

**THE ROLE OF INTERNAL CONTROL SYSTEMS IN FINANCIAL PERFORMANCE  
OF FUEL COMPANIES IN UGANDA: A CASE OF GULF AFRICA  
PETROLEUM CORPORATION (UGANDA) LIMITED.**

**By**

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## **DECLARATION**

I declare that the work presented in this Dissertation is my original work and has never been submitted to any University or institution of higher learning for any academic award. I have read the regulations of the university with regard to plagiarism and here declare that I abided by all of them.

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**APPROVAL**

This is to certify that this dissertation by Ali Jama Ahmed has been under my supervision and it is now ready for presentation to the Research committee of Nkumba University with my full approval as the researcher's supervisor.

Signature: .....

Date: .....

**Ass, Prof .E Mugerwe**

Supervisor

## **DEDICATION**

I wish to extend my gratitude to my supervisor **Prof .E Mugerwe** for his professional guidance and advice throughout my project.

I wish to appreciate my family (aashaguur family), particular my parents, uncle mahamud and warsame Jama who contributed my Master degree materially and immaterial.

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## TABLE OF CONTENTS

<b>DECLARATION</b> .....	<b>1</b>
<b>APPROVAL</b> .....	<b>2</b>
<b>DEDICATION</b> .....	<b>3</b>
<b>TABLE OF CONTENTS</b> .....	<b>4</b>
<b>LIST OF TABLES</b> .....	<b>8</b>
<b>LIST OF FIGURES</b> .....	<b>10</b>
<b>LIST OF ABBREVIATIONS</b> .....	<b>11</b>
<b>DEFINITION OF KEY TERMS</b> .....	<b>12</b>
<b>ABSTRACT</b> .....	<b>14</b>
<b>CHAPTER ONE</b> .....	<b>14</b>
<b>INTRODUCTION</b> .....	<b>15</b>
Background to the study .....	15
Problem Statement .....	18
Purpose of the Study .....	19
Objectives of the study.....	19
Research questions.....	19
Scope of the Study .....	20
Significance of the study.....	20
Setting of the study .....	21
Arrangement of the Dissertation.....	21
<b>CHAPTER TWO</b> .....	<b>23</b>
<b>STUDY LITERATURE</b> .....	<b>23</b>
Introduction.....	23
Literature Survey .....	23
Literature review.....	24
The agency model .....	25
Stewardship model.....	26
Conceptual framework of the study .....	34
<b>figure 2. 1 conceptual framework diagram</b> .....	<b>34</b>

<b>CHAPTER THREE .....</b>	<b>36</b>
<b>RESEARCH METHODOLOGY.....</b>	<b>36</b>
Introduction.....	36
Research Design.....	36
Research Approach.....	36
Research Strategy.....	36
Research Duration.....	37
Research Classification.....	37
Study Limitations.....	37
Study Population.....	38
Sample size .....	38
Sampling methods.....	39
Sources of data.....	39
Data Collection instruments.....	39
Validity and Reliability of the instruments.....	40
Data processing.....	40
Data analysis .....	41
Ethical considerations .....	41
<b>CHAPTER FOUR.....</b>	<b>42</b>
<b>BIOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS .....</b>	<b>42</b>
Introduction.....	42
Background Characteristics of Respondents .....	42
Gender of respondents .....	42
Marital status of respondents .....	42
Age group of respondents .....	43
Education level of Employees .....	44
Duration at work .....	44
<b>CHAPTER FIVE.....</b>	<b>46</b>
<b>HOW GAPCO PROVIDE AN ADEQUATE CONTROL ENVIRONMENT TO ENHANCE PROFITABILITY.....</b>	<b>46</b>
Introduction.....	46
Board of directors approves the overall business strategies and significant policies .....	46

Board of directors has established adequate and effective internal control systems .....	47
Board of directors have promoted governance, guidance and oversight to senior management..	48
Senior management commitment to internal control system in the organization.....	49
Senior management takes steps to monitor implementation of control over financial activities in the organization.....	50
The working of board of directors and senior management affects the integrity and ethics .....	51
Methods by which people are hired, trained and compensated is important element of control environment .....	52
Management acts with a great degree of integrity in execution of their roles .....	53
Strict action is taken against employees involved in fraudulent activities .....	54
<b>CHATER SIX .....</b>	<b>57</b>
<b>HOW CONTROL ACTIVITIES HAVE BEEN PUT IN PLACE TO IMPROVE LIQUIDITY AT GAPCO (U) LTD. ....</b>	<b>57</b>
Introduction.....	57
Clear separation of roles .....	57
Appropriate supervision by senior staff .....	58
Corrective action is taken to address weakness .....	58
Staff trained to implement system .....	59
Valuable information accessed only with consent of senior staff.....	60
Controls are in place to exclude incurring expenditure in excess of allocated budgets .....	61
Security systems safeguards Assets .....	61
<b>CHAPTER SEVEN .....</b>	<b>66</b>
<b>HOW INTERNAL AUDITING ENHANCES PRODUCTION OF QUALITY FINANCIAL REPORTING AT GAPCO (U) LTD. ....</b>	<b>66</b>
Introduction.....	66
The company has a functional internal audit unit/department.....	66
Sufficiently staffed internal audit department.....	67
The internal audit department reports functionally to the audit committee of the Board.....	67
Internal audit report address weaknesses in internal control systems.....	68
The internal audit department conducts its work independent from the management .....	69
Relationship between Internal Control systems and financial performance.....	72

