**INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE IN PUBLIC ORGANISATIONS IN UGANDA: A CASE STUDY OF UGANDA CIVIL AVIATION AUTHORITY**

**BY**

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# DECLARATION

I **KATO NOBERT** declare that this dissertation under the topic “internal control systems and financial performance in public organisations in Uganda focusing on a case study of Uganda Civil Aviation Authority” is my original work and is presented for approval for field study.

Signature: …………………………..

Kato Nobert

# APPROVAL

This dissertation was under my supervision and has been submitted for examination with my approval

Signature: ………………………

Madam Assimwe Violet (Supervisor)

Date:…………………………….

# DEDICATION

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

# ACKNOWLEDGEMENTS

I would like to extend my sincere thanks to God Almighty that has kept and sustained me throughout my stay at the University. Heartfelt appreciation goes to my family and all my friends for the support, advice and encouragement.

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# ABSTRACT

The study examined the role of internal control systems on financial performance in public institutions in Uganda basing on a case study of Uganda Civil Aviation Authority, i) to establish the effect of periodic reconciliations on completeness and accuracy of financial information at Uganda Civil Aviation Authority, ii) to assess the effect of access to accounting system on operational goals at Uganda Civil Aviation Authority iii) to establish the effect of control activities on proper utilisation of funds at Uganda Civil Aviation Authority.

The study adopted a phenomenological approach divided in section of research approach, research strategy, research duration and the research classification. The study used a sample size of 73 respondents. It is also shown that periodic reconciliation and financial performance had an Adjusted R Square of .700 (70.0%), access to accounting system had an Adjusted R Square of .451 (45.1%) and control activities and financial performance had an Adjusted R Square of .713 (71.3%).

In conclusion, the study notes that financial performance 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

In recommendation, the study suggested that should ensure that there are adequate organizational controls and that each staff knows his duties and equally ensures effective segregation of duties. Additionally, management should be reviewed periodically so as to cope with modern trends in organizational fraud prevention.

# CHAPTER ONE

# INTRODUCTION

# Chapter overview

This chapter presents the background to the study, statement of the problem, purpose of the study, research objectives, research questions, and hypotheses of the study, scope of the study, the significance of the study and the arrangement of the study.

# Background of the study

The study examined the role of internal control systems on financial performance in public organisations in Uganda. It based on a case study of Uganda Civil Aviation Authority.

The study about the impact of internal control systems on financial performance in public organisations warrants research effort and public attention because it is observed that there have not been several studies carried out about the phenomenon especially not within public organisations. 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 performance operations. The study was therefore carried out with an intension of exploring major causes of this situation which and to provide recommendations to the issues. In addition, many times financial performance has been viewed as the life blood of any organisation and without it, it is hard to run activities of an organisation.

Historical development of internal control as individual enterprise system is not as broad as other management spheres in science directions. The definition of internal control was presented for the first time in 1949 by the American Institute of Certificated Accountants (AICPA). It defined internal control as a plan and other coordinated means and ways by the enterprise to keep safe its assets, check the covertness and reliability of data, to increase its effectiveness and to ensure the settled management politics (Daniella, 2017). However, the presented definition of control concept has been constantly improved, and nowadays there is quite an extensive set of conceptions that indicates the system of internal control as one of the means of leadership to ensure safety of enterprise assets and its regular development. In 1992, the COSO model appeared; its analysis distinguished the concepts of risk and internal control (Lauren, 2017).

According to Garrison (2013) internal control systems are “those steps taken by management that attempt to increase the likelihood that the objectives set down at the planning stage are attained and to ensure that all parts of the organization function in a manner consistent with organizational policies. He further defined internal control as those sets of organizational activities which include: planning, co-ordination, communication, evaluation and decision making as well as informal processes aimed at enhancing the efficient and effective use of the organizational resources towards the achievement of the organizational objectives.

According to Stoner (2013) financial performance refers to the ability to operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats. In agreement with this Solenberg and Anderson (2015) assert that performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. Financial measures of performance include return on assets, profitability, and value for money, return on sales, return on equity, and return on capital employed, liquidity and efficiency (Beeler et at, 2014).

This current study about internal control systems will be explained by the Agency Theory which was developed by Jensen and Meckling in 1976; the theory fits to guide the study variables because the theory is able to explain the holistic as well as embedded effects of the control issues, and has an extensive ability to capture various control mechanisms under the condition of uncertainty. Kenneth (2018) states that the latter aspect is particularly important since most management control variables ae usually uncontrollable and would happen under uncertain conditions. Accordingly, Dikoli (2018) adds that given accounting information systems, agency theory designates the exact management’s control variables precisely and determines the optimal control elements which could be established under various control situations. In sum, no other theories are as rich as the agency theory in explaining the reasons for developing internal control systems, considering their elements, and how they can be effective established in various organizations.

