ASSESSING THE EFFECT OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFORMANCE: A CASE OF THE COORDINATING OFFICE FOR THE CONTROL OF TRYPANOSOMISIASIS IN UGANDA (COCTU).

BY:

MPANGIRE HANAN

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A RESEARCH REPORT SUBMITTED TO THE GRADUATE SCHOOL AS A PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTERS DEGREE IN BUSINESS ADMINISTRATION DEGREE OF KYAMBOGO UNIVERSITY

DECEMBER, 2014

DECLARATION

I Mpangire Hanan, declare that this research is my original work and has never been submitted to this or any other institution or university for any academic award, where the work of other people has been used, due acknowledgment has been done.

Signed .... Date 30/12/2024

Mpangire Hanan

APPROVAL

This research report entitled "assessing the effect of Internal Controls on financial performance in the coordinating office for the control of Trypanosomiasis in Uganda (COCTU)'' submitted with approval of the undersigned as the University supervisor.

This is to approve the dissertation for a Masters of Business Administration Degree of Kyambogo University.

Signed ....

Date....30/12/14........

Mr. MBABAZI TADEO

Signed ....

Date.30/12/2014

Dr. MUKOKOMA MAURICE

School of Management and Entrepreneurship

Kyambogo University

DEDICATION

I dedicate this research work to my family with special regards to my Wife Ateenyi Tusiime M, mother Mrs. Maimunah Mpangire B Amooti, father the late hajji. Ramathan Mpangire Amooti, sisters, brothers and my Son Hanan Junior.

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LIST OF ACCROYNS

COCTU	:	Coordinating Office for the Control of Trypanosomiasis in Uganda
FCPA	:	Foreign Corrupt Practices Act
FRA	:	Fiduciary Risk Assessments
ICS	:	Internal Control Systems
ICT	:	Information Communication Technology
MOFPED	:	Ministry of Finance Planning and Economic Development
OAG	:	Office of the Auditor General
OPM	:	Office of the Prime Minister
PEFA	:	Public Expenditure and Financial Accountability

ABSTRACT

The study assessed the effect of internal control systems on financial performance in the agriculture sub sector. Primary data was collected using questionnaires, and interview. A total of 50 respondents participated in this study. Secondary data included review of documents and records such as management reports, Audit reports and other related literature. Data was analyzed using the Statistical Package for Social Scientists (SPSS).

The dimensions of internal control systems in this study were (control environment, monitoring, and control activities) and they were linked to the dimensions of performance (liquidity, accountability, and reporting). Details revealed that control environment is linked to liquidity ($r = 0.294$, $p \leq 0.01$),control environment was also linked to accountability ($r = 0.338$, $p \leq 0.05$), and control environment was related with reporting ($r = 0276$, $p \leq 0.01$).Similarly, the study found that audit as a dimension of internal control system, was related with all the dimensions of financial performance in the following details; audit and liquidity was related ($r = 0.091$, $p \leq 0.01$), internal audit was related with accountability ($r = 0.447$, $p \leq 0.01$), internal audit and reporting have a significant relationship ($r = 0.389$, $p \leq 0.01$). In addition, control activities as a dimension of internal control system and all the dimensions of financial performance are related; control activities and liquidity are related ($r = 0.291$, $p \leq 0.01$), control activities and accountability are related ($r = 0.411$, $p \leq 0.01$), and control activities and reporting are related ($r = 0.299$, $p \leq 0.01$).

On assessment, it was recommended that there was an urgent need for Management's action to correct errors in the system as an indication of Management's commitment to the operation of the internal control system. Management should always monitor, cross check and review the financial reports as well as carrying out similar studies in other government institutions. Having known the significance of Internal Control Systems on the financial performance, COCTU needs to ensure continuous review of the Internal Control System in the changing environment.

CHAPTER ONE

1.1 Introduction

This chapter contains the following:-introduction, background of the study, statement of the problem, objectives of the study, research questions and significance of the study.

1. 2 Background of the Study

Internal controls are all the policies and procedures management uses to: safeguard assets, ensure the reliability and integrity of financial information, ensure compliance with many regulations affecting the operations of the institution, promote effective operations of the management, accomplish operational goals and objectives of the institution (University of Washington, 2012). Internal control systems are put in place to keep organization on course towards profitability goals and achievement of its mission and to minimize surprise along the way. They enable management to deal with rapidly changing economic and competitive environment, shifting customer demands and priorities and restructuring for future growth (COSO, 2011).

Following the occurrences of overseas illegal payments made by U.S. corporations, as seen in the Watergate and Lockheed scandals in the 1970s,as a result, Foreign Corrupt Practices Act of 1977 (FCPA) was enacted It clarified mandatory establishment of the Internal Control Systems for the first time, which accelerated diffusion of internal control in the world.

The Public Financial Management systems of GOU have been assessed on a regular basis by various international agencies (including Public Expenditure and Financial Accountability (PEFA) assessments in 2005, 2008 and 2012, and Fiduciary Risk Assessments (FRA) undertaken by UK Department for International Development. The systems have largely been found to be functional with appropriate internal controls in place. Internal controls are dependent upon having appropriate and trustworthy people at appropriate levels approving expenditure and payments, as well as systems of passwords, separation of duties, regular reconciliations.

Although Internal Control systems have been there in Uganda, there still existed systematic by-passing of these systems that lead to abuse of public funds by the different government bodies amounting to trillions of shillings Auditor General's report, (2012). This report shows misappropriation of monies in about 1600 entities including the Central Government, Local Government and statutory corporations. A good example was the OPM scandal of 2012 revealed by Auditor General's report (2012) there was collusion at senior levels across three key agencies the OPM, the Accountant General's Office (including Treasury) within the Ministry of Finance, Planning and Economic Development (MOFPED), and the Bank of Uganda (BOU). The financial misappropriations in the various parastatal organizations could not largely be attributed to non-compliance with internal controls.

According to Marquis codjia (2012), Financial performance is " reviewing the finances of an individual or a company and using various tools to gauge specific criteria depending on the inquiry goal they can be solvency liquidity to profitability and risk management''.

According to Maina (2013) Financial Performance is "a subject measure of how well a firm can use assets from its primary mode of business and generate revenues. Which at times is translated as a general measure of a firms overall financial health over a given period of time, and can be used to compare similar firms across the industry or to compare industries or sectors in aggregation.

According to Stoner (2003), financial performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. This measurement is sometimes referred to as performance appraisal. He also argues that organizations' financial performance is measured in terms of economy, efficiency, liquidity, effectiveness and accountability.

Therefore, there was need to assess the effect of internal control systems on financial performance of COCTU, because there were clear tresses of risks in terms of reporting which affects decision making, financial scandals in the entity, information flow within and among the staff and other stakeholders.

1.3 Statement of the Problem

There was a general perception that institutions in the enforcement of proper internal control system lead to improved financial performance. It was also a general belief that properly instituted systems of internal control improve the reporting process and also provide reliable reports which enhances the accountability function of management of an entity (OAG, 2010). Nevertheless, the report of the Auditor General of Uganda (2012/13), established that Ministries, Departments and Agencies have had a number of cases of financial mis-appropriations, less monitoring and supervision of activities and poor information sharing among the employees which allude/point out that in spite of elaborate system of controls in these organizations, financial performance has been elusive in most of these organizations and COCTU was not exceptional. Therefore, there was need to assess the effect of Internal Control Systems on financial performance in the Agricultural Sector specifically in COCTU.

1.4.0 Objectives of the Study

1.4.1 General Objective

The major purpose of this study was to assess the effect of internal controls systems on financial performance of COCTU.

1.5 Specific Objectives

1. To establish the relevancy of Control Environment on financial performance in COCTU.
2. To investigate the control activities in COCTU that influence financial performance.

3. To assess the relationship between monitoring activities and financial performance of COCTU.

1.6 Research Questions

1. Does the Control Environment influence financial performance in COCTU?
2. What control activities affect financial performance of COCTU?
3. Is there any relationship between monitoring activities and financial performance of COCTU?

1.7.0 Scope of the Study

1.7.1 Content Scope

COSO (1994) identifies five basic elements for internal control system: Control Environment, Control Activities, Information and Communication Monitoring and risk Assessment but focus for this study, was put on control environment, control activities and monitoring in relation to accountability, efficiency and economy for financial performance in public institutions.

1.7.2 Geographical Scope

The study was carried out at COCTU Wandegeya and Arua offices this was because it comprised of about 60% of the staff who were technical for providing information necessary for this study. These respondents had better knowledge of the organization and the study variables.

1.7.3 Time Scope

The study was carried out between the months of July and September, 2014.

1.8 Significance of the Study

The results provide useful information to management, in setting standards for approval, authorization, verification and ascertaining security for the organizational assets.