<b>CHAPTER EIGHT .....</b>	<b>76</b>
<b>TOWARDS HARMONIZING INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE AT GAPCO U LTD. ....</b>	<b>76</b>
Introduction.....	76
Link to the literature.....	76
<b>CHAPTER NINE .....</b>	<b>79</b>
<b>SUMMARY AND CONCLUSIONS OF THE STUDY .....</b>	<b>79</b>
Introduction.....	79
Summary of findings.....	79
Provision of an adequate control environment to enhance profitability .....	79
Control Activities and improving liquidity .....	80
Internal audit and production of quality financial reports .....	81
Relationship between Internal Control systems and financial performance.....	81
Conclusions.....	81
Suggestions and way forward .....	82
Areas for further research .....	83
<b>REFERENCES .....</b>	<b>84</b>
<b>APPENDENCES .....</b>	<b>89</b>
APPENDIX A: SELF-ADMINISTERED QUESTIONNAIRES (SAQs) .....	89
APPENDIX B: INTERVIEW GUIDE .....	94



## LIST OF TABLES

Table 3.0.1: Distribution of Population, percentage and sampling method.....	38
Table 4.1: Gender of respondents .....	42
Table 4.2: Marital status of respondents .....	43
Table 4.3: Showing Age of respondents .....	43
Table 4.4: Showing Education level of Employees .....	44
Table 4.5: Results on duration in work.....	44
Table 5.1: Board of directors approves business strategies and significant policies .....	47
Table 5.2: Board of directors establishes adequate and effective internal control systems.....	48
Table 5.3: Board of directors promotes governance and guidance to senior management .....	49
Table 5.4: Senior management commitment to operation of internal control system .....	49
Table 5.5: Senior management takes steps to monitor implementation of control.....	50
Table 5.6: Board of directors and senior management affects the integrity and ethics .....	51
Table 5.7: Methods by which people are hired, trained, promoted and compensated are important element of organization control environment .....	52
Table 5.8: Senior management’s competence leads to better execution of tasks .....	53
Table 5.9: Appropriate measures are taken to correct errors in operation of internal control system .....	54
Table 5.10: Stringent action is taken against employees involved in fraudulent activities .....	55
Table 6.1: Clear separation of roles .....	57
Table 6.2: Appropriate supervision by senior staff.....	58
Table 6.3: Corrective action taken to address weakness.....	59
Table 6.4: Staff trained to implement system .....	59
Table 6.5: Information accessed with consent of senior staff.....	60
Table 6.6: No expense is incurred in excess of budgeted .....	61
Table 6.7: Security systems safeguards Assets.....	62
Table 6.8: The company policies on information and communications provide well established techniques and mechanisms to address non-compliance in financial matters .....	63
Table 6.9: Chart of Account.....	64
Table 6.10: cash receipts bear fairly strong control .....	64
Table 7.1: The Company has a functional internal audit unit/department.....	66

Table 7.2: Sufficiently staffed internal audit department .....	67
Table 7.3: The internal audit department reports functionally to the audit committee.....	68
Table 7.4: Internal audit reports address weaknesses in internal control systems.....	69
Table 7.5: The internal audit department conducts its work independently .....	69
Table 7.6: Internal auditor makes appropriate recommendations for management to improve ...	70
Table 7.7: Internal auditor visit up country station.....	71
Table 7.8: Auditors carry out their role objectively and in compliance with professional practices .....	72
Table 7.9: Pearson’s Correlation analysis.....	73
Table 7.10: Multiple Regressions .....	75

**LIST OF FIGURES**

figure 2. 1 conceptual framework diagram ..... 34

## **LIST OF ABBREVIATIONS**

ABA- American Bar Association  
ACCA- Association of Chartered Certified Accountants  
AICPA- American Institute of Certified Public Accountants  
COSO- Committee of Sponsoring Organizations  
CPD- Continuing Professional Development  
COMESA-Common market Eastern, southern Africa  
ESC-East Africa Community  
ERP- Enterprise Resource Planning  
EAS-East Africa Community  
FP – Financial Performance  
GAPCO - Gulf Africa Petroleum Corporation  
GDP - Gross Domestic Product  
ICS – Internal control systems  
IFRS- International Financial Reporting Standards  
IIA-UK- Institute of Internal Auditors- United Kingdom  
ICPAU- Institute of Certified Public Accountants of Uganda  
IMF- International Monetary fund  
SAS- Statement of Auditing Standards  
SME- Small and Medium Size Entity  
SOX- Sarbanes- Oxley Act  
ROA-Return on asset  
ROE-Return on equity  
ROS-Return on sales

## **DEFINITION OF KEY TERMS**

### **Internal control systems**

Internal control systems is a term generally used to describe how management ensures that an entity meets its financial objectives. Internal control systems not only contribute to managerial effectiveness but also important duties of corporate boards of directors (Verschoor, 1999). The board of directors has an oversight role of policy making and control of resources to improve financial performance.

### **Performance**

The word performance refers to the accomplishment of a given task measured against present standards of accuracy, completeness, cost and speed (Financial performance Analysis conceptual framework, 2012).

### **Financial Performance**

The process of quantifying the efficiency and effectiveness of an action. Organizational performance is achieved by comparing the value that an organization creates using its productive assets with the value that owners of these assets expect to obtain (Armstrong & Baron, 2005).

### **Public Sector**

Is the part of national economy providing basic goods or services that are either not provided by the Private sector. It consists of national and local governments, their agencies and parastatals.

### **Public sector accounting**

Process of recording, communicating, summarizing, analysing and interpreting government financial statements and statistics in aggregate and details; it is concerned with receipts, custody and disbursement and rendering of stewardship of public funds entrusted.

### **Control environment**

Control Environment is the set of standards, processes, and structures that provide the basis for carrying out internal control systems across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control systems including expected standards of conduct

**Auditing**

Auditing is an examination of accounting records undertaken with a view to establish whether they correctly and completely reflect the transactions to which they relate.(Dicksee, 2013) Auditing is an independent verification that enhances financial statement reliability and usefulness.

**Control Activities**

Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews.

**Liquidity**

Liquidity is the ability of an entity to pay its liabilities in a timely manner, as they come due for payment under their original payment terms.

**Profitability**

Profitability means ability to make profit from all the business activities of an organization, company, firm, or an enterprise. It shows how efficiently the management can make profit by using all the resources available in the market. (Hotchkiss, 1995).

