8 | 40.8 | 71.8 |
| Not sure | 8 | 11.3 | 11.3 | 83.1 |
| Agree | 6 | 8.5 | 8.5 | 91.5 |
| Strongly agree | 6 | 8.5 | 8.5 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 4.11, results show that majority of the respondents generally disagreed with the statement; this was represented by 31.0% and 40.8% who strongly disagreed and disagreed respectively. This can be implied to mean that the accounting system updates are not always communicated to users. During an interview session, one respondent stated that;

*“The accounting system is updated every new quarter, 15 days prior start. However, in most cases most of us only get notifications of the updates but never get more information about the new updates and how they can be applied in practice”.*

This means that there is miscommunication about the new features of the accounting system at NWSC, Entebbe Branch

# CHAPTER FIVE

# INTERNAL CONTROL SYSTEM AND OPERATIONAL GOALS AT NWSC, ENTEBBE BRANCH

# Introduction

This chapter deals with the second objective of the study which is; how internal control system enhances operational goals.at National Water and Sewerage Corporation, Entebbe Branch.

A system of internal control is necessary to help employees and other partners understand the attitude and objectives of the organization as a whole. Internal controls provide reasonable assurance to customers and other parties that transactions are recorded properly and in a timely manner. For instance, many consumers have a favorite store because the business is known for providing quality service in a timely manner. In other words, consumers choose to patronize businesses that have good systems of internal control.

An organization’s system of internal control is evaluated on a consistent basis. Before approving financing, creditors often request a listing of management and those individuals who are allowed direct access to bank accounts. In other words, creditors inquire about control activities and the overall control environment. Also, auditors are required to obtain and document an understanding of an entity’s internal control environment during the planning stage of a financial statement audit.

A successful system of internal control is not built overnight, but is an ongoing process of fine tuning the inner workings of an organization. Many organizations summarize internal control systems in operational handbooks and manuals so employees are able to easily refer to the entity’s policies.

# All staff in accounting department have access to the system

Respondents were asked whether the all employees in the accounting department have access to the internal control system. The results in this question are summarised in table 5.1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.1: All staff in accounting department have access to the system | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 24 | 33.8 | 33.8 | 33.8 |
| Disagree | 23 | 32.4 | 32.4 | 66.2 |
| Not sure | 10 | 14.1 | 14.1 | 80.3 |
| Agree | 9 | 12.7 | 12.7 | 93.0 |
| Strongly agree | 5 | 7.0 | 7.0 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 5.1, results indicate that majority of the respondents generally disagreed to the statement; this was represented by 33.8% and 32.4% who strongly disagreed and disagreed respectively. 14.1% were not sure, 12.7% agreed while 7.0% strongly agreed. This means that NWSC, Entebbe Branch established process metrics within the accounting department. Respondents stated that the employees in the corporation do not have the same clearance levels into the system; the company (branch accountant) has clearance levels above all other employees. Respondents stated that process metrics help each individual to monitor the performance of the corporation and enable them to access their own performance and the corporation activity individually.

# Staff are trained to implement accounting management system

Respondents were asked whether the staff is trained on how to use and implement accounting management system. Results to the question are represented in table 5.2

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.2: Staff are trained to implement accounting management system | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 21 | 29.6 | 29.6 | 29.6 |
| Disagree | 23 | 32.4 | 32.4 | 62.0 |
| Not sure | 10 | 14.1 | 14.1 | 76.1 |
| Agree | 15 | 21.1 | 21.1 | 97.2 |
| Strongly agree | 2 | 2.8 | 2.8 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 5.2 indicate that 29.6% of the respondents strongly disagreed, 32.4% disagreed, 14.1% were not sure, 21.1% agreed while 2.8% strongly agreed respectively. Majority of the respondents generally disagreed to the statement which means that the corporation has several staff that was not trained during their orientation time. During an interview session, one accountant stated that;

*“Most of us in the accounting department did not receive any relevant training about the application and implementation of the system. Often times after verifications of transactions details and activities and the output of risk management, there is no immediate line manager to report to or appropriate levels of management whenever problems are detected in the system. Usually, correspondence is made via email, but the I.T department usually responds yet these lacks accounting knowledge to render relevant advice”.*

# There is possibility of single staff having access to all valuable financial information without consent of other staff

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.3: There is possibility of single staff having access to all valuable financial information without consent of other staff | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 4 | 5.6 | 5.6 | 5.6 |
| Disagree | 5 | 7.0 | 7.0 | 12.7 |
| Not sure | 7 | 9.9 | 9.9 | 22.5 |
| Agree | 24 | 33.8 | 33.8 | 56.3 |
| Strongly agree | 31 | 43.7 | 43.7 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 5.3, it is indicated that 5.6% of the respondents strongly disagreed, 7.0% disagreed, 9.9% were not sure, 33.8% agreed while 43.7% strongly agreed. It can be seen that a higher number of respondents generally agreed, this means that all respondents do not have same clearance. Respondents stated that all respondents have different usernames to access the system, but have the same default passwords. However, the corporation accountant has different access which can be used to login in all other staff members’ records and an activity, the access the accountant has is also used to change transaction period which are changed quarterly.

# Departments adhere strictly to provision of internal control system

In regard to this question, respondents were asked whether departments within NWSC, Entebbe Branch adhere to provisions of internal control system. Results to the question are captured in table 5.4

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.4: Departments adhere strictly to provision of internal control system | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 10 | 14.1 | 14.1 | 14.1 |
| Disagree | 7 | 9.9 | 9.9 | 23.9 |
| Not sure | 11 | 15.5 | 15.5 | 39.4 |
| Agree | 28 | 39.4 | 39.4 | 78.9 |
| Strongly agree | 15 | 21.1 | 21.1 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 5.4, results show that majority of the respondents that is 21.1% and 39.4% strongly agreed and agreed respectively to the statement. This means that the departments operate in a manner that those factors that can bring about risks and stop achievement of set objectives are minimised. It was stated that the departments heads encourage employees to always ensure orderly and efficient conduct of business including adherence to internal control policies, that there will be systems in place to ensure that all transactions are recorded so that business is conducted in an orderly manner through to following policies such as provision of good customer service in water service delivery.