The study was guided by 2 theories; the Agency Theory and the Stewardship Theory. The Agency Theory was advanced by Jensen and Meckling in 1976. It is appropriate because it focuses on the behavioral relationship between the owners who are the principals and those others who are the agents contracted by the owners to execute duties on behalf of the principal where the agent is given some decision-making power. It is also realised that the theory further assumes that managers are more informative than investors making it hard for investors to effectively determine whether their interests are well taken care of, thus, the theory states that there is need to have proper adequate contracts in an organisation to minimise opportunistic behaviors by the managers (Mwangi, 2017).

The study was guided by the Stewardship Theory which was developed by Schoorman and Donaldson in 1997. This theory is also fit in explaining the study since it accepts that managers are stewards who are responsible is to align their behaviors with the objectives of their principals. In this regard, management within various are responsible for providing all the necessaries that may influence the effectiveness of internal audit. Stewardship governance is being associated with different structural factors such as leadership systems, managerial practices, routines and procedures (Hernandez, 2012). Employees can become a steward through developing self-regulatory instrument in order to ensure the achievement of improved financial performance (Schepers *et al.,* 2012).

Juheno (2017) further notes that internal controls play an important role in corporate governance systems. Controls help an organization prepare accurate and complete financial statements at the end of each month and quarter. A firm may also hedge, or protect against, operating risks by implementing functional controls. These risks may relate to manufacturing activities and technological processes. Corporate governance consists of all mechanisms, technological processes and physical systems that department heads and segment chiefs put into place to make sure a company operates effectively. Governance tools include human resources policies and guidelines, as well as departmental work specifications. These tools may also include external elements, such as laws and regulations.

According to Mawanda (2018) 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. It is thus evidenced that the application of internal 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 processes that have been applied in an organisation

It is important to note that an effective internal control system is one that exhibits certain characteristics that facilitate the evaluation and improvement of existing internal control systems by highlighting areas where the practical application of such guidelines often fails in many organizations. Recently, policymakers have focused considerable attention on perceived weaknesses in the accountability and transparency of charitable organizations. This increased scrutiny is not necessarily unwarranted due to the recent financial scandals and the size of the public organisations to the economy (Petrovits: 2013). Opponents of any increased regulation argue that the current rules are adequate but need to be enforced, that most donors will not use any additional information to make a giving decision, and that organizations do not have the funds to comply with burden-some rules.

Katuntu, (2005) notes that today’s organisations have concentrated on the availability, accessibility and cost efficiency in the utilization of finances and as such, little attention has been paid to the great role played by the internal control systems in the performance of businesses. Furthermore, it is also stated that organisations have operated in total disregard of internal control systems leading to the mass failure of these business organizations (Lydia Were, 2011). Studies show that 90% of the business start-ups do not operate beyond the third anniversary due to lack of sound internal control systems.

According to Mawanda (2008) internal controls in UCAA 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 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 UCAA financial manual (2017/18) the policy or implementation frameworks of internal control systems are as follows:

* To ensure the completeness and accuracy of financial information.
* To ensure compliance with the authoritative laws and regulations in organisation operations.
* To promote an environment of efficient and effective operations that can maximize efficiency and effectiveness.
* To provide a mechanism for management to maintain the achievement of operational goals and objectives.

It is also observed that despite Uganda Civil Aviation Authority having established internal control systems, the organisation is still facing challenges in achieving objectives under financial performance. The study will therefore focus on assessing the level at which Uganda Civil Aviation Authority is achieving its set objectives with an aim of enhancing on financial performance.

# Statement of the problem

According to Kirsty (208) efficient internal controls creates an organization’s confidence in its ability to perform or undertake a particular task and prevents errors and losses through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with pertinent laws and regulations.

However, UCAA is still facing challenges of poor financial performance, this is evidenced as follows; Lule (2017) observed the cooperation lacks adequate internal control measures which have exposed it to financial threats such as, incorrect financial statement, mismanagement of documents, incorrect and unreliable financial records for instance; the external audit report (2019) indicated a requisition of UGX 12,674,000 had no supporting documents leading to accountability issues.

The external audit report (2019) further indicated that there is no proper record keeping and filing within departments; this has created difficulty in conducting periodic reconciliations which could enhance completeness of financial information because some documents are missing or misplaced.

In June 2018, a quarterly financial performance report indicated that there are inefficiencies in the internal controls specifically with the accounting personnel; it was revealed that allocation and use of funds within various departments is not done in line with guidelines stipulated in the approved budgets as funds were seen to be directed to wrong activities and departments; this exposed the cooperation to failure of properly utilising government funds.