**Quality financial reporting**

According to IASB (1989), the essential principle of assessing the financial reporting quality is related to the faithfulness of the objectives and quality of disclosed information in a company's financial reports. The qualitative characteristics of financial reporting quality include: relevance, faithful representation, understandability, comparability, verifiability, and timeliness.

## ABSTRACT

The study about the Role of internal control in financial performance of fuel companies in Uganda; a case study of Gulf Africa Petroleum Corporation. Gapco had being experienced several challenges losing market share from 8% to 3.97%, and lastly selling 76% of share to Total (U) Ltd, The study was guided following objectives (1) To examine how Gapco (U) Ltd has provided an adequate control environment for effective operation (2) To examine how Gapco (U) Ltd has established enhanced control activities to improve liquidity. (3) To examine how Gapco (U) Ltd undertakes internal auditing for quality financial reporting. The study was guided Agency model and stewardship models. The researcher adopted both positivism and phenomenological approaches known as (combination approach), the study was longitudinal study , the duration is from {2012-2017}.the researcher employed a case study strategy, the study used a population of 40 and the study used census. Data was collected using Questionnaires and Interview guide as well as review of available documents and records. The study found that all the activities of the company are initiated by the top level of directors and management where by directors approves the overall business strategies and significant policies based on 85% agreed rate, and board of directors establishes adequate and effective internal control systems and management implements and develops based on 67%. That the internal audit department is not efficient, is understaffed, based on 52.5% disagreed rate, internal auditors doesn't conduct regular audit activities and doesn't produce regular audit reports based on 47.5% disagreed rate, although the few reports produced by the internal audit department address weaknesses in the system. It was further revealed that there is a clear separation of roles based on 77.5% agreed rate, weaknesses in the system are addressed, and there is a training program for capacity building in the organization based on 67.5% agreed. The investigation recommends competence profiling in the Internal Audit department which should be based on what the company expects the internal audit to do and what appropriate number staff would be required to do this job. Based on the findings of the study, it is concluded that the Gapco (U) Ltd had an effective internal control system as supported by the study findings of clear separation of roles, supervision, and training, However, there are challenges in the implementation of controls especially considering that the audit function was not well, under staffed, and were not produced regular report, and audit work was not extended to the upcountry centers which clearly had affected their efficiency as revealed by this study.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **Background to the study**

This study is about the role of internal control systems in the financial performance of fuel companies in Uganda, It focuses on Gapco Uganda limited in Kampala, as case study.

Internal control systems are topical issues following global fraudulent financial reporting and accounting scandals in both developed and developing countries (Mattie & Cassidy, 2002). According to Committee of Sponsoring Organizations (COSO), (2004), Internal Control is a system consisting of specific policies and procedures designed to provide management with reliable assurance that the goals and objectives it believes to be important to the entity will be met. In their view, the reasons to have internal controls is to promote operational effectiveness and efficiency, provide reliable financial and administrative information, safeguard assets and records, encourage adherence to prescribed policies and compliance with regulatory agencies. The International Monetary fund (IMF) ,Working Group (2007) looked at the components of internal controls as being the control environment, control activities, risk assessment, information and communication, and monitoring and evaluation. Whereas internal controls are thought to be the domain of accountants and auditors, it is actually management that has the primary responsibility for proper controls.

Internal control systems are therefore very essential to every organization and are key to finance departments in every sector whether government or private sector, A sound financial internal control systems helps an organization to prevent and detect frauds, errors and minimize wastage. It strengthens custody of assets; and provide assurance to the management on the dependability of accounting data, it also eliminate unnecessary suspicion and maintenance of adequate and reliable accounting records. This study therefore is important and attempts to establish the effectiveness of internal control systems in the financial performance in petroleum firms in Uganda focuses on Gapco.

An internal control system refers to all forms of control techniques instituted by management to ensure an efficient and effective performance of the organization. Therefore, any control measure



adopted by the company for the realization of its pre-determined objective, is described as an internal control systems (Kudin, 2009).

The Institute of Chartered Accountant of England and Wales (ICAE& W, 1998) defines an internal control system as a review of operations and records, sometimes continuously undertaken within a business by a specially assigned staff. An Internal control system, therefore is a whole system of controls, financial or otherwise, established by the management in order to carry out the business of an enterprise in an orderly and efficient manner, ensure adherence to management policies as well as legal requirements, safeguard the assets and secure as far as possible the completeness and accuracy of records.

COSO (1992), describes internal control systems as a process, and rightly so because an internal control systems is not an end in itself but a means to an end. An internal control system is defined as a “process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, Reliability of financial reporting, Compliance with applicable laws and regulations” (COSO, Internal control systems-Integrated Framework, 1992). An organization should design and implement as many internal control systems (both financial and non-financial) as may be necessary. This study will concentrate on the financial control system commonly known as accounting systems or financial regulations.

Performance refers to the ability to operate efficiently, profitability, survive, grow and react to the environmental opportunities and threats (Stoner, 2003). Performance encompasses accumulated end results of all the organization's work processes and activities. Performance measures can be financial or non-financial. Financial performance is considered in terms of measures like profitability (using absolute and relative measures), liquidity (using liquidity ratios like current ratio, acid test ratios, the ease with which the entity settles its financial obligations) and quality financial reporting , (ACCA and Pandya ( F8; 1998;1996). Non-financial performances measures include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility.(Brennan & Soloman 2008).

The study was guided Agency model and stewardship models, the agency model describes firms as necessary structures that maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents, the model suggests the existence of professional managers to manage the organization on behalf of the owners/shareholders (Kiel and Nicholson, 2003). The stewardship model recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust. It stresses on the position of employees or executives to act more autonomously so that the shareholders “returns” are maximized.