# Security systems identify and safeguard corporation’s assets

The respondents were also asked whether the security system can identify and safeguard corporation’s assets. The results to the question are shown in table 5.5

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.5: Security systems identify and safeguard corporation’s assets | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 7 | 9.9 | 9.9 | 9.9 |
| Disagree | 9 | 12.7 | 12.7 | 22.5 |
| Not sure | 12 | 16.9 | 16.9 | 39.4 |
| Agree | 20 | 28.2 | 28.2 | 67.6 |
| Strongly agree | 23 | 32.4 | 32.4 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 5.5 indicate that 9.9% of the respondents strongly disagreed, 12.7% disagreed, 16.9% were not sure, 28.2% agreed while 32.4% strongly agreed respectively. Since majority of the respondents generally agreed to the statement, it can be interpreted to mean that NWSC, Entebbe Branch has established preventive controls to prevent fraud from occurring and establish detective controls to detect fraud when it occurs. During an interview, a respondent from internal control team stated that;

*“NWSC,* *Entebbe Branch internal control systems are used to prevent and detect fraud on stealing money through checks. The corporation adopts segregation of duties to have one employee to record checks and another employee to issue and print checks, in the meanwhile, a supervisor reviews and signs checks. The segregation of duties is a preventive control and the review is a detective control”*

# Follow up actions are taken to remedy previously identified weaknesses in internal control systems

Respondents were also asked whether the corporation after identifying weaknesses in the system take follow up actions to clean up the system. The results to this question are obtained in table 5.6

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.6: Follow up actions are taken to remedy previously identified weaknesses in internal control systems | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 10 | 14.1 | 14.1 | 14.1 |
| Disagree | 7 | 9.9 | 9.9 | 23.9 |
| Not sure | 5 | 7.0 | 7.0 | 31.0 |
| Agree | 21 | 29.6 | 29.6 | 60.6 |
| Strongly agree | 28 | 39.4 | 39.4 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 5.6, results show that 14.1% strongly disagreed, 9.9% disagreed, 7.0% were not sure, 29.6% agreed while 39.4% strongly agreed to the statement. A combined percentage of 24.0% disagreed mentioned that in several instances issues about the system failures were reported to management but still not yet rectified, this was due to continuous system being slow due poor internet connections. However, majority of the respondents agreed stating that most of the weakness are addressed in due time. It was stated that the corporation’s internal control department established a responsive program to fraud which means the actions to correct or remediate the harm caused by fraud.

# All staff members have identical access codes into the financial system

The respondents were also asked whether staff members have identical access codes into the financial system, results are summarised in table 5.7

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.7: All staff members have identical access codes into the financial system | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 22 | 31.0 | 31.0 | 31.0 |
| Disagree | 19 | 26.8 | 26.8 | 57.7 |
| Not sure | 6 | 8.5 | 8.5 | 66.2 |
| Agree | 10 | 14.1 | 14.1 | 80.3 |
| Strongly agree | 14 | 19.7 | 19.7 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 5.7, it is indicated that majority of the respondents generally disagreed to the statement; this was represented by 31.0% and 26.8% who strongly disagreed and disagreed respectively. This can be implied to mean that individual accounts internal control staff have different login credentials into the system. Respondents stated that the corporation has a default system where system users’ use created email addresses under the corporation’s server; however, the default password is the same. Transactions performed by all users can be traced or viewed by another user; this helps the corporation to reduce on chances of fraud since every transaction is recorded in the system with a time stamp, this also helps to easily trace source of financial errors in the system.

# There is adequate segregation of duties in the corporation’s finance and accounts department

Segregation of duties is an important primary defense against internal fraud, as such; respondents were asked whether this is adequate in the corporation’s finance department. The results are represented in table 5.8

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.8: There is adequate segregation of duties in the institution’s finance and accounts departments | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 9 | 12.7 | 12.7 | 12.7 |
| Disagree | 8 | 11.3 | 11.3 | 23.9 |
| Not sure | 6 | 8.5 | 8.5 | 32.4 |
| Agree | 19 | 26.8 | 26.8 | 59.2 |
| Strongly agree | 29 | 40.8 | 40.8 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 5.8, results revealed that majority of the respondents generally agreed to the statement, this was represented by a combined percentage of 67.6% who strongly agreed and agreed to the statement. This was the majority response and means that the corporation minimises the opportunities for employees to steal from the corporation. It was revealed that the most common opportunity for committing fraud in NWSC, Entebbe Branch is under accounts payable, over the years employees have attempted to create false invoices, disbursing funds to an accounts controlled, the management therefore emphasises segregation of duties by function, so that no one person can approve an invoice or issue a cheque to reduce such possibilities of fraud.

# Policies and procedures of authorisation are well understood by the staff

Respondents were also asked whether the policies and procedures of authorisation are well understood by the staff. Responses to the question are captured in table 5.9

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.9: Policies and procedures of authorisation are well understood by the staff | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 23 | 32.4 | 32.4 | 32.4 |
| Disagree | 17 | 23.9 | 23.9 | 56.3 |
| Not sure | 5 | 7.0 | 7.0 | 63.4 |
| Agree | 9 | 12.7 | 12.7 | 76.1 |
| Strongly agree | 17 | 23.9 | 23.9 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 5.9 revealed that majority of the respondents generally disagreed with the statement, 32.4% strongly disagreed and 23.9% disagreed. This can be interpreted to mean that policies and procedures of authorisation can be used to promote company efficiency, but mainly adherence to company values. Respondents stated that management takes an initiative to ensure safety against fraud, unauthorized use of theft of company’s assets and as such ensure that all staff members clearly understand the stipulated policies and procedures of authorisation. It was stated for example, all reports generated in accounting system are supposed to be done only after permission from the company accountant.

# Specific lines of authority and responsibilities are well established to ensure compliance with policies and procedures

Respondents were also asked whether the specific lines of authority are well established to ensure compliance with policies and procedures. Responses to the question are obtained in table 5.10

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.10: Specific lines of authority and responsibilities are well established to ensure compliance with policies and procedures | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 7 | 9.9 | 9.9 | 9.9 |
| Disagree | 11 | 15.5 | 15.5 | 25.4 |
| Not sure | 4 | 5.6 | 5.6 | 31.0 |
| Agree | 20 | 28.2 | 28.2 | 59.2 |
| Strongly agree | 29 | 40.8 | 40.8 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results seen in table 5.10, indicate that majority of respondents generally agreed, this is represented by 28.2% and 40.8% who agreed and strongly agreed respectively. This can be used to conclude that employees comply with authority lines and responsibilities to ensure effective performance. It was also stated that policies and procedures keep operations from devolving into complete chaos. Respondents also stated that when everyone is following policies and procedures, your organization can run smoothly. Management structures and teams operate as they’re meant to. And mistakes and hiccups in processes can be quickly identified and addressed.