Justine (2018) under a management meeting held on 10th August 2017 explained that internal control issues affect financial performance which in turn affects operations due to poor accountability. It is therefore upon this that the researcher is carrying out a study to establish the role of implementation of internal control systems on financial performance in public organisations.

# Purpose of the study

The purpose of the study was to examine the role of internal control systems on financial performance in public organisations in Uganda basing on a case study of Uganda Civil Aviation Authority.

## Research objectives

The following research objectives guided the study

1. To establish the effect of periodic reconciliations on completeness and accuracy of financial information at Uganda Civil Aviation Authority.
2. To assess the effect of access to accounting system on operational goals at Uganda Civil Aviation Authority.
3. To establish the effect of control activities on proper utilisation of funds at Uganda Civil Aviation Authority.

## Research questions

1. What is the effect of periodic reconciliations on completeness and accuracy of financial information at Uganda Civil Aviation Authority?
2. What is the effect of access to accounting system on operational goals at Uganda Civil Aviation Authority?
3. What is the effect of control activities on proper utilisation of funds at Uganda Civil Aviation Authority?

# Hypotheses of the study

The study tested the following hypothesis:

Ho: There is no statistically significant relationship between internal control systems and financial performance at Uganda Civil Aviation Authority.

Hi: There is a statistically significant relationship between internal control systems and financial performance at Uganda Civil Aviation Authority.

# Scope of the study

The scope of the study is divided into three sections as follows;

## Geographical scope

The study was carried out at Uganda Civil Aviation Authority’s head office at Entebbe International Airport, approximately 40 kilometers (25 mi), by road, south of Kampala, the capital and largest city of Uganda. The study mainly focused on the accounting and finance department respondents to provide reliable data about the study variables. The geographical coordinates of Uganda Civil Aviation Authority are: 0°02'23.0"N, 32°26'53.0"E (Latitude: 0.039722; Longitude: 32.448056)

## Content scope

The study focused on internal control systems as the independent variable and financial performance as the dependent variable. Internal control systems were discussed in terms of its dimensions which include periodic reconciliation, access to accounting systems, control activities and how these variables play a role on financial performance through influencing its dimensions such as completeness and accuracy of financial information, operational goals and proper utilisation of funds. The study mainly gathered information from the internal audit and finance and administration department.

## *Time scope*

The study mainly explored data from a time period of three operational years that is from 2018 up to 2020 because this is the period when Uganda Civil Aviation Authority experienced financial performance problems.

# Significance of the study

The study findings and conclusions may form a basis upon which the management of Uganda Civil Aviation Authority may assess their financial performance, identify gaps and adopt best practices to improve on their financial performance.

This study intends to provide relevant information to other companies about the role of internal control systems in the attainment of financial performance objectives, this may enable the stakeholder to not only understand the aspect but also appreciate the importance of the concept in attainment of financial objectives and success.

This study may also contribute to the body of knowledge in form of additional literature and may be used as reference material by other researchers intending to research in areas of internal control systems and financial performance.

# CHAPTER TWO

# STUDY LITERATURE

# Introduction

This chapter is divided in four key sections. Section one deals with the literature survey which is concerned with local studies that have been conducted in the area of internal control systems and financial performance. Section two deals with the review of relevant theories that underpin the study; section three reviews relevant empirical literature in line with the study objectives and section four presents the conceptual framework.

# Literature survey

A number of researches have been conducted on the issues of internal control systems and financial performance; however, no exhaustive research has come out to go deep into exploring the variables within a public setup such as UCAA. It is important to note though, some of the major studies that were carried out locally, these include;

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 performance with the main objective of establishing the relationship between internal control systems and organisation performance. In his study, it he discussed that the external auditors find it difficult to rely on internal control 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. Public organisations 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. However, Nyakundu et al (2014) failed to mention how periodic reconciliation can affect completeness and accuracy of financial information and this study therefore intends to fill this identified gap.

Furthermore, Tumukunde et al (2001) carried out a research study to examine the impact of internal control system activities on financial performance in tertiary institutions in Uganda. His main objective was to establish the relationship between the two variables of the study that is independent variable and dependent variable. Regarding control activities, the study found that there is clear separation of role in the institutions’ finance and account department and that superior officer in the College supervised regularly work done by their subordinate. Also, the study found that the institution financial statements are audited annually by external auditors. However, there is a possibility for a single staff to have access to all valuable financial information without the consent of other staff. On the budgetary control, the study revealed that the institution adhere strictly to the provisions of annual departmental budget and that control are in place to exclude incurring expenditure in excess of allocated fund. However, with review of Tumukunde’s research, he failed to mention how access to accounting system affects operational goals; this study intends to fill this gap.