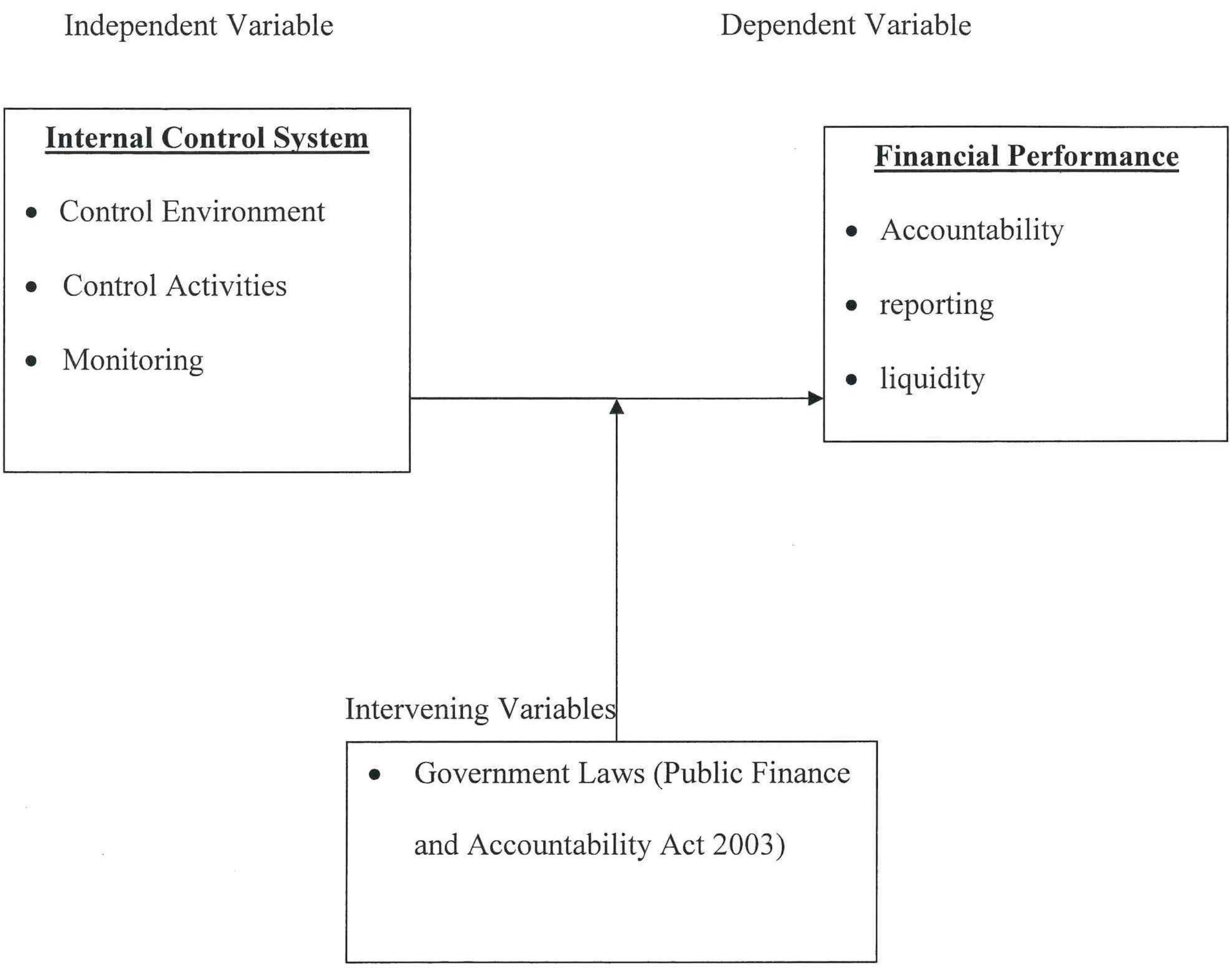
Board of governors, and all stakeholders of COCTU, specifically they might use findings to re-design policies aimed at improving the levels of financial performance.

Findings provide baseline information for reference by academicians/researchers who seek to conduct further research in any of the variable under the study.

The findings could help formulate policies for the organization, business community, the country and the world as a whole in relation to the variables.

The study generated knowledge to link Internal Control Systems and financial which guided Policy makers in the planning for the public resources.

1.9 Conceptual Framework



Source: COSO (2004),Sollenberg& Anderson (1995) and Stoner (2003) modified by the researcher.

From the above Conceptual framework, it was clear that internal control system were the Independent variable (as measured by the Control Environment, Monitoring and the Control Activities) affects Financial Performance a dependent variable (as measured by Accountability, liquidity and reporting of an Entity). However, there was also a moderating factor like Government laws (Public Finance and Accountability Act 2003).

The efficient conduct of any business entity, including adherence to internal policies, the safeguarding of assets, the prevention, detection of fraud and error, the accuracy and compilation of the accounting records and timely preparation of reliable financial information. Successful organizations have ensured that they attain and consolidate continued survival in a competitive environment (Peter Drucker, 1999).

According to Stoner (2003), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg & Anderson (1995) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is a measure of attainment achieved by an individual, team, organization or process (EFQM, 1999). Hitt, et al (1996) believes that many firms' low performance come as a result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris (Roll, 1986) or overvaluation of managerial capability in the acquisition process.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter comprises of the arguments and opinions of earlier scholars which are related to the impact of internal controls on the performance of an organization. The sub-sections present the following:- elements of internal control, empirical reviews on internal control systems, financial performance and the relationship between internal controls and financial performance.

Weber, (1998) internal control system is an integral process that is continuously adapting to changes an organization is facing. This forms a basis for establishing a relationship between financial performance and internal control systems; this has been documented in various literatures. Internal control systems that have been confirmed to have a relationship with business financial performance include: organization, segregation of duties, physical authorization and approval, arithmetical and accounting, personnel, supervision, management, acknowledgement of performance and budgeting.

Wolf, (1994) argues that basic concepts of the entity's risk assessment process are relevant to every entity, regardless of the size, but the risk assessment process is likely to be less structured in small entities than in larger, well established entities. Weber (1998) points out that entities may implement the control environment elements differently than larger entities. Small entities might not have written codes of conduct. Moreover, those charged with governance in small entities may not include an independent or outside member. Small entities are less committed to the advancement or hiring of qualified personnel to positions of responsibility in business entities.

2.2 Elements of Internal Control

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 of: - Control Environment, Risk Assessment, Control Activities, Information, Communication, and Monitoring are present and functioning. Effective controls provide reasonable assurance regarding the accomplishment of established objectives. For the purpose of this study, the components of ICS were limited to three; control environment, control activities and monitoring of controls (researcher, 2014).

Control Environment

Control Environment (CE) is the philosophy, style and supportive attitude, as well as the competence, ethical values, integrity and morale of the people of the organization (DiNapoli, 2007). The CE is further affected by the organization's structure and accountability relationships. Control Environment (CE) is the attitude and actions of Council and Management regarding the significance of control within the LG (DiNapoli, 2007).

Control Environment provides the discipline and structure for the achievement of the primary objectives of the System of Internal Control. According to INTOSAI; control environment is the foundation of the ICS and sets the tone of an organisation, influencing the control consciousness of its staff. This is the overall COCTU attitudes, values, and philosophy of senior political and management executives and the culture throughout the COCTU relating to the timeliness, integrity, and accuracy of financial reporting, (Thuy 2007).

It provides the discipline and structure as well as the climate which influences the overall quality of the Internal Control Systems. Elements of the control environment are; the personal and professional integrity and ethical values of management and staff, appropriate culture in the organization, attitude towards internal control systems throughout the organisation; commitment to competence; the "tone at the top" (i.e. Management's philosophy and operating style); a good organizational structure (an independent Internal Audit function and segregation of duties), set up proper authorisation limits; and human resource policies and practices (Kaplan, 2008; Thuy, 2007; INTOSAI, 2004; and Laura, 2002).

The control environment, as established by the organization's administration, sets the tone of an institution and influences the control consciousness of its people (Whittington and Pany, 2001). Management attitude should be committed to ethical business practices and following the established control procedures. This was 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.

2.2.2 Control Activities

According to Thuy, (2007); Control Activities are comprised of policies, procedures, and systems relating to the reliability of financial reporting. They include authorizations and approvals, verifications, reconciliations, reviews of performance, security of assets, segregation of duties, and controls over information systems (Laura, 2002). The elements of Control Activities include; policies regarding reconciling bank statements with cheques issued, procedures governing the counting and valuation of inventory, the procurement and disposal systems, and codes of conduct to guide employee behavior (Kaplan, 2008; Thuy 2007). Control activities can be preventive and/or detective. Corrective actions are a necessary complement to internal control activities in order to achieve the organisations objectives hence realizing Value for Money.