# Management has put in place a well-established and maintained management information system that covers full range of activities

Respondents were also asked whether management has put in place well established management information systems that can cover full range of activities. Responses to the question are captured in table 5.11

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.11: Management has put in place a well-established and maintained management information system that covers full range of activities | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 8 | 11.3 | 11.3 | 11.3 |
| Disagree | 9 | 12.7 | 12.7 | 23.9 |
| Not sure | 3 | 4.2 | 4.2 | 28.2 |
| Agree | 24 | 33.8 | 33.8 | 62.0 |
| Strongly agree | 27 | 38.0 | 38.0 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 5.11, results indicate that 38.0% and 33.8% strongly agreed and agreed respectively. Since this is the majority response it can be interpreted to mean that management information system provides critical business information for complex decision making. It was also stated that the corporate environment is dynamic involving uncertainties and risks and as such there are uncertainties and risks that drive business organizations to take complicated decision to survive in the market. Since the primary goal of any organization is to improve its profitability and sustain in the long run. Hence, any business establishment cannot afford to ignore the importance of MIS.

# Internal audit periodically reviews operations and programs to ascertain that results are consistent with established objectives and goals

Respondents were asked whether operations and programs are periodically reviewed by internal audit to ascertain results are consistent with objectives. The responses are shown in table 5.12

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.12: Internal audit periodically reviews operations and programs to ascertain that results are consistent with established objectives and goals | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 4 | 5.6 | 5.6 | 5.6 |
| Disagree | 6 | 8.5 | 8.5 | 14.1 |
| Not sure | 7 | 9.9 | 9.9 | 23.9 |
| Agree | 29 | 40.8 | 40.8 | 64.8 |
| Strongly agree | 25 | 35.2 | 35.2 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 5.12, results reveal that majority of the respondents generally agreed with the statement, this was interpreted to mean that the operations and programs are periodically audited to ascertain that results are consistent with established objectives. The respondents also expressed that the period reviews are prepared on quarterly basis and are used in determining whether risk management processes are effective as judgment resulting from the internal auditor's assessment.

# Staffs undergo training in the implementation of the accounting system

Respondents were also asked whether staff undergo training in the implementation of the accounting system. Responses to the question are obtained in table 5.1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.13: Staff undergo training in the implementation of the accounting system | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 21 | 29.6 | 29.6 | 29.6 |
| Disagree | 22 | 31.0 | 31.0 | 60.6 |
| Not sure | 8 | 11.3 | 11.3 | 71.8 |
| Agree | 10 | 14.1 | 14.1 | 85.9 |
| Strongly agree | 10 | 14.1 | 14.1 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 5.13, it is indicated that majority of respondents generally disagreed; this was represented by 29.6% and 31.0% who strongly disagreed and agreed respectively. Since majority of the respondents generally disagree, it can be implied to mean that staff are not provided with training in order to enhance their understanding of the corporation’s accounting system. During an interview session, one respondent from internal control team expressed that;

*“During induction, most of us were merely taken through the history and about of the corporation, there was nothing like training to equip us with a clear and better understanding of our job descriptions. All the knowledge attained is on-job training by employees who serve in the corporation for a longer period of time, in the end they become familiar with the implementation of the accounting system”.*

# Weaknesses pointed out by the internal audit are usually addressed by management

Respondents were also asked whether the weakness pointed out by the internal audit are usually addressed by management. Responses to the question are summarised in table 5.14

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.14: Weaknesses pointed out by the internal audit are usually addressed by management | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 6 | 8.5 | 8.5 | 8.5 |
| Disagree | 7 | 9.9 | 9.9 | 18.3 |
| Not sure | 8 | 11.3 | 11.3 | 29.6 |
| Agree | 19 | 26.8 | 26.8 | 56.3 |
| Strongly agree | 31 | 43.7 | 43.7 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

Results in table 5.14 also revealed that majority of the respondents that is 43.7% and 26.8% generally agreed to the statement, this can be interpreted to mean that the system is effective in identifying weakness within the corporation. It was revealed that the corporation internal auditor in collaboration with his team is solely responsible to detect and submit the issues that had occur due to weakness of internal control to management for resolution. However, it was revealed that although the internal auditor points out the weaknesses, it is the responsibility of addressing those rests with management and company officers not with IAs. An internal auditor is only responsible for recording and reporting the weakness in the internal control.

# CHAPTER SIX

# INTERNAL CONTROL AND VALUE FOR MONEY

# Introduction

This chapter deals with the third objective of the study which is; how internal control system enhances value for money at National Water and Sewerage Corporation, Entebbe Branch

It is observed that variety of financial resources requires different control mechanisms to be applied by public organisations. In general, expenditures related to any financial resource can be subjected to control standards performed by the management and audit structures at each level of government, even with the supreme audit institution playing its specific role.

Internal control is a function that although operates independently from other departments but it reports directly to the accounting officer. The roles of internal control unit in an institution are carried out by internal auditors who are resident within an organization (that is they are institution’s employees). They are responsible for carrying out performance audits (financial and non-financial) and compliance audit in a wide range of areas within a business as directed by the annual audit plan. Internal control looks at key risk areas facing effectiveness of organisation’s operations and comes up with mitigating factors to help in eliminating or reducing the identified risks in order to achieve the organization’s set objectives (Adedokun, 2015).

Butt and Palmer (1985) observed that value for money audit is a phenomenon that gained much popularity in the last few decades. They attributed the emphasis of value for money audit in the society to the change in the economic and social climate.

# NWSC, Entebbe Branch has standard requirements for all financial documents

In determining value for money, respondents were asked whether the corporation has standard requirements for all financial documents. The responses to the question are summarised in table 6.1

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.1: NWSC, Entebbe Branch has standards requirements for all financial documents | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 5 | 7.0 | 7.0 | 7.0 |
| Disagree | 7 | 9.9 | 9.9 | 16.9 |
| Not sure | 8 | 11.3 | 11.3 | 28.2 |
| Agree | 20 | 28.2 | 28.2 | 56.3 |
| Strongly agree | 31 | 43.7 | 43.7 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 6.1, results revealed that a highest number of respondents generally agreed to the statement, which is 43.7% and 28.2% who strongly agreed and agreed respectively. This means that all reporting of accounting information is prepared in accordance to financial and accounts regulations and standards. Respondents stated that the corporation prepares daily, weekly, monthly and annual financial statements in respect to all expenditures and revenues to each service or activity performed. These financial statements are stored and later examined to establish whether the allocated funds from collected revenue are used for their rightful purpose or if they are profitable to the corporation and the government at large.