The petroleum sector in Uganda in which the study is based is one of the major contributors to the economic development of the country. According to the National development Plan 2030 it contributes to employment of a large population of the country’s workforce and also contributes about 21% of Gross Domestic Product (GDP). According to the Uganda Economic Survey 2016, the petroleum sector grew by 6.4% in 2015 when compared to prior year. This was mainly driven by; favorable tax policies, increased credit to the petroleum sector, the liberalization of the industry and the growth in the regional market (EAC, COMESA).

Given the importance of the petroleum industry in the economic growth and development of Uganda, as stated above there is need to study about internal control systems which plays a very important role in performance of an organization. In Uganda, there are a number of petroleum companies engage in the countries petroleum sector, one of these is Gapco (u) Ltd.

The study sample is Gapco (U) Ltd which was incorporated in 1994 by acquiring all assets and shares of Essa standard Uganda, Gapco has 8% market share in fuel industry in Uganda (Bureau of statistics Abstract, 2014). It is one of the largest fuel companies in Uganda, and has stations distributed all over the country’s towns such as, Kampala, Mbarars , Arua ,jinja and many other towns. This study was carried out at the headquarters of the company on plot 13, 7<sup>th</sup> street,, Nakawa division, Kampala Capital City.

According to Gapco financial regulations (2014) the company has policies and procedures objectives include the following;

1. To provide an adequate control environment for effective operations so as to improve profitability hence safe guarding organization assets both tangible and nontangible.

2. To enhance control activities in all activities of the organization in order to improve liquidity.
3. To undertake internal auditing for quality financial reporting.
4. To provide effective channel of information communication to ensure that all staff understand and adhere to policies, procedure and strategies towards organizational performance.

This study examines whether the first three of the above policies are being achieved by Gapco (U) Ltd.

### **Problem Statement**

In spite of the above regulations and policies set under the ICS of Gapco (U) Ltd, there are problems hindering the company's effectiveness of internal control systems on financial performance, this is well indicated in the company's financial Report (2014) which revealed inadequate liquidity, delayed compliance to timely presentation of financial reports, lack of proper accountability, fraud and misuse of organizational resources.

Besides the Ministry of Energy and Mineral Development Abstract report (2014), indicates that Gapco market share in Uganda's oil sector has dropped to at 3.97% from 8% in 2011. Thus was attributed tremendous poor performance due to management changes, lack of adaptation to market changes and technologies such as Auto machines, These has directly reduced the company's operations in Uganda, leaving to the company selling 76% of its shares to rivalry Total (U) Ltd, amount equivalent to \$420 million; (Daily Monitor Aug. 2016) this action was attributed to the declining financial performance of the company, with poor performance being attributed to poor internal control systems among other factors.

According to Procasur Africa Report (2012), Poor internal control systems affect performance of organization, and Gapco has not been exception. Poor internal control systems have led to huge investments lost through fraud and misuse of assets that are used to generate revenues and forced institutions to suffer big losses, hence Gapco is one of them.

The above put into question the reliability of the company's internal control system and provided the setting for the current study.

### **Purpose of the Study**

The purpose of the study is to examine the role of internal control systems on financial performance in fuel companies in Uganda, basing on Gapco (U) Ltd as case study

### **Objectives of the study**

The following are the objectives of the study

1. To examine how Gapco (U) Ltd has ensured proper control environment for effective operation to improve profitability.
2. To examine how Gapco (U) Ltd has established enhanced control activities to improve its liquidity.
3. To examine how Gapco (U) Ltd undertakes internal auditing for quality financial reporting.

### **Research questions**

The study is guided the following research questions:

1. How does Gapco (U) Ltd provided proper control environment for effective operation to improve profitability?
2. How has Gapco (U) Ltd established control activities to improve liquidity?
3. How does Gapco (U) Ltd undertaken internal auditing for reliable, quality financial reporting?

### **Hypotheses of the Study**

The following are the hypotheses of the study;

#### **H1: Control Environment Vs Financial Performance.**

There is a relation between the control environment and the financial performance in Gapco (U) Ltd.

#### **H2: Control Activities and Financial Performance.**

Functionality of Internal Control activities and financial performance in Gapco (U) Ltd.

#### **H3: Internal Audit Vs Financial Performance**

An effective internal audit function is related with the financial performance in Gapco (U) Ltd.

### **Scope of the Study**

The study covers the role of internal control systems on financial performance at Gapco Uganda in term of adequate provision of control environment, internal auditing and control activities on financial performance particularly liquidity, profitability and provision of quality financial reports. The geography scope of the study is Kampala district, Industrial area 7<sup>th</sup> street where Gapco headquarters are located.

The study examines what happened in Gapco (U) Ltd between 2012- October 2017.

### **Significance of the study**

The major stakeholders of Gapco (U) Ltd benefits for the findings of the study as shown below;

#### **Ministry of Energy**

The study may also add to the existing knowledge bank regarding internal control systems practiced in the upstream oil sector which the ministry of energy can use to lay strategies, policies on how to grow, and best regulate the sector.

#### **Fuel industry**

The study may enhance awareness about the role of internal control systems in companies and the findings and recommendation may give comparative measures of other fuel companies in Uganda.

#### **Gapco (U) Ltd**

The results of the study may help the Management and Board of Directors of Gapco (U) Ltd, to identify gaps within the company's internal control systems, The study may help the board and management to streamline the company's internal control systems thus ensuring improved financial performance and ultimately ensure attainment of the company objectives while regaining its market share in the fuel industry in Uganda.

#### **Future Researchers**

The study findings, conclusion, and recommendations will add to existing literature about internal control systems on financial performance in fuel companies, and this may act as a source of literature for future researches in similar area of study. The study findings may act as a basis of

further research in the field of internal control systems on matters of transparency and accountability

### **Setting of the study**

The setting of the study is Gapco (U) Ltd located at plot 13 7<sup>th</sup> street Jinja road, industrial area Nakawa Division in Kampala Uganda, that is where the Head Quarter is located and the company has other branches in the city and in other towns of Uganda.