Akol (2012) 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 was guided by the following objectives: To examine how MSH has ensured effective payment to different department in the organization, to establish how MSH has ensured financial records are subject to internal audit, to establish how MSH has ensured effective Procurement policies, to assess how MSH has exercised budgetary control on the expenditure of all departments in the organization. The internal audit function attracted a relatively fair response with some agreeing and others not meanwhile majority of respondents gave a negative view about the procurement process indicating it was fraud, likewise they didn’t appreciate the budgeting process. However, the study did not discuss how control activities as internal control measure can influence utilisation of funds.

# Theoretical review

This section presents the review of relevant theories about internal control systems and financial performance. The theoretical review will demonstrate a clear understanding of theories and concepts that are relevant to the study.

## Agency Theory

Agency theory was developed in 1976 by Jensen and Meckling. This theory is an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. Agency theory analyses the relationship between two parties: investors and managers. The agent (manager) undertakes to perform certain duties for the principal (investors) and the principal undertakes to reward the agent. According to the agency theory, a firm consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources. The theory posits that agents have more information than principals and that this information asymmetry adversely affects the principal’s ability to monitor whether or not their interests are being properly served by agents.

Further the theory recognizes that any incomplete information about the relationship, interests or work performance of the agent described could be adverse and a moral hazard. Moral hazard and adverse selection impact on the output of the agent in two ways; not possessing the requisite knowledge about what should be done and not doing exactly what the agent is appointed to do. The agency theory therefore works on the assumption that principals and agents act rationally and use contracting to maximize their wealth (Jensen & Meckling, 1976). This theory is applicable to this study simply because internal control is one of many mechanisms used in business to address the agency problem by reducing agency costs that affects the overall performance of the relationship as well as the benefits of the principal (Payne, 2003; Abdel- Khalik, 1993). Internal control enhances the provision of additional information to the principal (shareholder) about the behavior of the agent (management) reduces information asymmetry and lowers investor risk and low revenue.

## Stewardship Theory

Stewardship theory has its roots from psychology and sociology and is defined by Davis, Schoorman and Donaldson (1997) as “a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward’s utility functions are maximized”. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. Argyris (1973) argues that while agency theory looks at an employee or people as an economic being, which suppresses an individual’s own aspirations, on the other hand Donaldson and Davis (1991) argue

that stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust.

Meckling and Jensen (1994) further state the cost incurred to curb agency problems (reducing information asymmetries and accompanying moral hazards) is less when owners directly participate in the management of the firm as there is a natural alignment of owner managers’ interest with growth opportunities and risk. It follows from the above that stewardship theory unlike agency theory is a complete contrast and doesn’t emphasize on the need to incur monitoring or agency cost which includes establishing an internal audit function. Nevertheless, Donaldson and Davis (1991) further note that returns are improved by having both of these theories combined rather than separated which implies that management must strike a balance. In this study the steward theory supports the study by the fact that managers of institutions of higher learning act as stewards of shareholders, suppliers, creditors, consumers and employees of these institutions.

# Literature review

## Periodic reconciliation and completeness and accuracy of financial information

According to Haller (2018) 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 (2018) 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 (2016) 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 (2018) 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 (2014) assert that budgeting is very important for public organisation’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 (2017) “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 sector in Kenya as a significant social and economic force can be described as recent, the sector has been around for centuries, with varying degrees of visibility, importance, and strength. The sector has 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 (2017) 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.

## Access to accounting system and operational goals

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 (2016) found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed.

Arel B. et al (2015) 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 public organisation’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 affect the policy. All policies must be implemented thoughtfully, conscientiously and consistently (Anduuru, 2019).

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. This ranking is based on eight more traditional aspects of financial performance 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. Morris, (2011) 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.

Holt, (2016) 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 (2019) 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, 2017).

## Control activities and proper utilisation of funds

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. For the purpose of this study, I will limit the components of ICS to three; control environment, control activities and monitoring of controls (Anduuru, 2015).

Kenyan non-profit sector comprises 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, community-based organisations 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: 2017)

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 performance of an entity. John, Morris (2018) 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 performance 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, 2017)

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, 2011). 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 2017). 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, 2013).

# Conceptual framework

Independent variable Dependent variable

**Financial performance**

* Accuracy of financial information
* Operational goals
* Proper utilisation of funds

**Internal control systems**

* Periodic reconciliations
* Access of accounting systems
* Control activities

s

* Employee experience
* Ethical practice
* Technology

**Source: Adapted from Haller (2018)** **and modified by the researcher 2021**

# Figure 2.1: A conceptual framework

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

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

# RESEARCH METHODOLOGY

# Introduction

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

# Research design

Under this section the following are identified, and explained research approach, research strategy, and research duration and research classification.