# All documents are safely stored

Respondents were also asked whether all financial documents are safely stored by the system. Results to the question are represented in table 6.2

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.2: All financial documents are safely stored | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 12 | 16.9 | 16.9 | 16.9 |
| Agree | 22 | 31.0 | 31.0 | 47.9 |
| Strongly agree | 37 | 52.1 | 52.1 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 6.2, it is indicated that majority of the respondents generally agreed with the statement, that is 52.1% and 31.0% who strongly agreed and agreed respectively. This can be implied to mean that the NWSC, Entebbe Branch cannot easily faces challenges in data loss. During one of the interview sessions, one respondent from management stated that;

*“Most businesses keep their financial data for years. With manual accounting, many paper documents are filed away until they are needed at a later date. Since financial documents are often stored in multiple locations, finding one particular statement at a later time can be quite difficult. With computerized internal control systems, past records are instantly accessible, whether they’re kept on a computer’s hard drive, an external hard drive, or in a cloud-based storage system. Because it’s secure, stored data is also safe from other factors, including theft, fires and natural disasters”*

This means that internal control system software eliminates much of the manual work that goes into traditional accounting and one element is data storage.

# Internal control system guarantees an adequate level of spending quality

Respondents were also asked whether internal control guarantees an adequate level of spending quality. Results to the question are obtained in table 6.3

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.3: Internal control system guarantees an adequate level of spending quality | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 8 | 11.3 | 11.3 | 11.3 |
| Disagree | 9 | 12.7 | 12.7 | 23.9 |
| Not sure | 10 | 14.1 | 14.1 | 38.0 |
| Agree | 21 | 29.6 | 29.6 | 67.6 |
| Strongly agree | 23 | 32.4 | 32.4 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 6.3, it is indicated that 11.3% of the respondents strongly disagreed, 12.7% disagreed, 14.1% were not sure, 29.6% agreed while 32.4% strongly agreed respectively. The results show that majority of the respondents generally agreed, this implies that all activities and development programs in the corporation receive enough funds to ensure effectiveness. Respondents stated that the adequate spending quality is related to the amount of revenue allocated to the corporation which is accounted for. This is also attributed to the existing internal control measures which prevent misappropriation of funds, poor recording and corruption among officials. This facilitates utilisation of funds as it leads to adequate levels of spending quality for funds allocated to various activities.

# The financial reports are comparable with previous period reports

The respondents were asked whether the financial reports produced under the internal control system are comparable with previous period reports. Results to the question are captured in table 6.4

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.4: The financial reports are comparable with previous period’s reports | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 12 | 16.9 | 16.9 | 16.9 |
| Agree | 25 | 35.2 | 35.2 | 52.1 |
| Strongly agree | 34 | 47.9 | 47.9 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 6.4 show that 16.9% were not sure indicating that they had no idea of how valid the current reports are to be compared with previous reports. Majority of the respondents that is 35.2% and 47.9% agreed to the statement meaning that despite the inconsistencies in financial information, the corporation stores its reports so as to compare with previous times. During one of the interview sessions, one respondent expressed that

*“Because at times information represented is inaccurate, the issue of comparability of financial reporting at NWSC,* *Entebbe Branch can be looked at in undesirable aspect because due to unskilled personnel and system malfunctions, the information is highly summarized with little or no detailed information and explanatory notes”.*

This means that NWSC, Entebbe Branch can truck the performance of financial reporting from previous times.

# Expenditures related to financial resource is subject to control standards

Respondents were also asked whether expenditures related to financial resources is subject to control standards, the results related to the question are represented in table 6.5

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.5: Expenditures related to financial resource is subject to control standards | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 5 | 7.0 | 7.0 | 7.0 |
| Disagree | 6 | 8.5 | 8.5 | 15.5 |
| Not sure | 7 | 9.9 | 9.9 | 25.4 |
| Agree | 19 | 26.8 | 26.8 | 52.1 |
| Strongly agree | 34 | 47.9 | 47.9 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 6.5, it is revealed that 26.8% agreed while 47.9% strongly agreed, since this is the majority response, it can be interpreted to mean that has financial resources management accountability system. During one of the interview sessions, one respondent (M&E) expressed that;

*“The corporation has control standards systems which ensure effective expenditure. This system does not only maintain high level of fiscal discipline but also helps us to be able to implement planned activities within approved appropriations. Control standards include elements such as administrative and financial sanctions, ascertaining availability of budgets, recording and processing controls including delegation and segregation, proper recording and processing, verification and certification and also the municipality ensure disbursing payments”.*

# Determining value for money requires internal control system

Respondents were asked whether determining value for money in the corporation requires internal control system. Results are summarised in table 6.6

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.6: Determining value for money requires internal control system | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 10 | 14.1 | 14.1 | 14.1 |
| Disagree | 11 | 15.5 | 15.5 | 29.6 |
| Not sure | 12 | 16.9 | 16.9 | 46.5 |
| Agree | 20 | 28.2 | 28.2 | 74.6 |
| Strongly agree | 18 | 25.4 | 25.4 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results seen in table 6.6, it is revealed that 14.1% strongly disagreed, 15.5% disagreed, 16.9% were not sure, 28.2% agreed while 25.4% strongly agreed, and this means that prevention of errors and fraud through monitoring and financial reporting is a useful tool in determining value for money. Respondents stated that the corporation has a responsibility of keeping records for stakeholders about its financial position and financial management in an effort to improve services and accomplishment of overall performance.

# Effective internal control system for funds requires appraisal

Respondents were asked whether the internal control system requires appraisal, responses to the question are captured in table 6.7

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.7: Internal control system for funds requires appraisal | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 5 | 7.0 | 7.0 | 7.0 |
| Disagree | 7 | 9.9 | 9.9 | 16.9 |
| Not sure | 12 | 16.9 | 16.9 | 33.8 |
| Agree | 23 | 32.4 | 32.4 | 66.2 |
| Strongly agree | 24 | 33.8 | 33.8 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 6.7 indicate that 7.0% of the respondents strongly disagreed, 9.9% disagreed, 16.9% were not sure, 32.4% agreed while 33.8% strongly agreed. The results also indicate that majority of the respondents generally agreed to the question, this means that internal control systems is an independent appraisal of activity within the corporation and is a mechanism for effective fund management. Respondents stated that just like any organisation, for the corporation to ensure that the funds are effectively and efficiently utilised, there is need for strong and effective internal control. This means that the application of internal control system is necessary in order to ensure proper accountability and judicious use of available fund.