Gapco (U) Ltd was incorporated in 1994 through the acquisition of all asset and shares of Essa standard Uganda. Gapco currently has a market share of only 3.96% in the Petrol Fuel distribution industry (Ministry of Energy and Mineral Development Abstract report, 2014). It has a coverage of chain of service station approximately 37 fuel stations in the country wide in; Mbarara, Kampala and Arua , Jinja , Mbale and many other districts .

Gapco is one of the licensed companies to import fuel product from Kenya and Tanzania and distribute over Uganda, as well as the fourth ranked company in terms of employment in the fuel industry. It had estimated staff of slightly more than 300 people who constitute top management, middle staff and operational staff. It also promotes gender balance where by it employs both women and men.

The company operates in East Africa and is one of the largest independent petroleum marketing and trading organization. It is primarily involved in petroleum product imports, retailing, wholesale marketing and distribution in Uganda and it also operations in Kenya and Tanzania

### **Arrangement of the Dissertation**

The dissertation consists of nine chapters as shown below;

Chapter one: Provides an introduction to the study.

Chapter two: Presents the study Literature. It highlights the literature survey, literature review, and the conceptual framework of the study.

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

Chapter four: Presents the biographic characteristics of the respondents.

Chapter five: Presents analysis and interpret findings on how has Gapco (U) Ltd provided an adequate control environment for effective operation to improved profitability.

Chapter six: Presents analysis findings on how has Gapco (U) Ltd established enhanced control activities to improve liquidity.

Chapter seven: Presents analysis, and interpret findings on how has Gapco (U) Ltd undertaken internal auditing for reliable, timely and quality financial reporting.

Chapter eight: Links the findings to literature review and suggests the way forward for Internal control systems and performance in Gapco (U) Ltd.

Chapter nine: Presents Summary and the Conclusion to the Study.

## **CHAPTER TWO**

### **STUDY LITERATURE**

#### **Introduction**

This chapter highlights the study literature. It presents the literature survey, literature review and conceptual framework of the study. It shows how this research relates to the existing body of knowledge and also identifies the gaps in the existing studies.

#### **Literature Survey**

A survey by the present research has indicated that scholars have not been interested to study the activities of Gapco. This study appear to be the first study on the activities of the company , however the area of internal control and financial performance has attracted the attention of many scholars in different organization, some of major such studies are reviewed below here ;

Muraleetharan (2010) conducted a study on internal control and its impact on financial performance of the University of Jaffrian, the study was done a university setting and used a sample of 65% of the 250 fulltime University staff and generally suggested that the most effective internal control systems included risk assessment process, information systems and control activities, the study found that there was a relationship between internal control and financial performance ( $R^2=0.818$ ). The study found that internal control systems explained 81.8% of variance in performance. This study was however, done in university settings which is quite different from petroleum sector , this study seeks to look at other variable within internal control systems which are control environment, control activities and internal auditing.

Chukwu (2012) in the study on the impact of internal control system on the financial management of an organization within the context of the Nigeria Bottling Company found that internal control measures ensured proper use of organization funds and assets. The Z value of 3 degree of freedom and 5% significance for two tailed test was 0.9989 which is less than table value 2.6. The study also found that fraud perpetration and losses of revenue in an organization are not a result of internal control system. Internal control systems are put in place to detect and prevent frauds and losses of revenue and this study seeks to confirm the above findings.



Mawanda (2008 p.71) in his study of the effects of Internal control system on financial performance in an institution of higher learning in Uganda, a case of Uganda Martyrs University found that there is a relationship between internal control system and financial performance.

However, most of these studies were done in universities which may not be the case with urban councils and this study is being undertaken to confirm or dispel the results of these studies with empirical evidence.

Namawjje (2015) conducted a study on Analysis of petroleum firms' performance :market factors and the key factor drives; a case study of selected petroleum firms in Uganda, the study examines the petroleum market factors that is ;the pump price, product features, distribution channel, and promotion activities which explain the sales performance for Delta Petroleum Ltd, Shire Petroleum, Hared Petroleum Ltd, Kobil Uganda Ltd and Mogas for the period from January 2013 to December 2014 and assess the extent to which their key drivers influence sales performance levels. The study used qualitative methods and the research design was descriptive. Study revealed that these five firms have been struggling for the last two years with declining sales performance. The most recognized petroleum market factor is the pump price, followed by the product features, promotion activities and lastly, the distribution channel the study results showed that the sales performance for the five petroleum firms had declined because the industry is very dynamic with many small companies joining every year due to the fact that it was deregulated in 1994. The study recommended the government to put measures to ensure that the industry is well regulated in order to control the emergency of new petroleum companies without qualifications hence reducing on competition.

This study focuses on Gapco (U) Ltd, not other companies since this companies faced several challenges from competitor and want to retrench its operation in Uganda , so this study looks internal control systems in financial performance .

### **Literature review**

Below are some of studies, they are reviewed in order to derive models that may enhancing the researchers in understanding of the issue involved internal control and financial performance in Gapco (U) Ltd. One of models is the Agency model and stewardship model, which this study adopts.

## **The agency model**

The agency model is attributed to Coase (1937), but it has been applied to the management of organizations since the 1980s, basing on Jensen and Meckling (1976). Agency model describes firms as necessary structures that maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents.

Organizations such as Gapco (U) Ltd have principals (owners) and then agents (Managers). The model advocates having governance structures that separate governance from managements. The model suggests the existence of professional managers to manage the organization on behalf of the owners/shareholders (Kiel and Nicholson, 2003). According to Eisenhardt (1989) through the separation of powers, agency model analyses and resolves problems that occur in the relationship between principals (owners/ shareholders) and their agents in management.