2.2.3 Monitoring of Controls

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

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

Monitoring is the process that assesses the quality of the system's performance over time, which includes ongoing monitoring activities, separate evaluations or a combination of the two (INTOSAI,2004;DiNapoli,2007).Management should focus monitoring efforts on internal controls and the achievement of the organization's mission. For monitoring to be most effective, all employees need to understand the organization's mission, objectives, risk tolerance levels and their own responsibilities (DiNapoli,2007).Monitoring is the review of an organization's activities and transactions i.e. The ICS to assess the quality of performance over time and to determine whether internal control systems are effective (DiNapoli, 2007).

On going monitoring of internal control systems is built into the normal, recurring operating activities of an entity it involves actions against irregular, unethical, uneconomical, inefficient and ineffective Internal Control Systems (DiNapoli, 2007; INTOSAI, 2004).According to the COCTU Financial and Accounting Regulations (2012); Council, SEC, standing committees and management are supposed to monitor and review the performance of their respective sectors. Monitoring involves separate evaluations which cover the evaluation of the effectiveness of the ICS in achieving set objectives and any deficiencies should be reported to the SEC for Council's action

(INTOSAI, 2004).

2.3 Review of Empirical Studies on Internal Control Systems

Internal control system is a critical component of an organization's management and a foundation for its safe and sound operations (Drogalas et al., 2005; Karagiorgos et al., 2010). Internal control comprises of five components; the control environment, the entity's risk assessment process, the information and communication systems, control activities and the monitoring of controls (Hayes et al., 2005). However, for purposes of this study, the research narrowed down to only three components of the internal control system. These include; the control environment, monitoring of controls and control activities. The other components of the internal control systems were held constant.

There seem to be very little empirical literature on internal control systems in public institutions. However, various scholars and professionals in America and Europe have carried out studies on internal control systems for the corporations, the findings of which can be applied to public institutions with ICSs are observed to be significantly larger, more highly regulated, more competitive, more profitable, more liquid, more conservative in their accounting policies, more competent in their management and accounting, and subject to better management controls (Wallace & Kreutzfeldt, 1991). A study by Goodwin-Stewart & Kent (2006), using a sample of Australian listed companies, shows that the existence of an Internal Control System is positively associated with firm size and commitment to risk management.

The risk and control awareness have an influence on the scope of the ICS (Sarens & De Beelde, 2006). These results suggest that when management is aware of risks and control activities, they are more likely to understand the role of the ICS in monitoring risk and control activities, thus it is more likely that they will support a relatively larger ICS (McNamee, 1999).

According to Kotler (1992), strong performing firms are those that can stay in business for a good number of years. Dwivedi (2002) also found out that, the ability of a firm to survive in business in an indicator of good financial performance. In the1990, 38 active British businesses went into liquidation in the third quarter of 1992 and in 1991 a total of 21,827 businesses failed compared to 15,051 majorly because of weak ICS (Richardson, Sonny & Suzan, 1994). However in Uganda, about 90% of Ugandan collapse within 3 years (Katuntu, 2005). Lack of or weak ICSs are therefore an indicator of poor financial performance.

In another study, internal control systems were construed to mean a process effected by the entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories; reliability of financial reporting, efficiency of operations, and compliance with applicable laws and regulations (Ray & Kurt; 2001).

2.4 Financial performance

According to Stoner (2003), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg & Anderson (1995) asserts that, performance is measured by how efficient the enterprise makes use of its resources in achieving objectives. It is the measure of attainment achieved by an individual, team, organization or process (EFQM, 1999). Hitt, et al (1996) believes that many firms' low performance is as a result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made during the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris (Roll, 1986) or overvaluation of managerial capability in the acquisition process. This study was guided by "The Agency Theory" as initially put across by Jensen & Meckling, (1976). According to the agency theory a company 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 (Jensen & Meckling, 1976). Agency theory asserts that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by agents. Furthermore, an assumption of agency theory is that principals and agents act rationally when contracting to maximize their wealth. A consequence of this assumption maybe the 'moral hazard' problem according to Jensen & Meckling (1976), hence indicating that in an effort to maximize their own wealth; agents may face the dilemma of acting against the interests of their principals.

This theory was chosen for this study because internal control is one of the mechanisms used in business to address the agency problems and reduces agency costs (Jensen and Payne, 2003).

Brown, (1996) proposes that performance measures in organizations must focus attention on what makes, identifies and communicates the drivers of success, support organizations learning and provide a basis for assessment and reward. Dixion, (1990) adds that appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. This was because according to him a firm's performance is central to the future wellbeing and prosperity of any enterprise.

Study by Nicolaisen, (2004), shows that performance can be measured at both organizational and individual levels. This measurement was sometimes referred to as performance appraisal. He also argues that organizations have desired potentials in terms of capacity, attraction, manual share and financial strength and performance is the difference between those potentials and those that have been achieved. Furthermore, argues that human capital asset accumulation has significant impact on the organizations ability to introduce new products, compete within markets thus influencing the level of performance. It increases knowledge base within the organization's success and performance.

Jones (2008), assert that availability and level of resources can also be used to analyze the financial performance of an organization. He contends that resources which may include assets finances, employee skills and organizational process are key indicators of the organizations performance one time. In agreement with this, Barney (1991) suggested that resources could be grouped into physical, human and capital resources and that a firm can increase its performance only when the firms are unable to imitate its resources. Ryne, (1994) argues that although a strong financial performance indicates a strong institution, qualitative indicators like the nature of management and education level of labour force must supplement the quantitative indicators in order to enable the enterprise ability to meet its focus and objectives.

Jensen, (2003) emphasizes that performance in organizations is looked at in terms of economy, efficiency and effectiveness. Economy and efficiency are usually measured in financial terms and data such as costs, volume of sales and productivity are used. Economy is defined as acquiring resources in appropriate quantities and at the least cost.

Peter Druker, (1999) defines efficiency as maximizing inputs for a required output. On the other hand P Drucker defines effectiveness as the extent to which the defined task has been accomplished and is consistent with notions of non-financial accountability. Effectiveness may partly be measured in terms of quality service, customer satisfaction and achievement of goals.

Morton, (1992) is also in agreement with Drucker's (1999), contention that performance should be measured in terms of customer satisfaction. Morton argues that in order to be able to perform, organizations should critically look at their customers and know how best they are satisfying their needs. He adds that organizations should continuously improve on their services through innovations and great value. Kloot (1999) adds that in order to assess financial performance, organizations should be examined in terms of quality of services, flexibility, utilization and innovations.

On the other hand, financial performance was considered in terms of measures like, liquidity (using liquidity ratios like current ratio, acid test ratios, the ease with which the entity settles its financial obligations) and Accountability (in terms of financial accountability, Ray & Kurt; 2001). According to Dixon *et al* (1990), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. On the other hand Stoner (2003) refers to performance as the ability to operate efficiently, profitability, survive, grow and react to the environmental opportunities and threats.

2.5 The Impact of Control Environment on Financial Performance

Jensen (2003) found external audit control mechanisms such as external audits are intended primarily to enhance the reliability of financial performance either directly or indirectly by increasing accountability among information providers.

Cohen (2002) Asserts that the importance of control environment with the survey of auditors that "tone at the top" and its implications for the behavior of employees, is the most important ingredient for effective control.

Rittenberg et al (2004) said that the control environment starts with the board of directors and management who start the tone of an organization through policies behaviors and effective governance if the tone set by management is lax then fraudulent financial reporting is more likely to occur.

2.6 The Impact of Control Activities on Financial Performance

Hooks et al (1994) & Simon (1995) found out that flatter organizational structures &technological innovations have resulted in fewer middle managers the traditional "gatekeepers" of the control who were previously responsible for the assembly and distribution of information checking and authorizing transactions of employees this positively impacts on the financial performance.

2.7 The Impact of Monitoring on Financial Performance

Sawyer (2003) financial performance information can also be used for operating decisions (e g Monitoring performance and allocating resources) and some operating information can be used for developing financial statements (e.g. Routine purchases, Procedures information on competitors product releases).

A growing body of evidence suggests that those changes are likely to influence the effectiveness of monitoring mechanism& therefore CEO replacement decision.

Cohen et al, (2003) found it less likely to undergo separate evaluation of their internal control systems and the need for separate evaluation which may highly offset effective on- going monitoring activities. Central to all is the requirement that those performing the monitoring function be independent of those being monitored.

2.8 Relationship between Internal Control and Financial Performance

Coso (2004), provided criteria against which the effect of internal controls can be assessed. Internal control can be judged if the entity's operations objectives are being achieved; published financial statements are being prepared, reliable and applicable laws being complied with. While internal control is a process, its effect is a state or condition of the process at a point in time. Accordingly, the effective functioning of components of internal control provides a reasonable assurance regarding achievement of one or more of the stated categories of objectives to ensure high levels of organizational performance. Thus the company's criteria for the effect of internal control and success of the entire organization.

Efficiency and effectiveness of operations have been taken to mean efficiencies and effective use of its resources including personnel, accurate information for decision making and safeguarding of assets and records (Aren and Lwebbecke, 1994).