# Management identifies risks that affect achievement of objectives

Respondents were asked whether management identifies risks that affect achievement of objectives in the corporation. Responses to the question are represented in table 6.8

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.8: Management identifies risks that affects achievement of objectives | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 7 | 9.9 | 9.9 | 9.9 |
| Disagree | 10 | 14.1 | 14.1 | 23.9 |
| Not sure | 12 | 16.9 | 16.9 | 40.8 |
| Agree | 22 | 31.0 | 31.0 | 71.8 |
| Strongly agree | 20 | 28.2 | 28.2 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 6.8 indicate that 28.2% of the respondents strongly agreed while 31.0% agreed respectively with the statement. Since was the majority response with a combined response percentage of 59.2% one can conclude to say that the achievement of corporation objectives cannot be achieved without first identifying the associated risks. During an interview session, one respondent from management stated that;

*“Risk management is extremely important in achieving overall organizational goals and objectives. Achieving organizational goals amid risks entails determining and implementing critical success factors. More work experience in the management position enables me to conclude that the significance of impact of risk management on the corporation or any other organisation as reduction in design/production time, improved public perception, and improved team morale and productivity”.*

# Management has put in place mechanisms for mitigation of critical risk that may affect results

The respondents were also asked whether management has put in place mechanisms for mitigation of critical risk that may affect results. The responses to the question are obtained in table 6.9

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.9: Management has put in place mechanisms for mitigation of critical risk that may affect results | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 11 | 15.5 | 15.5 | 15.5 |
| Disagree | 12 | 16.9 | 16.9 | 32.4 |
| Not sure | 15 | 21.1 | 21.1 | 53.5 |
| Agree | 23 | 32.4 | 32.4 | 85.9 |
| Strongly agree | 10 | 14.1 | 14.1 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 6.9 show that majority of the respondents generally agreed to the statement, this was represented by 14.1% and 32.4% who strongly agreed and agreed respectively. The results can be implied to mean that management takes initiative in identifying risk and prepares for risk mitigation. Respondents also stated that some risks, once identified, can readily be eliminated or reduced. However, most risks are much more difficult to mitigate, particularly high-impact, low-probability risks. It was also revealed that risk mitigation and management at NWSC, Entebbe Branch is long-term efforts by directors throughout the performance of activities within the corporation.

# Management has ensured that reliable and relevant information is communicated at all levels of the organisation

Respondents were also asked whether the management of NWSC, Entebbe Branch has ensured reliable and relevant information is communicated at all levels of the organisation. The responses to the question are represented in table 6.10

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.10: Management has ensured that reliable and relevant information is communicated at all levels of the organisation | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 20 | 28.2 | 28.2 | 28.2 |
| Disagree | 23 | 32.4 | 32.4 | 60.6 |
| Not sure | 9 | 12.7 | 12.7 | 73.2 |
| Agree | 13 | 18.3 | 18.3 | 91.5 |
| Strongly agree | 6 | 8.5 | 8.5 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 6.10, the results indicate that majority of respondents generally disagreed with the statement; this was represented by 28.2% and 32.4% who strongly disagreed and disagreed respectively. Since this was the majority response, it can be interpreted to mean that not all levels of the organisation have clear and timely communication about relevant and reliable information. Respondents stated that communication in the organisation is mostly on sided with more subordinates being left out. It is also revealed that if the organisation assumes that everyone needs to know about absolutely everything, the staff would spend all its time merely receiving and passing on information. It was also revealed that not this leads to eliminating several individuals from decision making.

# The reporting system in the organisational structure spells out the responsibilities of each section

Respondents were also asked whether the reporting system in the organisational structure spells out the responsibilities of each section. Responses to the question are captured in table 6.11

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.11: The reporting system in the organisational structure spells out the responsibilities of each section | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 12 | 16.9 | 16.9 | 16.9 |
| Disagree | 13 | 18.3 | 18.3 | 35.2 |
| Not sure | 8 | 11.3 | 11.3 | 46.5 |
| Agree | 22 | 31.0 | 31.0 | 77.5 |
| Strongly agree | 16 | 22.5 | 22.5 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 6.11, it is revealed that majority of the respondents agreed to the statement, this was represented by 22.5% and 31.0% who strongly agreed and agreed respectively. This has a combined percentage of 53.5% and can be concluded to mean that the corporation ensures that every task, job position and department has an individual assuming the responsibility for performance. During an interview session, one respondent from audit department expressed that;

*“The reporting relationships established in the final step of organizational design are easy to see on an organizational chart, which depicts our company’s structure. Starting at the bottom, each position is connected to one above it by a line. Following the line vertically from position to position reveals the chain of command. Each person is one link in the chain”.*

# The organisation has proper control access to records

The respondents were also asked whether the organisation has proper control access to records. The responses to the question are captured in table 6.12

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.12: The organisation has proper control access to records | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 9 | 12.7 | 12.7 | 12.7 |
| Disagree | 12 | 16.9 | 16.9 | 29.6 |
| Not sure | 14 | 19.7 | 19.7 | 49.3 |
| Agree | 26 | 36.6 | 36.6 | 85.9 |
| Strongly agree | 10 | 14.1 | 14.1 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 6.12, results revealed that 12.7% strongly disagreed, 16.9% disagreed, 19.7% were not sure, 36.6% agreed while 14.1% strongly agreed respectively. The results also show that majority of respondents generally agreed to the statement which can be implied to mean that persons responsible for maintaining proper control access of the internal control system have an understanding of the operation of the system. During one of the interview sessions, one respondent expressed that;

*“NWSC,* *Entebbe Branch has personnel who work on the internal control have accounting knowledge. However, without that intrinsic knowledge, the data input decisions quickly go astray, and the output of the internal control accounting system becomes hopelessly trashed. Management also understands that accounting knowledge is essential in the successful implementation and use of most any computerized system and the reports it produces”.*

This means that the problems of delay in control access to records are as a result of experienced staff.

Review of operating performance against set standards are done on regular basis. Responses to the question are obtained in table 6.13

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.13: Review of operating performance against set standards are done on regular basis | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 20 | 28.2 | 28.2 | 28.2 |
| Disagree | 22 | 31.0 | 31.0 | 59.2 |
| Not sure | 5 | 7.0 | 7.0 | 66.2 |
| Agree | 16 | 22.5 | 22.5 | 88.7 |
| Strongly agree | 8 | 11.3 | 11.3 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

According to results in table 6.13, results revealed that majority of the respondents generally disagreed to the statement; this was represented by 28.2% and 31.0% who strongly disagreed and disagreed respectively. This can be implied to mean that a regular assessment by the corporation helps to reveal a great deal about the performance of individual employees, along with the larger work environment. Respondents also stated that the corporation develops universal standards which fairly evaluate different staff members. In addition, management also conducts appraisals at the close of the business year to further support accurate results. This means that NWSC, Entebbe Branch shares results in a formal, yet thoughtful, way to create an open dialogue for success.