Adams (1994) in his article stated that agency model can provide for richer and more meaningful research in the internal control systems discipline. The model contends that internal control systems help to maintain cost-efficient contracting between owners and managers. It may not only help to explain the existence of internal control systems in firms but can also help explain some of the characteristics of the internal control systems function. The model can be employed to test empirically whether cross-sectional variations between internal control systems practices reflect the different contracting relationships emanating from differences in organizational form

Other related reviews include; The Sarbanes-Oxley Act of 2002 (SOX) which requires companies to report on the effectiveness of their internal control systems over financial reporting as part of an overall effort to reduce fraud and restore integrity to the financial reporting process. John and Morris (2011) assert that software vendors that market Enterprise Resource Planning (ERP) systems have taken advantage of this new focus on internal control systems by emphasizing that a key feature of ERP systems is the use of “built-in” controls that mirror a firm’s infrastructure.

The agency model is therefore relevant in this study as shareholders who are the owners of Gapco (U) Ltd have delegated the responsibilities of daily running of the company to the management

who act as their agents and hence great need for strong internal control systems to ensure shareholders and other stakeholder's interests are adequately safeguarded. The model therefore supports existence of control environment, internal audit and control activities which will greatly guide this study.

### **Stewardship model**

The Stewardship model has its roots from psychology and sociology and is defined by Doyle and McVay (2007a) as "a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized". Unlike agency model, stewardship model stresses not on the perspective of individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization.

The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. Argyris (1973) argues that while agency model looks at an employee or people as an economic being, which suppresses an individual's own aspirations, on the other hand Donaldson and Davis (1991) argue that the stewardship model recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust. It stresses on the position of employees or executives to act more autonomously so that the shareholders "returns" are maximized.

Indeed, Fama (1980) contends that executives and directors are also managing their careers in order to be seen as effective stewards of their organization, whilst, Shleifer, Andlei and Vishny (1997) claim that managers return finance to investors to establish a good reputation so that they can re-enter the market for future finance.

Meckling and Jensen (1994) further state the cost incurred to curb agency problems (reducing information asymmetries and accompanying moral hazards) is less when owners directly participate in the management of the firm as there is a natural alignment of owner managers' interest with growth opportunities and risk. It follows from the above that the stewardship model unlike agency model is a complete contrast and doesn't emphasize on the need to incur monitoring

or agency cost which includes establishing an internal audit function. Nevertheless Donaldson and Davis (1991) further note that returns are improved by having both of these models combined rather than separated which implies that management must strike a balance. In our study the steward model is supported by the fact that managers of quoted companies act as stewards of shareholders, suppliers, creditors, consumers and employees of the quoted companies.

According to Hayes (2005) internal control systems comprises five components; the control environment, the entity's risk assessment process, the information and communication systems, control activities and the monitoring of controls. However, for purposes of this study, the researcher will narrow down to only three components of the internal control systems. These are; the control environment, internal audit and control activities. The other components of the internal control systems have been held constant.

Internal control systems are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Jensen, 2003). Internal control systems therefore have a much broader purpose such that the organization level of control problems associated with lower revenues, which explore links between disclosure of material weakness and fraud, earnings management or restatements internal control systems provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation (Beeler et al, 1999).

Fadzil et al (2005) state that an effective internal control system unequivocally correlates with organizational success in meeting its revenue target level. An effective internal control system for revenue generation involves; regular a review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its organizational objectives (Ittner, 2003).

Most organizations no longer set up internal control systems as a regulatory requirement but also because it helps in ensuring that all management activities are appropriately carried out (Kenyon

and Tilton, 2006). Further, organizations are making it a point of duty to train, educate, and sensitize their employees on how to use these internal control systems since its effectiveness depends on the competency and dependability of the people using it. All these control actions ensure that any risks that may affect the company's ability to achieve its goals are appropriately avoided and should not occur at all levels and in all functions of the organization ((Doyle et al, 2005).

There are three major classifications of internal control systems; preventive, detective, and corrective. Preventive controls predict potential problems before they occur, make adjustments, and prevent an error, omission or malicious act from occurring. The detective controls are used to detect and report the occurrence of an omission, an error or a malicious act. Finally, the corrective controls help in ensuring that the impact of a threat is minimized, identify the cause of a problem as well as the correct errors arising from the problem. Corrective controls correct problems discovered by detective controls and modify the processing system to minimize future occurrence of the problem (Singleton, 2006).

Hayes (2005) also notes that "The three major categories of management objectives comprise effective operations, financial reporting and compliance". Effective operations means safe guarding the assets of the organization, the physical assets, cash and non- physical assets like receivables, important documents and confidential records of the entity must not be misused or accidentally destroyed. The goal of financial records requires accurate information for internal decisions because management has a legal and professional responsibility to ensure that information is prepared fairly in accordance with applicable accounting standards. Organizations are equally required to comply with many laws and tax laws and environmental protection laws.

According to COSO (2013), the control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control systems, providing discipline and structure. Hooks (1994) describes the Control Environment as in part an operationalization of organization culture. The control environment encompasses the following elements (ISA UK and Ireland 315): Communication and enforcement of integrity and ethical values is an element of control environment; the effectiveness of controls

cannot rise above the integrity and ethical values of the people who create, administer, and monitor them. Integrity and ethical values are essential elements of the control environment which influence the effectiveness of the design, administration, and monitoring of other components of internal control systems

The control environment, as established by the organization's administration, sets the tone of an Institution and effects the control consciousness of its people. Management attitude should be committed to ethical business practices and to following the established control procedures. This is the foundation for all other components of internal control systems, 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 (Whittington & Pany, 2001). The study by Wallace & Kreutzfeldt (1991) was among the first to demonstrate the importance of the control environment in explaining the existence of an internal audit function. More recently, Goodwin-Stewart & Kent (2006) provided evidence that the existence of an internal audit function is related to the level of commitment to risk management.

As a result of the increase in accounting scandals in recent years, the internal audit function has received impressive attention as an important contributor to effective corporate governance and financial reporting because high quality internal audit function focuses on improving financial reporting through ensuring standard compliance (Prawit, 2008).