One of the five inter related components of an internal control system was a control environment factor. This refers to the integrity, ethical values and competence of the entity's people (COSO, 2004). Internal control systems should be viewed in a broader context for example it should as well be reorganized as a function of people's ethical values as it is of standards and compliancy mechanisms. Wells (2001), illustrate practical fraud occurrences discovered by competent accountants within organizations and what the accountants say about how they detect fraudulent transactions. Internal control system helps an organization to achieve its objectives such as its efficiency and effectiveness, reliable financial reporting and compliance with regulations COSO (2004). Controls serve the systems goals, they interact with the system and its environment thus directing the energy of the system towards their fulfillment, in the same way changes in the environment are easily noticed and adapted to Drucker (1999), recognition that internal controls can enhance the productivity and competitiveness of organizations.

Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to inform business decision-making and external reporting (Drucker, 1990).Financial information can also be used for operating decisions (For example. monitoring performance and allocating resources) and some operating information can be essential for developing financial statements (e.g. routine purchases procedures, information on competitors' product releases).

COSO, (2004) argued that there are two types of major internal controls associated with the management of large firms, particularly diversified firms, which have an important effect on firm innovation, these are; strategic controls and financial controls. Strategic controls entail the use of long-term and strategically relevant criteria for the evaluation of business-level managers' actions and performance. Strategic controls emphasize largely subjective and sometimes intuitive criteria for evaluation (Gupta, 1987). The use of strategic controls requires that corporate managers have a deep understanding of business-level operations and markets. Such controls also require a rich information exchange between corporate and divisional managers (Dixion, 1990).

2.8 Measures of Financial Performance

According to Dixon *et al.*(1990), appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives.Kotey &Meredith (1997) contends that, performance is measured by either subjective or objective criteria; arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms. Kent (1994) found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed.

Financial consultants Stern Stewart & Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments. This ranking is based on five 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. Verschoor (1988) however, mentions other financial measures to include value of long-term investment, financial soundness, and use of30corporate assets. He also talks of non-financial performances measures to include; innovation, ability to attract, develop and keep talented people, quality of management, quality of products or services, and community and environmental responsibility.

Hitt *et al.*, (1996) mention accounting-based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

2.8.1 Liquidity

Hitt, *et al.* (1996) mentions current ratio (current assets/current liabilities) as a standard measure of liquidity in organizations. Baysinger, (1989) also emphasized the importance of current ratio as a measure of an organization's liquidity. Other measures of liquidity according to ACCA and Panday (1996) are; Acid test ratio (i.e. Current Assets less Inventory/Current Liabilities).

2.8.2 Accountability

According to Hayes *et al.*, 2005, managers need regular financial reports so as to make informed decisions. Reporting (particularly financial reports) is one way through which managers make accountability for the resources entrusted to them. Emasu (2010) asserts that accountability can be political, social or financial accountability.

2.8.3 Reporting

Whittington & Pany (2001), talks about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that "Internal control" also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization. They mention internal control devices to include; use of budgetary techniques, production standards, inspection laboratories, employee training and time & motion studies among others.

According Bakibinga (2001), corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of managers. Managers are required to use the resources entrusted to them in the furtherance of the entities 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 J. Morris (2011) believes that Enterprise Resource Planning systems provide a mechanism to deliver fast, accurate financial reporting with built-in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

2.9 Conclusion

From the Literature reviewed above, a number of researchers concurred on the fact that the effect of Internal Control Systems on financial performance of an organization were based on the monitoring and reviewing targets/strategies, control environment, control activities, risk assessment and information communication sharing which leads to health entity financially measured in terms of accountability, efficiency and reporting in an entity.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter shows the various techniques that the researcher used to carry out the study. It shows the study design, population of the study, sample size and selection, data collection methods, data collection instruments, data quality control procedure, and data analysis.

3.1 Research Design

The study used a case study design because it made it possible to capture the complexity of a single case, it assisted in the investigation of the natural context with a multitude of methods like observations interviewing and recording. In assessing the effect of internal control systems on financial performance. The study was undertaken at COCTU. This public sector area was preferred because of its big size of about 70% of the entire mandatory business area in Uganda. The results of this study were a representative of the rest of the areas. The researcher choose this particular design because it enabled him to study and internalize the practices used in COCTU.

The study used both qualitative and quantitative research techniques which complemented each other in order to ensure that this study produced the best outcomes. The quantitative techniques mainly involved the use of a likert scale (Questionnaires) to measure responses such as SA-strongly Agree, A- Agree, NS-Not Sure, SD-Strongly Disagree D-Disagree respectively. Quantitative techniques on the other hand basically involved logical presentation and interpretation of the statistical data obtained from the field particularly using Statistical Package for Social Scientists (SPSS) computer package.

3.2 Study Population

The study population included the Heads of Department, field Workers, supervisors and Support Staff of COCTU. The researcher targeted this population because; they worked with COCTU, and were well informed about the study variables which provided relevant information accordingly.

3.3 Sample Size and Selection Techniques

While a stratified sampling technique was used in selecting a sample that accommodated all staff categories at COCTU, the representatives in each stratum were selected randomly. With the help of the table provided in Krejcie & Morgan (1970),a total of 50 employees and stakeholders resulted from the representations from the respective strata determined by their sizes.

Table 1: Summary of sample selection

Category of Staff	**Population (*N*)**	**Sample Size Selected (*n*)**	**Sample selection method**
Heads of Department	5	5	Purposive
Field Workers	17	15	Stratified random
Supervisors	12	9	Purposive
Support Staff	16	15	Stratified random
Total	50	44	

Source: Primary Data

The sample was selected at 95% confidence level. The study used stratified sampling so as to account for the differences and classifications within the entire staff of COCTU, according to departments and hierarchical positions of the various offices in the organizational structure. This was because different departments in COCTU perform different roles and responsibilities thus perceived the study variables differently. For this reason, all departments were proportionately represented in the sample, hence stratified sampling to give equal chances for respondents' participation in the study that eliminated bias. The representatives of each stratum were randomly selected.

3.4 Data Collection Methods

The study used both primary and secondary sources of data in qualitative and quantitative methods for the purposes of data triangulation of both methods. Methodological triangulation helped the researcher obtain a variety of information on the variables and to use the strength of each method to overcome deficiencies of others to achieve a higher degree of validity.

Quantitative method utilized quantitative studies that measured variables with some precision of numeric scales and counts of things. On the other hand, qualitative methods were based on direct observation of behavior or on transcripts of unstructured interview with informants by observing what people do and say. In the quantitative method, the questionnaire was used to collect quantitative data that was used to produce inferential statistics while in the qualitative method, interview method were used to collect qualitative data from respondents and this helped in providing narrative statements which were a common base for reaching conclusions.

3.5 Data Collection Instruments

In this study the researcher used interviews and questionnaires for collecting primary data from the respondents. The reason for this was to enable the researcher to capture both qualitative and quantitative data. The interviews helped the researcher to capture qualitative data through detailed discussions about the study variables, whereas the questionnaire mostly captured quantitative data particularly from the closed-ended questions.

3.5.1 Questionnaire

The researcher used a semi-structured questionnaire with closed ended questions. These closed-ended questions had predetermined alternative answers for the respondent to choose from in the process of responding to the question. The questions in the questionnaire were constructed in the simplest language possible to enable participants respond to them with ease. The questionnaire was designed in such a way that each besides the socio-demographic questions, specific questions were asked for each specific objective of the study. The questionnaire only applied to field workers and support staff in order to save time since it consumed more time to interview all of them.

A Likert scale or more accurately a Likert-type scale was a psychometric scale commonly that was used in questionnaires, and was the most widely used scale in survey research, such that the term was often used interchangeably with rating scale even though the two are not synonymous. When responding to a Likert questionnaire item, respondents specify their level of agreement or disagreement on a symmetric agree-disagree scale for a series of statements. Thus the scale captures the intensity of their feelings. The format of a typical five-level Likert item was: 1. strongly disagree (SD); 2. Disagree (D); 3. Not sure (NS); 4. Agree (A) and 5. Strongly agree (S A).

Therefore, a five points rating scales of questionnaire from strongly disagree (1) to strongly agree (5) was adopted to measure the variables of HR Practices. was measured by a one-item questionnaire on five-point Likert scale [where disagree (1) to strongly agree (5)], this is the single global rating approach (Davidson,1979) as it was believed to be an easier approach to collect data.

3.5.2 Interview Guide

To supplement the few open ended questions in the questionnaire, more questions designed in that format were included in the interview guide targeting key informants. These were mainly Heads of Departments, Managers, and supervisors. This category of the sample was more appropriate for interview since they were relatively few and had a wide knowledge about the variables of the study given their leadership role in the organization. The open-ended questions were provocative which created a lively discussion and many other relevant issues come up in the due course and this enriched the results of this study with more facts on the ground. Each respondent was free to give his/her own opinion from their experiences each or that of members he was supervises.