# Internal reviews of implementation of internal control in sections are conducted periodically.

Respondents were also asked whether the internal reviews of implementation of internal control in sections are conducted periodically. Responses to the question are summarised in table 6.14

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.14: Internal reviews of implementation of internal control in sections are conducted periodically | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 17 | 23.9 | 23.9 | 23.9 |
| Disagree | 24 | 33.8 | 33.8 | 57.7 |
| Not sure | 9 | 12.7 | 12.7 | 70.4 |
| Agree | 10 | 14.1 | 14.1 | 84.5 |
| Strongly agree | 11 | 15.5 | 15.5 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

As seen in table 6.14, it is revealed that majority of the respondents that is 23.9% and 33.8% strongly disagreed and disagreed respectively. This can be interpreted to mean that the corporation does not take necessary steps in implementing internal control activities. It was also revealed that the company has been reluctant in identifying the vulnerabilities that NWSC, Entebbe Branch faces yet to achieve this, a risk assessment of all the procedures and processes of the company has to be conducted. For control purposes, risks that appear to affect the accomplishment of a company's goals are identified, analyzed, and acted upon.

# Management has provided a system for timely review of audit reports and resolution on non-compliance

Respondents were also asked whether the management has provided a system for timely review of audit reports and resolution on non-compliance. Responses to the question are obtained in table 6.15

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.15: Management has provided a system for timely review of audit reports and resolution of non-compliance | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 20 | 28.2 | 28.2 | 28.2 |
| Disagree | 26 | 36.6 | 36.6 | 64.8 |
| Not sure | 8 | 11.3 | 11.3 | 76.1 |
| Agree | 12 | 16.9 | 16.9 | 93.0 |
| Strongly agree | 5 | 7.0 | 7.0 | 100.0 |
| Total | 71 | 100.0 | 100.0 |  |

**Source: Primary data (2019)**

The results in table 6.15 indicate that majority of the respondents generally disagreed with the statement; this was represented by 28.2% and 36.6% who strongly disagreed and disagreed respectively. This can be implied to mean that decision making in reference to company financial reports is always on time. During one of the interview sessions, one respondent stated that;

*“Some personnel at the company state that there is timely review of reports which is used here or any accounting software than it does to write it or type it into a spreadsheet. They opined that this is due to step by step screens; the process often is fast especially since personnel have experience and some are well equipped to the internal control system”.*

# Hypothesis testing

H0: There is no significant relationship between internal control systems and financial management in National Water and Sewerage Corporation, Entebbe Branch.

H1: There is a significant relationship between internal control and financial management National Water and Sewerage Corporation, Entebbe Branch.

# Regression analysis

Multiple regression analysis was performed in order to establish the extent to which internal control systems explain the degree of variance in financial management of NWSC, Entebbe Branch. The result obtained is represented in the model summary table 6.8 below;

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Table 6.8: Model Summary | | | | |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .847a | .717 | .713 | .74104 |
| a. Predictors: (Constant), Internal control systems | | | | |

The results in table 6.8 (model summary) of regression yielded an Adjusted R square of .713, this means that internal control system contributes 71.3% to financial management in NWSC, Entebbe Branch. The remaining 28.7 was contributed by other factors which were outside of scope of the study, these were not explored. The results in the above model include that internal control system has significantly influenced financial management.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 6.9: ANOVAa forinternal control systems and financial management | | | | | | |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 95.856 | 1 | 95.856 | 174.558 | .000b |
| Residual | 37.890 | 69 | .549 |  |  |
| Total | 133.746 | 70 |  |  |  |
| a. Dependent Variable: Accuracy of financial information, operational goals, value for money | | | | | | |
| b. Predictors: (Constant), Internal control system | | | | | | |

From the ANOVA statistics in table 6.9, the processed data, which is the population parameters, had a significance level of 0.01 which shows that the data is ideal for making conclusion on the population’s parameter as the value of significance (p-value) is less than 0.05. This is an indication that internal control systems significantly facilitate financial management at NWSC, Entebbe Branch.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 6.10: Coefficientsa | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | -4.381 | .602 |  | -7.272 | .000 |
| Internal control systems | 1.876 | .142 | .847 | 13.212 | .000 |
| a. Dependent Variable: Financial management of NWSC, Entebbe Branch | | | | | | |

The coefficients table generates the model that relates the dependent and independent variables. In this case, the regression model indicates that internal control systems facilitate financial management. This is because, if the corporation has effective measures that prevent fraud and errors in corporation’s accounts, then enhancing financial management in terms of accurate financial information, operational goals and value for money can be achieved. The test yielded a significant relationship between the study variables since the Beta value is positive represented by (p= .847, P<0.01).

In conclusion, it can be noted that there is a significant relationship between internal control system and financial management at NWSC, Entebbe Branch hence the study rejects the null hypothesis.

# CHAPTER SEVEN

# TOWARDS HARMONISING INTERNAL CONTROL SYSTEMS AND FINANCIAL MANAGEMENT AT NWSC, ENTEBBE BRANCH

# Introduction

The survival of any organisation depends on the effective and efficient utilisation of resources (financial and non-financial) at the disposal of the organisation. Hence, to optimize the utilisation of resources entrusted to all employees in an organisation, various form of control are put in place by management of the organisation, among these major controls are internal control and internal audit to mention a few. This chapter therefore focuses on harmonisation of internal control systems and financial management in NWSC, Entebbe Branch.

# Internal control system and accuracy of financial information

On the question of how internal control system has ensured completeness and accuracy of financial information at National Water and Sewerage Corporation, Entebbe Branch, results indicated that 88.7% of the respondents generally agreed to the statement that the organization has a well-developed computerized internal control system. A combined percentage of 62.0% of respondents generally agreed that financial reports are evaluated every quarter, in addition 35.2% agreed while 32.4% strongly agreed that the corporation’s reports are always generated at the right time when needed by the stakeholders. 42.3% agreed while 40.8% strongly agreed to the question whether NWSC uses the system to record transactions on a regular basis. Results also revealed that majority of the respondents that is 55.0% of the respondents generally disagreed to the statement that there is timely processing of financial information. Furthermore, the results showed that a combined percentage of 60.6% generally agreed that the control system can easily detect accounting errors within the accounts.

Joseph (2015) asserts that a company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements (DeBenendetti, 2017).

Atiddi (2002) adds to this by noting that because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.  Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Internal control enhances the reliability of financial reporting and helps to ensure that financial statements are free from major misstatements. This is important because stakeholders such as business owners, investors and lenders all rely on financial reports to make decisions. Without internal control, businesses face an array of exposures that can drastically alter revenue generating capability.