## Research approach

The research approach is important because it can be used to test the validity of the research hypothesis. In the research approach the researcher used a phenomenological approach which enabled the researcher understand how respondents understand internal control systems and financial performance that is to mean life experiences of respondents.

## 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. The study used a case study as the research strategy. This involved a detailed examination of Uganda Civil Aviation Authority on how internal control systems affects financial performance.

## Research duration

The study adopted a cross-sectional design where data was gathered once from a cross section of sources in UCCA. The cross-sectional design required the researcher to use a number of data collection methods and produce data which permits the establishment of casual relationship.

## Research classification

Gossa (2016) explains that this means understanding the specific type of research to be used, it is important because it explains the purpose of carrying out the research. The study used quantitative and qualitative techniques. Quantitative data involves collecting and converting data into numerical form hence use of statistical calculations in computing the responses from respondents under the questionnaire instrument and also computing the hypothesis where conclusions were drawn. Qualitative data provides details in understanding the study problem, in this study this is community relations therefore, the qualitative data was used to capture feelings, thoughts and experiences of respondents through questions that were sposed in the interview sessions.

# Study population

The study population targets 90 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 UCAA objectives are achieved. These were chosen because they are expected to have enough knowledge required in understanding of internal control systems at UCAA since their responsibilities and roles reflect directly back to the concept and its relationship with financial performance.

# Sample size and selection

The study used the Yamane formula of sample determination (1967:886) to determine the sample size as shown below.

n = N

**Where**

n = Sample size

N= Population size

e = margin of error at 95% confidence level

e = Margin of error/0.05

1 + N (e2)

n= 90

1 + 90 (0.052)

n= 90

1 + 90 (0.0025)

n= 73

# 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 | 33 | 26 | Simple random sampling |
| I.T | 10 | 8 | Simple random sampling |
| Audit | 6 | 4 | Purposive sampling |
| **Total** | **90** | **73** |  |

**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 (2021)**

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 (2021)**

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 UCAA

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 UCAA | | | | | |
|  | | 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 (2021)**

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

Purposive, random and census sampling techniques were used to select the sample.

## Purposive sampling

The researcher used purposive method of sampling to select respondents from M&E, internal control team and audit. It is the most appropriate method to select a sample from the various sectors in this area and it enabled the researcher to select a sample with vital data on the topic under study that can assist in analysing the problem further (Creswell, 2009).

## Simple random sampling

The researcher also used simple random sampling to select respondents from support staff and I.T. The technique was applied to eliminate bias, both conscious and unconscious, that the researcher could introduce in sample selection (Amin, 2005). This method also offered every member of the population an equal chance of being selected for the assignment and it is required for inferential statistics since the researcher desires to make inferences about populations based on the behaviour of samples.

# Data collection sources

According to Weiner, (1995), data collection is a standout amongst the most essential stages in carrying on research. It helped 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 by 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

## Questionnaire survey method

The researcher used survey questionnaire designed to specifically be completed by 73 selected respondents without intervention of the researcher. The advantage of the questionnaire is that it covers more respondents in a short time (Amin, 2005). The questionnaire was designed as a Likert scale comprising 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.

## Key informant interview method

In this study key informant interviews were sought where the researcher met face to face with the selected interviewees and pause questions from the interview schedule on internal control systems from which the interviewee’s responses were recorded (Creswell, 2015) in audio and later transcribed and typed out. The choice of interviewing as justified by Creswell (2015) is that it provides opportunity for probing to gain in-depth explanations from the interviewee on the study variables. The study specifically interviewed the manager and internal control staff as key informants who make executive decisions of internal control systems.

# Data collection instruments

## Self-administered questionnaire

Smedts (2009) asserts thata self-administered questionnaire (SAQ) refers to a questionnaire that has been designed specifically to be completed by a respondent without intervention of the researchers. 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. The questionnaires were distributed to all 73 respondents because they are assumed to have prior knowledge about the internal control systems and how it contributes to financial performance. The questionnaire approach was self-administered

## Interview guide

The interview guide is a list of questions a researcher asks participants during the interview (Angus, 2000). The rationale for using the interview guide is that it gives the depth of what is sought (Creswell, 2003; Amin, 2005). The researcher designed structured interview guide where each respondent was asked the same question in the same order. Respondents from management team were the most emphasised to answer questions from the interview guide. The researcher clearly expressed the purpose of the interview and started with the neutral questions to facilitate free flow of information.