3.6 Data Collection Procedure

The whole process begun with pre-testing of the data collection tools for validity and reliability before using them for the actual data collection from the field. The researcher sought for permission from COCTU; administrators using an introductory letter signed by the Head of research from Kyambogo University and the student's identity card.

Together with three (3) research assistants, the researcher made appointments with respondents to spare some time to meet the research team and fill the questionnaire or be interviewed respectively.

3.7 Validity and Reliability

3.7.1 Validity

Validity in the context of this study meant the extent to which the results of the study were accurately interpreted and generalized to other populations. That is to say the extent to which the research instruments were able to measure what they actually intended to measure (Carmines & Zeller, 1979). In order to establish validity, three experts were engaged to evaluate the relevance of each item in the data collection instrument in line with the objectives of the study and rate each on a scale of 1 to 4. Where 1 meant not relevant and 4 meant quite relevant. Validity was determined using the Content Validity Index (CVI).

CVI = [illegible] Where;

n is the number of items in the instrument rated 3 or 4

N is the total number of items in the whole instrument.

Items that scored a CVI of 0.75 and above were retained as valid, while those with a CVI below this mark were abandoned and replaced with other items based on the experts' comments. After identifying the vague and ambiguous questions, corrections were made and final instruments prepared. Also CVI was computed from responses of Two (2)

Experts and CVI were 0.9205 and 0.8864 respectively and this was indicated that the questionnaire were relevant.

3.7.2 Reliability

Reliability of an instrument was defined as the consistence of the instrument in picking the needed information. Reliability (Internal consistency and stability) of the instruments were tested using Cronbach test. The researcher pre-tested the instruments by using a pilot method where a set of questionnaire distribution were conducted on 15 respondents from primary and secondary sections and data were analyzed using SPSS. Item statistics were computed and the means established as suggested by Amin (2004), and the instruments were found reliable for data collection.

3.8 Data Analysis

Data was coded, analyzed using statistical package SPSS standard version 21.0 for windows and excel for windows (2007) was used to extract data and developing standard graphs and charts. The analyses of results were focused on relationships between different variables. The statistics used was for cross tabulation, Regression analysis and Pearson chi-square. Null H0: there was a relationship between the variables chosen. Alternative H1: there was a relationship between the variables chosen * Rejected the null hypothesis if $P<0.05$ and vice versa. For the data collected from interviews emerging ideas, opinions and beliefs were critically analyzed and synthesized with what other writers had said in the literature reviewed in order to make them more comprehensive.

Qualitative Data Analysis in form of Key informant data analysis took place after data collection, based on how the findings related to research questions. Tentative themes and codes were identified. Information was interpreted by composing explanation or description. Explanations or descriptions were illustrated and substantiated by quotations or descriptions. Information was grouped and categorized to form themes.

3.9 Assumptions and Limitations

The major limitation was that some respondents were not willing to answer the questions instantly because of undue influence from their superiors and secondly, to some they were seen not having apparent gain to be derived from their responses. Emphasis of confidentiality in the questionnaire and letter of introduction from Kyambogo University however encouraged most of them to respond. The researcher met substantial costs on stationary, transport and communication.

Time constraint; the researcher being employed, faced a tight schedule between work and research. He nonetheless utilized the limited time available to do the research. In this the researcher employed the case study design which was only considering Kampala and Arua.Study findings were generalized for the rest of COCTU, as a whole. In order to save time, the researcher also worked with three research assistants who helped him in data collection.

3.10 Ethical Considerations

Throughout the study, the researcher ensured confidentiality of the information given by the respondents who took part in the study. In addition to this, respondents confirmed consent to their participation in the study. The participation in this study was entirely voluntary with no coercion or payment of respondents.

When reviewing literature, the researcher ensured that relevant acknowledgement were made to all the authors whose work was cited.

3.11 Conclusion

Based on the findings of the study, it is concluded that the methodology used in design population, sample and selection of data as supported by the study findings significantly was base on cronbanch.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents field findings; analysis/discussion and interpretations of data collected; in relation to the research objectives which were assessing the effect of internal control systems on financial Performance.

4.2 Background information of respondents.

4.2.1 Age marital status and Gender Characteristics of respondents

The information about the respondents' biography was of value because the capacity of respondents giving relevant information on the variables depended mostly on their character, age, level of education position held and time of service.

Table 4. 1: Showing Age of the respondents in the study.

Title	**Frequency(F)**	**Percentage (%)**
Age in years	No of respondents	
21-30	5	11
31-40	15	34
41-50	15	34
51-60	9	20
Total	**44**	**100**

Source: Primary data

Table 4.1 shows that 11%, of the persons were within the age bracket of 21-30 years,31-40 years 34%,41-50 years resulting to 34% these two age brackets were the majority ages employed in the entity and51-60 years 20%were the least employed age in this entity.

This implies that the entity had majority of the employees in the productive age ranging from 31-40 years with 34% and 41-50 years of which the entity had capacity to be efficient since persons at these ages were seen responsible by the researcher as supported by a common reason for such errors is managerial hubris (Roll, 1986) or overvaluation of managerial capability in the acquisition process. Fiduciary Risk Assessments (FRA) undertaken by UK Department for International Development). Internal controls are dependent upon having appropriate and trustworthy people at appropriate levels approving expenditure and payments, as well as systems of passwords, separation of duties, regular reconciliations.

Table 4. 2: **Showing Marital Status of the Staff.**

Title	**Frequency(F)**	**Percentage (%)**
Marital Status	No of respondents	
Single	6	13.5
Married	28	64
Divorced/Separated	4	9
Widowed	6	13.5
Total	**44**	**100**

Source: primary data

4.2.2 Findings that show gender status of the respondents

The table above shows that 13.5%, of the persons were single, 64% were married, 9% were divorced and 13.5%were widowed.

This implies that 64% of the employees are married which proves that they were committed with responsibilities as supported by (Whittington and Pany, 2001). Management attitude should be committed to ethical business practices and to following the established control procedures. Although to some extent moral issues may affect indirectly financial performance of any entity.

Table 4. 3: **Showing Gender of the respondents in the study.**

Title	**Frequency(F)**	**Percentage (%)**
Gender	No of respondents	
Male	37	84
Female	7	16
Total	**44**	**100**

Source: Primary data

Table 4.3; shows that 84%, of the persons employed were male and 16% of the employee are female.

This implies that majority of the staff were male constituting to 84% of the staff which proved that the entity was not gender sensitive owing to the fact that majority of the staff were male, in my opinion I felt the ladies should be given equal rights in the operations of the entity.

Table 4. 4: **Showing Level of Education**

Title	**Frequency(F)**	**Percentage (%)**
Qualification	No of respondents	
Certificate	6	13.6
Diploma	7	15.9
Bachelors	23	52.6
Masters	5	11.3
PHD	1	2.2
Others(professional)	2	4.4
Total	**44**	**100**

Source: Primary data

Table 4.4 shows that 52.6%, of the persons were Bachelors holders, 15.9% were Diploma holders 13.6% were certificate holders, 11.3% were masters holders, 2.2% were PHD holders and other professional 4.4%.

This implies that majority of the staff are lower level cadres with certificates which was probable that they did not have much knowledge about the variable under the study. It further shows that the levels of education at the entity are high as support by Nicolaisen (2004), shows that performance can be measured at both organizational and individual levels. This measurement is sometimes referred to as performance appraisal as reviewed from the above literature.

Table 4. 5: **Showing Positions Held at COCTU**

Title	**Frequency(F)**	**Percentage (%)**
Position Held	No of respondents	
Technical committee Members	2	4.5
Heads Of Department	4	9.3
Technical staff (Accounts)	28	63.6
Support staff (Clerks)	9	20.4
Top most Manager	1	2.2
Total	**44**	**100**

Source: Primary data

Table 4.5 shows that 4.5%, of the persons were technical committee members, 9.3%were Heads of Departments, 63.6% were Accounts staff, 20.4% were support staff and 2.2% were the top most managers employed in this entity.

This implied that over 63.6% staffs were from the accounts department who knew the impact of the variable under the study on that note, error or mistake being committed hindered performance positively or negatively the researcher analyzed that there were few chances of promotions in the entity which would in one way or the other affect the financial performance and non-financial activities.

Table 4. 6: **Showing Length of Service in COCTU**

Title	**Frequency(F)**	**Percentage (%)**
Length of service	No of respondents	
1-3 years	9	20.4
4-6years	17	38.6
7 years and above	18	40.9
Total	**44**	**100**

Source: Primary data

Table 4.6 shows that 38.6%, of the persons have served the entity for 3years, 40.9% served the entity for 6 years and 20.4% had served the entity for more than 7 years. This implied that majority (79.5%) of the respondents had worked for COCTU for more than 4 years thus they were in position to give reliable and valid information on the internal control system and financial performance of the organization based on their experience

4.3 Assessing the effect of internal controls systems on financial performance.

The study had objectives that could help to show the effect of internal controls on financial performance the details of the statistics showed the mean and standard deviation of the empirical details as analyzed in the tables below.