# Internal control system and operational goals

On the question of how internal control system enhances operational goals.at National Water and Sewerage Corporation, Entebbe Branch, results revealed respondents generally disagreed to the statement that all staff in accounting department have access to the system. Results also revealed that 21.1% agreed while 2.8% strongly agreed that Staff is trained to implement accounting management system. Results show that majority of the respondents that is 21.1% and 39.4% strongly agreed and agreed to the statement that departments adhere strictly to provision of internal control system. 28.2% agreed while 32.4% strongly agreed that security systems identify and safeguard corporation’s assets. Also 29.6% agreed while 39.4% strongly agreed to the statement that follow up actions are taken to remedy previously identified weaknesses in internal control systems. that majority of the respondents generally disagreed that all staff members have identical access codes into the financial system. A combined percentage of 67.6% who strongly agreed and agreed to the statement that there is adequate segregation of duties in the institution’s finance and accounts departments.

Zabihollah (2002) explains that internal control is defined as a process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical and intangible. At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations.

At the specific transaction level, internal control refers to the actions taken to achieve a specific objective internal control procedures reduce process variation, leading to more predictable outcomes. Internal controls within business entities are also referred to as operational controls (Anderson, 2008)

Chris (2015) notes that effective internal control implies the organization generates reliable financial reporting and substantially complies with the laws and regulations that apply to it. However, whether an organization achieves operational and strategic objectives may depend on factors outside the enterprise, such as competition or technological innovation. These factors are outside the scope of internal control; therefore, effective internal control provides only timely information or feedback on progress towards the achievement of operational and strategic objectives, but cannot guarantee their achievement.

In addition, Martin (2000) states that internal control activities are designed to provide reasonable assurance that particular objectives are achieved, or related progress understood. The specific target used to determine whether a control is operating effectively is called the control objective. Control objectives fall under several detailed categories; in financial auditing, they relate to particular financial statement assertions, but broader frameworks are helpful to also capture operational and compliance aspects

# Internal control system and value for money

On the question of how has internal control system enhanced value for money, is 43.7% and 28.2% who strongly agreed and agreed to the statement that NWSC has standards requirements for all financial documents. 52.1% and 31.0% who strongly agreed and agreed that all financial documents are safely stored. 29.6% agreed while 32.4% strongly agreed respectively that internal control system guarantees an adequate level of spending quality. Furthermore, majority of the respondents that is 35.2% and 47.9% agreed to the statement that the financial reports are comparable with previous period’s reports. It was revealed that 26.8% agreed while 47.9% strongly agreed that expenditures related to financial resource is subject to control standards. 28.2% agreed while 25.4% strongly agreed that determining value for money requires internal control system. 32.4% agreed while 33.8% strongly agreed to the statement that internal control system for funds requires appraisal.

That introducing value for money parameters to the appraisal and impact evaluation of government will have a significant effect on programme design, implementation and evaluation. Various documents produced by corporation testify to this. The development of a governance programme requires sufficient range and depth in the context analysis (social, economic and political) to formulate relevant responses to very different circumstances, and as a consequence governance programs display necessarily diverse and complex pathways to successful outcomes. Building strong business cases for investment which respond constructively and realistically to the focus on managing and measuring for results, and obtaining ‘more for the same’ or ‘more for less’ is a particular challenge.

Value for money (VFM) is derived from the optimal balance of benefits and costs on the basis of total cost of ownership. The nature of local government spending is such that it involves discretionary decision-taking on behalf of government at all levels. Value for money is therefore not a choice of goods or services which is based on the lowest bid price but a choice based on the whole life costs of the project or service.

Variety of financial resources requires different control mechanisms to be applied by national government. In general, expenditures related to any financial resource can be subjected to control standards performed by the management and audit structures at each level of government, even with the supreme audit institution playing its specific role.

But the conditions applied to grants, whether general (categorical grants, block grants) or more specific or detailed, have to be verified by the different levels of government directly concerned (the donor and the recipient), requiring understanding, co-ordination and co-operation at both management and control stages.

# CHAPTER EIGHT

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

# Introduction

This chapter comprises of the summary of findings, conclusion and recommendation of the study according to the study objectives. The study is about internal control system and financial management. The recommendations are on a basis of the findings and relates to advice and the interventions that the researcher feels should be brought to the attention of NWSC, Entebbe Branch. The study ends by presenting the areas that the researcher considers vital for further studies

# Summary of the findings

# Internal control system and accuracy of financial information

Results revealed that the computerised internal control system used in NWSC, Entebbe Branch can save costs and improve transaction processing. It was also revealed that financial reports are evaluated each quarter to inform the management of the corporation on the progress towards the organisation plan. It was also revealed that decision making in reference to corporation’s financial statements/ position is always delivered in a timely manner. Results showed that management realizes that accounting software excels at analyzing the business practices and letting them quickly identify how money flows through operations. It was also noted that internal control systems at NWSC, Entebbe Branch are programmed to reduce on human errors as a result of inaccurate inventory counts, billing for too large or small amounts, incorrect receipt totals. It was also revealed that the corporation has skilled and qualified accounts staff to operate the internal control system, hence generate financial reports quickly

# Internal control system and operational goals

Results revealed that the employees in the corporation do not have the same clearance levels into the system; the company (branch accountant) has clearance levels above all other employees. It was also revealed that all respondents have different usernames to access the system, but have the same default passwords. Results also revealed that the departments’ heads encourage employees to always ensure orderly and efficient conduct of business including adherence to internal control policies, that there will be systems in place to ensure that all transactions are recorded. Majority of the respondents agreed stating that most of the weakness are addressed in due time. It was stated that the corporation’s internal control department established a responsive program to fraud. Respondents stated that the corporation has a default system where system users’ use created email addresses under the corporation’s server. It was revealed that the most common opportunity for committing fraud in NWSC is under accounts payable, over the years employees have attempted to create false invoices, disbursing funds to an accounts controlled.

# Internal control system and value for money

Results in on question revealed that all reporting of accounting information is prepared in accordance to financial and accounts regulations and standards. The results showed that majority of the respondents generally agreed, this implies that all activities and development programs in the corporation receive enough funds to ensure effectiveness. Results stated that the corporation has a responsibility of keeping records for stakeholders about its financial position and financial management in an effort to improve services and accomplishment of overall performance. This results showed internal control systems is an independent appraisal of activity within the corporation and is a mechanism for effective fund management.

# Conclusion

The financial management of any organization can be measured by the standard or the effectiveness of the internal control system and as well as the policies implemented by the management. A well-managed business entity will not only attract interest of outsiders but will also retain the zeal of the existing owners and users of the financial information.