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (institute of internal Auditor). Gupta (2001) asserts that "Internal audit is an independent appraisal function established within an Organization to examine and evaluate its activities as a service to the organization".

The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. It's also an independent appraisal function established within an

organization to examine and evaluate the effectiveness, efficiency and economy of managements' control system (Subramanian, 2006). Its objective is to provide management with re-assurance that their internal control systems are adequate for the needs of the organization and are operating satisfactorily (Reid & Ashelby, 2002). It is a component of the internal control systems set-up by management of an enterprise to examine, evaluate and report operations of accounting and other controls. The quality and effectiveness of internal audit procedures in practice are necessary since internal auditors cover a wide variety of assignments, not all of which will relate to accounting areas in which the external auditor is interested.

Emasu (2007) notes that "The effectiveness of internal audit function partly depends on; legal and regulatory framework, placement of the function and its independence, existence of audit committees, resources allocated to the function and professionalism of internal audit staff". It is however a bitter reality that internal audit departments are rarely adequately facilitated. Regarding the size and facilitation of the internal audit function, Gerrit and Mohammad (2010) found evidence in support of the monitoring role of the internal audit function. They specifically found evidence that management ownership is positively related to the relative size of the Internal Audit Function, which is inconsistent with traditional agency model arguments that predict a negative relationship, but more in line with recent studies on earnings management.

This finding suggests that increased management ownership may influence the board of directors to support larger internal audit functions to allow them to closely monitor managers' performance. Effectiveness of internal audit procedures is a measure of the ability of the programme to produce a desired effect or a result that can be qualitatively measured (Harvey, et al., 2004). Rezaee and Zabihollah (2002) argue that there should be effective internal audit procedures to ensure reliability of financial statements, operational reports, safeguarding corporate assets and effective organizational controls.

According to Academic Journal of Interdisciplinary Studies (2015, p.396) the responsibilities of the internal audit (IA) are increasing with the sophistication of the economy and the business organizations. In Umeme Limited, the sophistication has brought changes such as the integrated financial management system which requires sophistication in determining the accuracy and

reliability of these accounts and provide advice to management in respect to the changes which this study is aimed at examining further.

According to Whittington & Kurt (2001), Control activities are policies and procedures that help ensure that management directives are carried out. They basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing, physical controls (necessary to provide security over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end) and monitoring. These are aimed at ensuring that the internal control systems continue to operate as intended (Whittington & Kurt 2001). Generally, internal control systems are very important to the reliability of financial statements when the application of internal control systems is examined closely and in timeliness manner.

Internal control systems should be effective when properly designed and can extremely be beneficial and are usually good for organization management. At present, all kinds of business firms have used internal control systems through the formation of policies to ensure safeguarding assets and profitable business environment especially accounting policy, management policy, and operational policy (Ogneva, Subramanyam, & Raghunandan, 2007). Internal control systems should be on a regular basis reviewed in all aspects of the company and should be strengthened with the aim of increasing organization profitability (Skaife et al., 2007).

According to Rick (2005), reliability of financial reporting is the only leg of a high quality internal control system efficiency system. The meaning is, internal control systems activities are important to the company's financial trustworthiness from stakeholders or investors for decision purposes. Skaife et al. (2007) state that internal control system effectiveness can be achieved through appropriate internal control systems which should have; organizational specific policies, rules, and procedures designed to monitor the financial health of an institution. Internal control systems effectiveness will be met when the manager designs a reasonable assurance strategy that can achieve company set goals and objectives (Reid & Ashelby, 2002).



Besides, internal control system effectiveness is important to the entity level of the firm especially that it provides reliable financial information, safeguard assets and records, encourage adherence to prescribes policies and comply with regulatory agencies (IIA, 2006). The basic concepts of internal control systems indicate that management must establish, maintain the entity's controls by risk management efficiency and also should provide a quality of compliance which is applied to all employees. This can be through intra organization communication, and effective continuous monitoring adequacy (Reid & Ashelby, 2002).

Dixon et al (1990) say that appropriate financial performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Reid and Ashelby (2002) contend 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.

In order to survive and succeed in a competitive market, firms must focus on maximizing profit or they will eventually be driven out of business (Dutta & Radner, 1999). Jovanovic (1982) supports this claim by saying that only efficient firms stay in the market, and that less productive firms will eventually exit many markets. Performance measures provide a mechanism for the organization to manage its financial and non-financial performance. Accountability is increased and enhanced, ensuring that projects support the organizational strategy and that better services and greater satisfaction are provided to a customer.

Whittington and Kurt (2001) found out that objective performance measures include indicators such as profit growth, revenue growth, return on capital employed. Financial consultants Stern Stewart and 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 (John & Morris, 2011). This ranking is based on some traditional aspects of financial performance including: total returns, sales growth, profit growth, net margin, and return on equity.

Dwivedi (2002) argues that other financial measures should include value of long-term investment, financial soundness, and use of corporate assets. John and Morris (2011) discussed accounting based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure is calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

Liquidity is the ability to pay short-term obligations, it measures the ability of a debtor to pay their debts as and when they fall due. It is usually expressed as a ratio or as percentage of current liabilities, Current ratio (total current asset /total current liabilities) as a standard measure of liquidity in organization, acid test ratio (total current asset less stock / total current liabilities) et al (ACCA, & Pandey (1996).)

Quality financial reporting as a professional requirement includes internal control systems 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 large organization et al (Whittington & Pany, 2001), & (IASB, IFRS). Internal control systems devices used include; use of budgetary techniques, production standards, inspection laboratories, employee training and time & motion studies among others.