Table 4. 7: **Showing the effect of control environment effects on financial performance**

	5 (%)	4 (%)	3 (%)	2 (%)	1 (%)	Mean	St deviation
There is segregation of duties say a person responsible for inventory management different from the bookkeeper	36.4	56.8	0	2.3	4.5	4.1818	.92190
Management acts with a great degree of integrity in execution of their roles.	56.8	29.5	0	4.5	9.1	4.2045	1.24974
Appropriate Approvals are done by management(Authorization)	54.5	27.3	11.4	2.3	4.5	4.2500	1.05929
Asset Engraving is done to show location and protection of the assets	52.3	34.1	6.8	4.5	2.3	4.2955	.95429
There is free access to information, electronic banking and organization assets	34.1	40.9	6.8	6.8	11.4	3.7955	1.30437
Management provides feedback to juniors about the system	25.0	56.8	4.5	9.1	4.5	3.8864	1.03914
Average						***4.10228***	***1.08812***

Source: primary data

Findings in table 4.7 above shows that 36.4% strongly agreed and 56.8% agreed respectively that there was segregation of duties where by particular employees were responsible for inventory management different from the bookkeeper, 2.3% of the respondents disagreed while 4.5% of the respondents strongly disagreed. This implied that COCTU carried out segregation of duties where by specific employees were responsible for inventory management which improved organization performance as majority (93.2%) of the respondents supported the statement.

Table 4.7 also indicates that majority of the respondents; 56.8% and 29.5% strongly agreed and agreed respectively that the management of COCTU acts with a great degree of integrity in execution of their roles, 4.5% disagreed while 9.1% strongly disagreed. This implied that management of COCTU maintains a great degree of integrity while executing the internal controls which contributes to financial performance.

From the interview with the principal accountants, they argued that; *"COCTU's Audit-Engage Internal and External Auditors and avail all info required for them to Debt Management and Financial Analysis System (DMFAS) Nasamba Mubarak"*

Findings in table 4.7 shows that majority of the respondents (54.5%, 34.1%) strongly agreed and agreed respectively that COCTU ensured appropriate approvals were done by management (Authorization), 11.4% of the respondents were not sure, 2.3% disagree where as 4.5% disagreed. This implied that COCTU maintained utmost internal control through authorizations by the management to approve all inventories. However 11.4%, 2.3% and 2.5% who never supported this statement had their arguments relating to circumstances where by the management gave employees freedom to make certain decisions on observation record keeping and accessibility of the entity premises.

This was justified by the AG report (2012/2013) that *"COCTU invested in Information Technology (IT) including computerization of some of the financial operations and development of a data base for all other non-accounting activities. However, it was noted that it has neither developed an IT strategic plan nor recruited a qualified IT personnel to assist in the management of IT resources, training of personnel and maintenance of the IT resources. Furthermore; the entity does not regularly back up its accounting data. The Accounting Officer explained that consultation had been made with Ministry of Information Communication and Technology to formulate an IT Policy for the entity 195 through techno brain"*

Findings in table 4.7 above also indicated that majority of the respondents (52.3 strongly agreed and 34.1% agreed) supported that statement that asset engraving was done to show location and protection of the assets 6.8% of the respondents were not sure while 4.5% and 2.3% disagreed and strongly disagree. This implied that assets engraving was conducted to ensure that the management was aware of the location and safety of the assets. However arguments raised by the disagreeing respondents were that at times engraved assets become absolute and are sold off through auctioning with the organization codes where as certain times the assets are transferred to certain locations without the changes in the asset register.

Table 4.7 shows that 34.1% strongly agreed and 40.9% agreed that there was free access to information, electronic banking and or ganization assets were as 6.8% were not sure, 6.8% disagreed while 11.4% strongly disagreed. This implies that majority of the respondents (75%) support that COCTU allows free access to information, electronic banking and organization assets, however about 25% of the respondents who never supported this argued that allowing free access to information, electronic banking and organization assets brings risks to the organization thus the organization does not allows all employees to access the financial records but only a few from the accounting department and the trustees. Findings also indicated that the 25% strongly agreed and 56.8% agreed that the management provides feedback to juniors about the system while 4.5% were not sure, 9.1% disagreed while 4.5% strongly disagreed.

Table 4. **8: Showing the effect of control activities on financial performance**

Statement	5 (%)	4 (%)	3 (%)	2 (%)	1 (%)	Mean	St deviation
The organization follows the procedures and there are regular capacity building on financial reporting and management information systems.	38.6	54.5	0	4.5	2.3	4.2273	.85898
Expenses are within the budget	88.6	4.5	0	4.5	2.3	4.6818	.93443
Management makes corrective actions	40.9	45.5	2.3	4.5	6.8	4.0909	1.11685
There are adequate policies to ensure collection and follow up of the accounts.	38.6	54.5	6.8	0	0	4.3182	.60127
Average						***4.32955***	***0.8778825***

Source: primary data

Findings in table 4.8 show that 38.6% strongly agree and 54.5% agreed that the organization follows the procedures and there were regular capacity building on financial reporting and management information systems, 4.5% of the respondents disagreed while 2.3% strongly disagreed. The confirms that majority (93.1%) of the respondent supported that statement hence COCTU had well streamlined procedures that were followed with regular capacity building on financial reporting and management information systems.

However, according AG report (2012/2013), it was noted that the Institution did not have an internal auditor for conducting reviews on activities implemented by the entity and assess the effectiveness of the internal controls.

From the interview with the top management they explained that;

"the process of recruitment of an internal auditor had been initiated but the available resources in the budget could not fund the activity. They promised to pursue the matter in the following financial year".

Findings above also indicated that 88.6% strongly agreed and 4.5% agreed that the expenses incurred for all internal control activities fell within the budget, 4.5% of the respondents disagreed while 2.3% strongly disagreed. This implies that COCTU prepares budgets for internal control activities to ensure that the organization does not incur extra costs for the internal control activities which improve that financial performance of the organization. For example engraving of assets and electronic internal control systems among others.

According to the interview with accountants, they agreed and supported this arguing that COCTU budgeted UGX.1,197,006,000 in the financial year 2012/2013, and only UGX.960,707,000 was received resulting in a shortfall of UGX.236,299,300. This affected organizational efficiency.

Table 4.8 also indicates that majority of the respondents (40.9% and 45.5%) strongly agreed and agreed respectively that the management undertakes corrective actions, 2.3% were not sure 4.5% disagreed while 6.8% strongly disagreed. This implies that 86.4% agreed that the management of COCTU undertakes corrective actions so that all the projected internal control activities are conducted and fulfilled as planned. The findings further indicates 38.6% and 54.5% strongly agreed and agreed respectively that COCTU has got adequate internal control policies to ensure collection and follow up of the accounts where as 6.8% were not sure. This implies that COCTU has got adequate internal control policies that are followed for the collection and follow up of the accounts hence improving the organization's financial performance.

Table 4.9: **Showing the effect of monitoring activities on financial performance**

	5 (%)	**4 (%)**	**3 (%)**	**2 (%)**	**1 (%)**	**Mean**	**St deviation**
There are reviews to internal control systems	29.5	54.5	6.8	6.8	2.3	4.0227	.92733
Audit functions perform its duties efficiently	88.6	6.8	2.3	0	2.3	4.7045	.87815
Audit issues are shared and implemented by all stake holders.	50.0	38.6	6.8	4.5	0	4.3409	.80531
Audits are regularly carried out	97.7	2.3	0	0	0	4.9773	.15076
There is an independent monitoring and evaluation function.	68.2	13.6	11.4	2.3	4.5	4.3864	1.08297
AVERAGE						***4.48636***	***0.768904***

Source: primary data

Findings indicate that 29.5% strongly agreed and 54.5% agreed that COCTU conducts reviews to internal control systems, 6.8% were not sure, and 6.8% disagreed while 2.3% strongly disagreed. 88.6% of the respondents strongly agreed and 6.8% agreed that audit functions perform its duties efficiently, 2.3% were not sure while 2.3% strongly disagreed. Findings also indicated that 50% of the respondents strongly agreed and 38.6% agreed that in COCTU, audit issues are shared and implemented by all stake holders, 6.8% were not sure while 4.5% disagreed. Findings in tables 4.9 also indicates that all the respondents (97.7% and 2.3%) strongly agreed and agrees respectively that audits are regularly carried out in the COCTU organization as part of monitoring internal control activities. Lastly, table 4.9 also indicates that majority of the respondents (68.2% and 13.6%) strongly agreed and agreed that there is an independent monitoring and evaluation function, 11.4% were not sure, 2.3% disagreed while 4.5% strongly disagreed.