Therefore in conclusion, it will be said that the financial management of any organization cannot do without internal control as true and fair presentation of financial statement may never be possible if the board and senior management are not committed to providing a well-planned internal control system.

# Recommendations

Management should ensure that there are adequate organizational controls and that each staff knows his duties and equally ensures effective segregation of duties.

The internal control system should be remolded and strengthened to position the staff in carrying out their duties efficiently and effectively and at the same time evaluated periodically to strengthen its weaknesses in the organization.

Finally, the management of the organization should be reviewed periodically so as to cope with modern trends in organizational fraud prevention.

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# APPENDICES

# APPENDIX A: SELF ADMINISTRED QUESTIONAIRE

Dear respondent, I am IRAKOZE LAURETTA a student of Nkumba University pursuing a Master of Business Administration currently under taking research. I am conducting a study about “internal control systems and financial management in public institutions in Uganda basing on a case study of National Water and Sewerage Corporation, Entebbe Branch”. I am therefore kindly requesting you to fill this questionnaire and the information given will be kept confidentially and strictly used for academic purposes only.

**Part 1: Background information**

**(“Please tick where applicable”)**

1. Gender?

1. Male
2. Female

2. Age (in years)

1. 20-29
2. 30-39
3. 40-49
4. 50 and above

3) What is your designation in this company?

1. ..............................................................................................................................................................................................

4. For how long have you served in NWSC, Entebbe Branch?

1. Below 2 years
2. 2-5 years
3. 6-10 years
4. Above 10 years

5) Are your responsibilities directly linked to internal control system?

i) If Yes, what do you do? ……………………………………………………............

ii) If not, why? ……………………………………………………………………….

**Under sections B-E, you are required to tick the answer that best gives your answer based on the 5 Likert scale below.**

**1=Strongly disagree (SD) 2=Disagree (D) 3=Not sure (NS) 4=Agree (A) 5=Strongly agree (SA)**

**SECTION B: Internal control system and completeness and** **accuracy of financial information in National Water and Sewerage Corporation, Entebbe Branch**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Statement** | **1** | **2** | **3** | **4** | **5** |
| 1. The organization has a well-developed computerized internal control system |  |  |  |  |  |
| 2. Financial reports are evaluated every quarter |  |  |  |  |  |
| 3. The reports are always generated at the right time when needed by the stakeholders |  |  |  |  |  |
| 4. NWSC uses the system to record transactions on a regular basis |  |  |  |  |  |
| 5. There is timely processing of financial information |  |  |  |  |  |
| 6. The control system can easily detect accounting errors within the accounts |  |  |  |  |  |
| 7. The internal control system forwards the reports to various stakeholders |  |  |  |  |  |
| 8. Financial reports are quickly generated |  |  |  |  |  |
| 9. Internal control helps NWSC determine financial situation |  |  |  |  |  |
| 10. There is adequate segregation of duties among employees of NWSC |  |  |  |  |  |
| 11. Management provides continuous feedback to the users of the accounting system about new updates |  |  |  |  |  |

**SECTION C: Internal control and operational goals in National Water and Sewerage Corporation, Entebbe Branch**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Statement** | **1** | **2** | **3** | **4** | **5** |
| 1. All staff in accounting department have access to the system |  |  |  |  |  |
| 2. Staff are trained to implement accounting management system |  |  |  |  |  |
| 3. There is possibility of single staff having access to all valuable financial information without consent of other staff |  |  |  |  |  |
| 4. Departments adhere strictly to provision of internal control system |  |  |  |  |  |
| 5. Security systems identify and safeguard institutional assets |  |  |  |  |  |
| 6. Follow up actions are taken to remedy previously identified weaknesses in internal control systems |  |  |  |  |  |
| 7. All staff members have identical access codes into the financial system |  |  |  |  |  |
| 8. There is adequate segregation of duties in the institution’s finance and accounts departments |  |  |  |  |  |
| 9. Policies and procedures of authorisation are well understood by the staff |  |  |  |  |  |
| 10. Specific lines of authority and responsibilities are well established to ensure compliance with policies and procedures |  |  |  |  |  |
| 11. Management has put in place a well-established and maintained management information system that covers full range of activities |  |  |  |  |  |
| 12. Internal audit periodically reviews operations and programs to ascertain that results are consistent with established objectives and goals |  |  |  |  |  |
| 13. Staffs undergo training in the implementation of the accounting system |  |  |  |  |  |
| 14. Weaknesses pointed out by the internal audit are usually addressed by management |  |  |  |  |  |

**SECTION D: Internal control system and value for money** **in National Water and Sewerage Corporation, Entebbe Branch**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Question** | **1** | **2** | **3** | **4** | **5** |
| 1. NWSC has standards requirements for all financial documents |  |  |  |  |  |
| 2. All financial documents are safely stored |  |  |  |  |  |
| 3. Internal control system guarantees an adequate level of spending quality |  |  |  |  |  |
| 4. The financial reports are comparable with previous period’s reports |  |  |  |  |  |
| 5. Expenditures related to financial resource is subject to control standards |  |  |  |  |  |
| 6. Determining value for money requires internal control system |  |  |  |  |  |
| 7. Internal control system for funds requires appraisal |  |  |  |  |  |
| 8. Management identifies risks that affect achievement of objectives |  |  |  |  |  |
| 9. Management has put in place mechanisms for mitigation of critical risk that may affect results |  |  |  |  |  |
| 10. Management has ensured that reliable and relevant information is communicated at all levels of the organisation |  |  |  |  |  |
| 11. The reporting system in the organisational structure spells out the responsibilities of each section |  |  |  |  |  |
| 12. The organisation has proper control access to records |  |  |  |  |  |
| 13. Review of operating performance against set standards are done on regular basis |  |  |  |  |  |
| 14. Internal reviews of implementation of internal control in sections are conducted periodically. |  |  |  |  |  |
| 15. Management has provided a system for timely review of audit reports and resolution on non-compliance |  |  |  |  |  |

# APPENDIX B: INTERVIEW GUIDE

Question:

1. Introduce myself, research topic, purpose of the study, purpose of the visit and request respondents to spare some time for the interviewer

2. What is your designation in NWSC and for how long have you been working in the company?

3. When did NWSC develop a computerized internal control system and when was it last reviewed?

4. Has the system been clearly communicated to those concerned with its implementation?

5. Who are concerned with the implementation on internal control system?

6. Who usually participate in the preparation of standardised financial documents?

7. Is the preparation of these standardised financial documents based on the company’s priorities as those for the accounting department?

8. Is internal control used to ensure safety of prepared financial statements?

9. How is internal control used to implement timely generation of financial reports?