# Data quality control

## Validity of the instruments

Cresswell (2011) states that validity is used to determine whether research instruments measure what it intended to measure and to approximate the truthfulness of the results. A pre-test of the research instrument to establish its validity will be done. With the aim of completing the research in time, the instrument was given the supervisor who gave her opinions on the relevance of the questions using a 5- point scale of relevant to not relevant. Items that were found not to be relevant were eliminated and those found not to be understood were adjusted for clarity. The validity of the research instruments was determined using the content validity index (CVI) because the method can evaluate whether test items are valid, and define the content of the study.

## Reliability of the Instruments

Reliability was established using SPSS Reliability Analysis Scale (Alpha coefficient). This is because of its ease and automatic applicability which fits a two or more-point rating scale. The instruments of the research based on the Likert type five-point scale. The researcher used Alpha co-efficient because it is easy and automatic to apply ((Mugenda, 2010).

# Data Analysis

## Analysis of quantitative data

The quantitative collected data was edited, coded and cross checked for completeness using Ms Excel and exported to Statistical Package for Social Sciences version 25 for analysis. The quantitative data was presented in form of numeric using tables and charts representing frequencies and percentages of results. The inferential statistics such as correlation and regression analysis were used to test the study hypotheses.

## Analysis of qualitative data

Qualitative data was analysed using content analysis and thereafter develop themes and sub-themes. The study findings were presented a in narrative form by directly reporting respondents responses through quotations.

# Ethical Considerations

The research was conducted basing on the prevailing ethical considerations. To ensure that ethical considerations were maintained and adhered to, anonymity, informed consent and confidentiality was assured to the respondents.

**Informed consent**

The researcher ensured the he informs his respondents about the purpose of the study and before conducting interviews, respondents were asked whether they have agreed or not to participate and disclose their personal information.

**Anonymity**

The researcher ensured that none of the respondents’ name was mentioned anywhere in the study but rather respondents were referred to using letters of alphabet for example respondent “A OR AB”.

**Confidentiality**

The researcher ensured that other than her and the supervisor, no one else had access to the data that was obtained during the research and that all data was treated with absolute confidentiality.

**Privacy**

The researcher obeyed the rules and rights of the respondents to ensure that the rights to privacy and protection of the respondents was not infringed.

# Limitation of the study

Low-response: The researcher may face a problem of non-response from the respondents about particular questions especially through interview sessions probably because they may be too busy. The researcher intends to overcome this limitation by administering many questionnaires as possible so as to eliminate higher likelihood of low response.

# CHAPTER FOUR

# PERIODIC RECONCILIATIONS AND COMPLETENESS AND ACCURACY OF FINANCIAL INFORMATION

# Introduction

This chapter deals with the first objective of the study; to establish the effect of periodic reconciliations on completeness and accuracy of financial information at Uganda Civil Aviation Authority. All the 71 questionnaires distributed were filled and returned thus representing a 100% response rate. The basis of reporting in this chapter and the subsequent chapters is on the 71 filled questionnaires. The time for total lockdown was challenging to collect data in time, it is why the sample size of the study if small and data was adequately collected by an acceptable response rate about internal control systems and financial performance in UCAA. In order to effectively conduct valid analysis of data, the researcher used descriptive statistics by adapting tables to depict the relevant data.

# UCAA has a well-developed computerized 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: UCAA 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 (2021)**

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;

*“UCAA 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 (2021)**

Results in table 4.2 above show that majority of the respondents generally agreed, this was represented by a combined percentage of 62.0%, this means that UCAA 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 the 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 (2021)**

As seen in table 4.3, results revealed that majority of the respondents that is 35.2% agreed while 32.4% strongly agreed, this means that decision making in reference to organisation’s 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.

# UCAA uses the system to record transactions on a regular basis

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.4: UCAA 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 (2021)**

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 UCAA 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 |  |

**Source: Primary data (2021)**

According to results in table 4.5, it is indicated that 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;

*“UCAA 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 go 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 that is 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 (2021)**

The results in table 4.6 show that a combined percentage of 60.6% generally agreed, this means that that internal control systems at UCAA 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 (2021)**

According to results in table 4.7, it is revealed that majority of the respondents that is 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 allow the corporation to keep up to date financial information and forward thinking on how to run the company. It was revealed that the internal control system 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 (2021)**

As seen in table 4.8, results indicate that majority of the respondents represented by 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 helps UCAA determine financial situation

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.9: Internal control helps UCAA 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 (2021)**

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 UCAA.

# Hypothesis testing one

Ho: There is no statistically significant relationship between periodic reconciliation and financial performance at Uganda Civil Aviation Authority.