The findings imply that COCTU having established internal control systems, it further ensured efficient financial performance through continuous monitoring of all control activities so that the policies and procedures were often followed employees do not get off truck. The monitoring process involved ensuring that the audit functions performed its duties efficiently through conducting regular audits, employing an independent monitoring and evaluation function.

4.4 Statistics on the effect of internal control on financial performance

Table 4. 10: Showing the effect of internal control on financial performance

Statements	5 (%)	4 (%)	3 (%)	2 (%)	1 (%)	Mean	St deviation
The audit team verifies the books of account and form an opinions.	43.2	36.4	13.6	2.3	4.5	4.1136	1.03914
Cost of production has been reducing dramatically for the past two years	68.2	9.1	4.5	11.4	6.8	4.2045	1.33955
The company is now in a better position to serve clients more efficiently	25.0	45.5	20.5	4.5	4.5	3.8182	1.01781
Effectiveness is measured through quality services and products and cash to meet obligations	50.0	45.5	2.3	2.3	0	4.4318	.66114
The company is able to build customer satisfaction through quality products and services	4.5	90.9	0	4.5	0	3.9545	.48005
Performance of the company results from assets finance, employee skills and processes involved in production	45.5	47.7	6.8	0	0	4.3182	.80037
There is evaluation and discussion of the organizational performance annually by management	61.4	34.1	4.5	0	0	4.5682	.58658
Does management produce reports for accountability	65.9	29.5	0	4.5	0	4.6136	.57933
Are the cash flows Monitored Properly	50.0	11.4	15.9	13.6	9.1	3.7955	1.42371
Average						***4.2020***	***0.8809***

Source: Primary data

Findings in tables 4.10 shows measures of the effect of the control environment under different statements obtained from the respondents the statements have been ranked in terms of their mean and Standard deviation so as to derive meanings out of the results as discussed below:-

4.5 The effect of internal control system on financial performance

The linear regression model assumes that there is a linear, or "straight line," relationship between the dependent variable and each predictor.

Table 4. 11: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.387[a]	.150	.086	.63197

a. Predictors: (Constant), inventory control environment, inventory control activities, inventory monitoring

The regression does a good job of modelling since R square is positive (0.15) the relationship between financial performance, internal control environment, internal control activities and internal monitoring practices.

Table 4. 12: ANOVA[a] table for the relationship of financial performance(dependent) Vs monitoring, control activities and control environment as independent variables

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	2.820	3	.940	2.354	.087[b]
1	Residual	15.976	40	.399		
	Total	18.795	43			

a. Dependent Variable: financial

b. Predictors: (Constant), control environment, control activities, monitoring

The ANOVA table reports a significant F statistic of 2.354 and the significance of 0.087, this implied that financial performance was significantly influenced by the control environment, control activities and monitoring of the internal control activities. This meant that when Internal Control Systems improved, it resulted into improved financial performance, therefore establishment of internal control systems, conducting effective internal controls and ensuring that the controls are monitored and reviewed positively thus influencing the financial performance of the organisation.

This meant, for example, that much of the variance in financial performance that was explained by monitoring of the internal controls was also explained by other variables such as internal control activities. However the internal control element slightly increased implying that the impact of internal control environment was much more significant on the performance of the organization.

Table 4. 13: **Correlations for the relationship between internal control and financial performance**

		Control Environment	Control Activities	Monitoring	Financial performance
CONTROL ENVIRONMENT	Pearson Correlation	1	.084	-.160	.180
	Sig. (2-tailed)		.587	.299	.242
	N	44	44	44	44
CONTROL ACTIVITIES	Pearson Correlation	.084	1	-.240	-.326*
	Sig. (2-tailed)	.587		.116	.031
	N	44	44	44	44
MONITORING	Pearson Correlation	-.160	-.240	1	.048
	Sig. (2-tailed)	.299	.116		.758
	N	44	44	44	44
Financial performance	Pearson Correlation	.180	-.326*	.048	1
	Sig. (2-tailed)	.242	.031	.758	
	N	44	44	44	44

*. Correlation is significant at the 0.05 level (2-tailed).

Source: primary data

Table 4.13 above indicated that Pearson's correlation between the existing internal control environment and the organization's financial performance was 0.18>0.1 while the 2-tailed correlation of 0.242>0.05 was positive. This implied that there was a significantly positive relationship between internal control environment and the financial performance of the organization. This was because the internal control environment reduce the wastage of resources in the organization, promotes employee efficiency, motivation, accountability and collective decision making across the entire organization which result into high financial performance.

Findings also indicated that Pearson correlation between internal control activities and financial performance was – 0.326, the negativity of this correlation was explained by the fact that internal control activities came with induced costs for example designing the internal control system software, employee training and engraving costs. However the 2-tailed correlation of 0.031 was less than 0.05 which indicated that there was a lower significance between internal control activities and the financial performance of the organization as the costs incurred while carrying out the internal control activities were liabilities in the balance sheet and cash outflows in the organization's profit and loss accounts. The researcher proved this by examining the financial statements of 2013 financial years whereby he established the organization spent other 8,000,000/= Uganda shillings on engraving the organization's assets, equipments and vehicles.

Findings in table 4.13 above shows that monitoring on the internal controls had a positive relationship with COCTU's organization performance and this was presented by a positive Pearson's correlation of 0.048 but the influence of monitoring on organization's financial performance was lower than internal control environment. The relationship is highly significant which is proved by the 2-tailed correlation (0.758) which was positive and greater than 0.05. This implied that despite the establishment of the internal control system and promoting a good environment, monitoring was a very crucial operation so that the policies and procedures were effectively followed throughout the organizations financial projections, obligations and goals mate.

4.6 Monitoring and Implementation of Internal Control Systems

The findings in table 4.9 implied that COCTU had established internal control systems; it further ensured efficient financial performance through continuous monitoring of all control activities so that the policies and procedures were often followed so that the employees did not get off truck. The monitoring process involved ensuring that the audit functions perform its duties efficiently through conducting regular audits, employing an independent monitoring and evaluation function. This was further confirmed by the a high average mean of 4.48636 and average standard deviation of 0.768904 hence indicating a significant relationship in responses as regards management's Monitoring implementation of Internal Control System. The findings were in line with Wallace and Kreutzfeldt (1991), Goodwin-Stewart & Kent (2006), and Sarens & De Beelde (2006), all of whom advocate for Management (Control environment) as the cornerstone for an effective internal control System. Sarens& De Beelde in particular emphasize the "tone at the top, the level of risk and control awareness" as critical tot eh success of an internal control System.

The results reflected in table 4.9 on whether management shared audit information with other stakeholder show a mean of 4.3409. This confirmed that majority of the respondents agreed to the statement that management shared audit information with other stakeholder. Consequently, a greater standard deviation figure of 0.80531 raised concerns regarding the feedback given to junior officers on the operations of the accounting Financial Management System. The figure of standard deviation further reveals that the respondents had varied opinion about feedback and this could also mean that besides disagreeing about feedback, they could also be in disagreement with the type of feedback provided by Management. The results were at odds with Whittington and Pany's (2001)'s requirement for Management to include programs for preparing, verifying and distributing reports and analyses to various level of Management to enable them maintain control over a variety of activities.

4.6.1 Relationship between internal control system and financial performance

The results of the survey in table 4.10 suggested that respondents agreed that appropriate action was normally taken by Management to correct errors in the operations of the System, this was supported by the average mean of 4.2020 and average standard deviation of 0.8809 thus the internal management control system used by COCTU and other measures taken to correct any weaknesses in the controls had positively improved the organization's financial performance. This implied that measures taken were sometimes, not communicated formally. Management's action to correct errors in the system was an indication of Management's commitment to the operation of the internal control system. This was a general (entity – wide) control advocated as supported by John. Morris (2011). This can as well be classified as a strategic control advocated for by Hitt, Hoskission, Johnson and Moesel (1996).

4.6.2 Internal control accountability and financial management system

The study (as reflected in the table 4.10) it was found that the respondents agreed that the institution had an Accounting and Financial Management System in place with a mean value of 4.6136 this shows that they generally agree about the existence of an Accounting System. However, the corresponding standard deviation also revealed a significant value of and .57933. This also shows that there was a clear variation in the responses provided by the respondents about the existence of the Accounting and Financial Management System. Having an Accounting and Financial Management System as reflected by the above results in line with John J. Morris' advocacy for an Enterprise Resource Planning System that delivered fast and accurate financial reports with inbuilt controls necessary to ensure accuracy and reliability of information being reported to shareholders. It was also an indication that Whittington and Pany's requirement of preparing, verifying and distributing reports to the various Management levels is achievable.