# Regression analysis

Multiple regression analysis was performed in order to establish the extent to which periodic reconciliation explain the degree of variance in financial performance at Uganda Civil Aviation Authority. The result obtained is represented in the model summary table 4.10 below;

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Table 4.10: Model Summary | | | | |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .840a | .705 | .700 | .79120 |
| a. Predictors: (Constant), Periodic reconciliation | | | | |

The results in table 4.10 (model summary) of regression yielded an Adjusted R square of .700 this means that periodic reconciliation contribute 70.0% to financial performance in UCAA. The remaining 30.0% 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 periodic reconciliation have significantly influenced financial performance.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 4.11: ANOVAa forperiodic reconciliation and financial performance | | | | | | |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 86.676 | 1 | 86.676 | 138.461 | .000b |
| Residual | 36.308 | 58 | .626 |  |  |
| Total | 122.983 | 59 |  |  |  |
| a. Dependent Variable: Financial performance | | | | | | |
| b. Predictors: (Constant), Periodic reconciliation | | | | | | |

From the ANOVA statistics in table 4.11, 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 periodic reconciliation significantly facilitates financial performance at UCAA.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 4.12: Coefficients | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | 1.381 | .206 |  | 6.708 | .000 |
| Periodic reconciliation | .935 | .079 | .840 | 11.767 | .000 |
| a. Dependent Variable: Financial performance of UCAA | | | | | | |

The coefficients table generates the model that relates the dependent and independent variables. In this case, the regression model indicates that periodic reconciliation facilitates financial performance. The test yielded a significant relationship between the study variables since the Beta value is positive represented by (p= .844, P=0.01).

In conclusion, it can be noted that there is a significant relationship between periodic reconciliation and financial performance at UCAA hence the study rejects the null hypothesis.

# CHAPTER FIVE

# ACCESS TO ACCOUNTING SYSTEM AND OPERATIONAL GOALS AT UCAA

# Introduction

This chapter is about the second objective of the study; to assess the effect of access to accounting system on operational goals at Uganda Civil Aviation Authority. The results to the statements in this section are summarized as follows

# 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 (2021)**

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. This means that UCAA 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 (2021)**

The results in table 5.2 indicate that majority of the respondents generally disagreed 29.6% of the respondents strongly disagreed and 32.4% 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

The respondents were also asked whether a single staff can have access to all valuable financial information without consent of others. The results are presented in table 5.3

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 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 (2021)**

According to results in table 5.3, it is indicated 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 UCAA 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 (2021)**

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 institutional 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 (2021)**

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 UCAA 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;

*“UCAA 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 (2021)**

As seen in table 5.6, results show that 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 (2021)**

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 institution’s finance and accounts departments

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 (2021)**

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 UCAA is under accounts payable, over the years employees have attempted to create false invoices, disbursing funds to an account 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.

# Hypothesis testing two

Ho: There is no statistically significant relationship between access to accounting system and financial performance at Uganda Civil Aviation Authority.

# Regression analysis

Multiple regression analysis was performed in order to establish the extent to which access to accounting system explain the degree of variance in financial performance at Uganda Civil Aviation Authority. The result obtained is represented in the model summary table 5.9 below;

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Table 5.9: Model Summary | | | | |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .680a | .462 | .451 | .66145 |
| a. Predictors: (Constant), Access to accounting system | | | | |

The results in table 5.9 (model summary) of regression yielded an Adjusted R square of .451 this means that access to accounting system contribute 45.1% to financial performance in UCAA. The remaining 54.9% 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 access to accounting system have significantly influenced financial performance.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 5.10: ANOVAa forperiodic reconciliation and financial performance | | | | | | |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 18.797 | 1 | 18.797 | 42.964 | .000b |
| Residual | 21.876 | 69 | .438 |  |  |
| Total | 40.673 | 70 |  |  |  |
| a. Dependent Variable: Financial performance | | | | | | |
| b. Predictors: (Constant), Access to accounting system | | | | | | |

From the ANOVA statistics in table 5.10, 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 access to accounting system significantly facilitates financial performance at UCAA.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 5.11: Coefficients | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | 1.381 | .206 |  | 6.708 | .000 |
| Access to accounting system | .935 | .079 | .680 | 11.767 | .000 |
| a. Dependent Variable: Financial performance of UCAA | | | | | | |

The coefficients table generates the model that relates the dependent and independent variables. In this case, the regression model indicates that access to accounting system facilitates financial performance. The test yielded a significant relationship between the study variables since the Beta value is positive represented by (p= .680, P=0.01).

In conclusion, it can be noted that there is a significant relationship between access to accounting system and financial performance at UCAA hence the study rejects the null hypothesis.

# CHAPTER SIX

# CONTROL ACTIVITIES AND PROPER UTILISATION OF FUNDS AT UCAA

# Introduction

This chapter is about the third objective of the study; to establish the effect of control activities on proper utilisation of funds at Uganda Civil Aviation Authority. The results to the statements in this section are summarized as follows

# UCAA has standards 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: UCAA 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 (2021)**

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 financial 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 (2021)**

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 UCAA cannot easily face 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 is 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 (2021)**

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’s 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 (2021)**

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 UCAA 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 UCAA 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 (2021)**

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 (2021)**

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 performance in an effort to improve services and accomplishment of overall performance.

# 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 (2021)**

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.

# Hypothesis testing three

Ho: There is no statistically significant relationship between control activities and financial performance at Uganda Civil Aviation Authority.

# Regression analysis

Multiple regression analysis was performed in order to establish the extent to which control activities explain the degree of variance in financial performance at Uganda Civil Aviation Authority. 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), Control activities | | | | |

The results in table 6.8 (model summary) of regression yielded an Adjusted R square of .713, this means that control activities contribute 71.3% to financial performance in UCAA. 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 control activities have significantly influenced financial performance.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 6.9: ANOVAa forinternal control systems and financial performance | | | | | | |
| 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: Financial performance | | | | | | |
| b. Predictors: (Constant), Control activities | | | | | | |

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 control activities significantly facilitate financial performance at UCAA.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 6.10: Coefficients | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | -4.381 | .602 |  | -7.272 | .000 |
| Control activities | 1.876 | .142 | .847 | 13.212 | .000 |
| a. Dependent Variable: Financial performance of UCAA | | | | | | |

The coefficients table generates the model that relates the dependent and independent variables. In this case, the regression model indicates that control activities facilitate financial performance. This is because, if the organisation has effective measures that prevent fraud and errors in corporation’s accounts, then enhancing financial performance 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 control activities and financial performance at UCAA hence the study rejects the null hypothesis.

# CHAPTER SEVEN

# TOWARDS HARMONISING INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE AT UCAA

# Introduction

This chapter therefore focused on harmonisation of internal control systems and financial performance in UCAA.

# Periodic reconciliation and accuracy of financial information

On the question of how periodic reconciliation has ensured completeness and accuracy of financial information at Uganda Civil Aviation Authority, 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 UCAA 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.

# Access to accounting information and operational goals

On the question of how access to accounting information enhances operational goals.at Uganda Civil Aviation Authority, 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

# Control activities and proper utilization of funds

On the question of how control activities enhanced proper utilization of funds, is 43.7% and 28.2% who strongly agreed and agreed to the statement that UCAA 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 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 performance. 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 UCAA. The study ends by presenting the areas that the researcher considers vital for further studies

# Summary of the findings

# Periodic reconciliation and accuracy of financial information

Results revealed that the computerised internal control system used in UCAA 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 UCAA 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

# Access to accounting information 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 UCAA is under accounts payable, over the years employees have attempted to create false invoices, disbursing funds to an account controlled.

# Control activities and proper utilization of funds

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 performance in an effort to improve services and accomplishment of overall performance. These 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 performance 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, financial performance 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 KATO NOBERT 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 performance in public organisations in Uganda basing on a case study of Uganda Civil Aviation Authority”. 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 UCAA?

1. Less than one year
2. 1-5 years
3. 6-7 years
4. 8 years and above

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: Periodic reconciliations and completeness and accuracy of financial information at UCAA**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **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. UCAA 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 UCAA determine financial situation |  |  |  |  |  |

**SECTION C: Access to accounting system and operational goals at UCAA**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **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 |  |  |  |  |  |

**SECTION D: Control activities and proper utilisation of funds at UCAA**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Question** | **1** | **2** | **3** | **4** | **5** |
| 1. UCAA has standards requirements for all financial documents |  |  |  |  |  |
| 2. All financial documents are safely stored |  |  |  |  |  |
| 4. Internal control system guarantees an adequate level of spending quality |  |  |  |  |  |
| 5. The financial reports are comparable with previous period’s reports |  |  |  |  |  |
| 6. Expenditures related to financial resource is subject to control standards |  |  |  |  |  |
| 7. Determining value for money requires internal control system |  |  |  |  |  |
| 8. Internal control system for funds requires appraisal |  |  |  |  |  |

**SECTION D: Financial performance at UCAA**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Question** | **1** | **2** | **3** | **4** | **5** |
| 1. UCAA has an improved and steady financial position |  |  |  |  |  |
| 2. The cooperation effectively allocates and utilises provided funds |  |  |  |  |  |
| 4. There is prudent financial performance decision making |  |  |  |  |  |
| 5. There are skilled personnel with relevant financial skills |  |  |  |  |  |
| 6. There is implementation of potential strategies for attainment of financial goals. |  |  |  |  |  |
| 7. UCAA’s profitability is prioritised as a key indicator of financial performance |  |  |  |  |  |

# 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 UCAA and for how long have you been working in the company?

3. When did UCAA 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?