4.6.3 Management Integrity:

The results of the survey as revealed by Table 4.7 suggest that Management actions in regard to integrity. This was evident when the mean of respondents as computed by the System was well above the average 4.2045 and the standard deviation of 1.24974 suggested that respondents had significantly closely related views in responses on

Management integrity in the execution of their role; a highly contentious issue. However, this was also construed to imply that respondents might not have clearly understood the dimensions of integrity in this context. The results in this section were in agreement with Whittington and Pany (2001)'s assertion where they talk of the control environment to include factors like; integrity and ethical values of persons responsible for crating, administering controls. This can also be likened to "the control environment setting the tone of the organization by influencing the control consciousness of people" stipulated by Cohen et al., (2002).

4.6.4 Objectivity and Independence of the Audit Members

The analysis results in table 4.9 reveals that to some extent, objectivity and independence are upheld in all Management decisions as reflected by a mean value above average, 4.3864 stated that the respondents were in agreement however a standard deviation of 1.08297 revealed a lower variation in opinions which could also relate to clear understanding the role of the audit members. Audit members independency was in line with Whittington and Pany (2001)'s requirements for audit members independence from the management of an institution and to posses the required experience and status. The independence and objectivity of the auditors also rotates around protecting the interests of the owners.

The researcher examined the internal audit function as a tool for monitoring financial performance it was revealed that the department was not having the auditor as per the audit report 2012 and interviewing a number of respondents. This had a number of financial implications on the entity and management meaning that it could carry out a number of activities without technical guidance and thus no value for money in terms of economy, efficiency and effectiveness. Most of the times management would be biased on the course taken.

This meant that management's commitment towards the implementation of internal control through and internal arm was low as `this confirms Whittington and pany (2001) assertion that "internal auditing is performed as part of the monitoring activity of the organization so that members can discharge their responsibilities effectively"

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The chapter presents a summary of the study findings as per the study objectives, conclusions which were based on those findings and recommendations too. Other relevant literature considered necessary and vital to be used in future to improve the study situation.

5.2 Summary of the Findings

This part presents the summarized results and interpretations (findings) based on the study objectives as established at the beginning of the study.

5.2.1 Functionality of the internal control system

The study found out that management of the entity was so committed to the internal control systems and it was actively participating in monitoring supervision and reviewing of the activities of the entity. Despite the fact that middle staff had little knowledge of the existing policies and ho beneficial internal control are on financial performance. The study also revealed that all the activities of the Institution were initiated by the top level management. On the effect of the internal control systems, the study found out the internal audit function was not having an auditor, although the organization conducted regular annual external audit activities through external auditor (Office of the Auditor

General) and received regular audit reports. Management however, agreed that the few reports that were produced by the audit teams addressed the weaknesses in the system. The study also found that the Finance Department was adequately staffed and this was one of the reasons for producing timely financial reports as expected. Regarding control activities, the study found out, there was clear separation of roles, supervision of activities by senior staff, weaknesses that were realized, addressed, and there was a training program for capacity building in the entity. Further, the study also found out that there was inadequate sharing of information in the entity and inadequate security measures put in place to safeguard the assets of the entity.

5.2.2 Financial Performance of COCTU

The study found out that the Institution was not having enough funds to meet its intended goals, and objectives in that the releases got from the Government of Uganda were not adequate to coverall the costs, but the entity received further funding in form of projects/grants. However, it was also found out that all revenues and expenditures were properly classified, and that the entity was adding valve to both human and animal life (Efficiency).

5.2.3 Internal Control System and Financial Performance

The study assessed and established a significant relationship between effect of internal control systems and financial performance. This relationship was examined through the dimensions of internal control systems and that of the financial performance selected for this particular study.

The dimensions of internal control systems (control environment, monitoring and control activities) were linked to the dimensions of performance (liquidity, accountability, and reporting). Details show that control environment was linked to liquidity, control environment was also linked to accountability, and control environment was related with reporting. Similarly, the study found that audit as a dimension of internal control system, was related with all the dimensions of financial performance in the following details; audit and liquidity are related, internal audit was related with accountability, and internal audit and reporting had a significant relationship. In addition, control activities as a dimension of internal control system and all the dimensions of financial performance are related; control activities and liquidity are related control activities and accountability are related, and control activities and reporting are related.

5.3 Conclusions

Based on the findings the study therefore concluded that the institution had an effective and efficient internal control system as supported by the study findings of clear separation of roles, supervision, training, and commitment of management. However, there were challenges in the implementation of internal control systems especially considering that the internal audit function and monitoring function were inadequately staffed in the entity which clearly affected their efficiency and effectiveness as revealed by this study. On financial performance of the institution, the study concludes that the liquidity position of the COCTU was not appropriate, details of which were directly in the study, although the study reveals an improved assets value as well as classification of its revenues and expenditures. The final conclusion of this study was that there was a significant positive relationship between internal control system (control environment, Reporting standards, and control activities) with financial performance (liquidity, accountability, and reporting).

5.4 Recommendations

The study recommends that there should be similar studies in other government institutions.

The study also recommends that there is an urgent need for Management's action to correct errors in the system is an indication of Management's commitment to the operation of the internal control system. The management should always monitor, cross check and review the financial reports as well as the financial statements.

The study also recommends that the COCTU should nevertheless ensure that budgeting incorporates all the internal control activities. This could be done through writing projects, other competitive endeavors which are directly aimed at winning funds for the entity.

Finally, the study recommends that having known the significance of Internal Control Systems on the financial performance, COCTU needs to ensure that they continuously review the Internal Control System and ensure that it is fully operational.

5.5 Suggestions for Further Research

1. The effect of ICT on the effect on internal control system and financial performance.

2. The effect of social economic factors on the financial performance of public entities.

3. How professional associations affect employee characters and financial performance.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

Dear respondent, am by the name Mpangire Hanan I hereby request you to fill this questionnaire is aimed at collecting information that will enable to establish the relationship between effect of internal control systems on financial performance in COCTU, Uganda. Answers provided will be treated with utmost sincerely and held for only academic purposes. Thus your names are not required. Many thanks for your profound contribution towards this study.

SECTION ONE: GENERAL INFORMATION

Please Tick your appropriate Choice

Age (Years): 21-30 ☐ 31 – 40 ☐ 41 – 50 ☐ Above 50 ☐

Gender: Male ☐ Female ☐

Marital Status

Single ☐ Married ☐ Divorced/Separated ☐

Level of Education

☐ Professional ☐ Masters Degree ☐ Bachelor Degree ☐ Diploma

☐ Certificate ☐ Any other please specify ……………………………………………..

Length of service at COCTU, Uganda

Less than one year ☐ 1 – 3 years ☐ 4– 6 years ☐ above 6 years ☐

SECTION TWO: EFFECTOF INTERNAL CONTROLSYSTEM

In this section the researcher seeks to establish the effect of internal control systems on financial performance in COCTU. Please Tick the appropriate alternative

Key; Where SA-strongly Agree, A- Agree, NS-Not Sure, SD-Strongly Disagree D-Disagree

STATEMENT	SA	A	NS	SD	D
CONTROL ENVIRONMENT					
There is segregation of duties say A person responsible for inventory management different from the bookkeeper					
Management acts with a great degree of integrity in execution of their roles?					
Appropriate Approvals are done by management(Authorization)					
Asset Engraving done to show location and protection of the assets					
There is free access to information, electronic banking and organization assets					
Management provides feed back to juniors about the system					
CONTROL ACTIVITIES					
Organizational activities are done following the procedures					
There are regular capacity building on financial reporting and management information systems.					
Internal control expenses fall within the budgeted expenses.					
Management makes corrective actions					
MONITORING					
There are reviews to internal control systems					
Internal audit function perform its duties efficiently					
There is an independent Monitoring and evaluation Department					
Audit issues are implement and shared with all stake holder					
Audits are regularly carried out					

SECTION THREE: FINANCIAL PERFORMANCE

In this section the researcher seeks to establish the level of Financial Performance in COCTU, Uganda. Please Tick the appropriate alternative

Key: Where, SA=Strongly Agree, A= Agree, NS= Not Sure, D=Disagree, SD=Strongly Disagree

Statements	SA	A	NS	SD	D
The audit team verifies the books of account and form an opinions.					
Cost of production has been reducing dramatically for the past two years					
The company is now in a better position to serve clients more efficiently					
Effectiveness is measured through quality services and products and cash to meet obligations					
The company is able to build customer satisfaction through quality products and services					
Performance of the company results from assets finance, employee skills and processes involved in production					
There is evaluation and discussion of the organizational performance annually by management					
Management produce reports for accountability					
Cash flows are monitored properly					

Thank you

Appendix 2: Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions			
				(Constant)	Monitoring	Control Activities	Control Environment
1	1	3.959	1.000	.00	.00	.00	.00
	2	.023	13.210	.00	.39	.31	.02
	3	.015	16.426	.00	.07	.37	.61
	4	.003	34.875	1.00	.54	.32	.37

a. Dependent Variable: financial

Appendix 3: Table for determining sample size from a given population

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size

"S" is sample size.

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