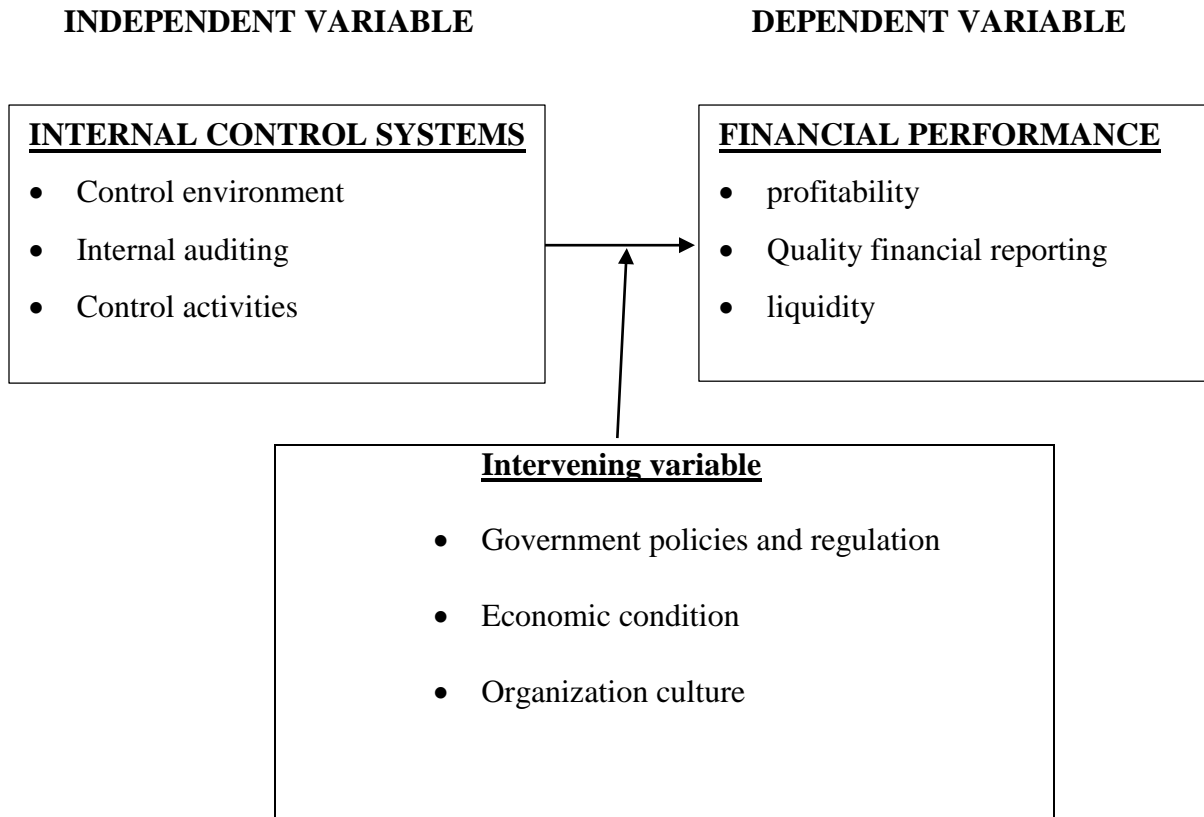
According to Bakibinga (2001), corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of managers. Managers are required to use the resources entrusted to them in the furtherance of the entity's objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity.

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.

## Conceptual framework of the study

According to Watts (1999), a conceptual framework explains, either graphically or in narrative form, the main things to be studied – the key factors, variables, and the presumed relationship among them. It is used in research to outline possible courses of action or to present a preferred approach to an idea or thought.

From the forgoing study literature review, the researcher has developed the conceptual framework below in order to understand the relationship between internal control systems and financial performance at Gapco (U) Ltd.



**figure 2. 1 conceptual framework diagram**

*Source: Adopted with modification from (COSO,2013)*

From the above framework, it has been conceptualized in this study that the independent variable which is the internal control systems as measured by control activities, internal control environment and internal auditing is associated with financial performance as measured by quality financial reporting, profitability and liquidity, if internal control's systems are applied efficiently and effectively financial performance is likely to improve and the reverse is true. It is therefore hypothesized that if the ICS are in existence, they are likely to affect financial performance of an entity depending on the quality and level of the intervening variables that include.

### **Summary of literature review**

The literature review has shown a number of historical sources describing internal control systems and financial performance in different cases. The literature available shows that internal control systems have an effect on financial performance of organizations, though it does not show in statistical terms the extent to which financial performance is affected by internal control systems.

Therefore it is assumed that lack of proper internal control systems adversely affects financial performance of organizations. Limited control environment leads to low productivity among personnel, and absence of policies affects the quality of services offered. Internal audit prevents fraud and errors as it becomes difficult to defraud the system since there are periodic checks on the process. Physical controls ensure assets and organizations valuables are protected. However, the reviewed literature did not highlight the issues of control systems and financial performance in the context of Fuel retail industries in a developing country such as Uganda. This therefore necessitated conducting a study to establish the relationship between internal control systems and financial performance in Gapco (U) Ltd and express it statistically to aid future decision making in the organization.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **Introduction**

This chapter presents and justifies the methods and procedures that are used in conducting the study. The methodology covers the research design, study population, sample size, sampling methods, data collection methods, data collection procedures, data collection instruments, validity and reliability of instrument, data processing, data analysis, ethical considerations and limitations of the study.

#### **Research Design**

According to McMillan & Schumacher (2006), research design is a plan that describes the procedures, nature and strategy of the research. The research design consists of research approach, research strategy, research duration, research classifications and study limitation.

#### **Research Approach**

The research approach includes: positivism approach, phenomenological approach and combination approach. This study the researcher adopted both positivism and phenomenological approaches known as (combination approach). The researcher also tested the relationship between internal control system and financial performance as well as collection of both qualitative and quantitative data.

#### **Research Strategy**

Research strategy is a general plan of how a researcher prepares answering the research question. Therefore research strategies include: experiment, survey and case study. In this study, the researcher employed a case study strategy, researcher developed detailed and intensive knowledge about how Gapco works and conducts internal control system, therefore a case study strategy is a useful since helps to gain understanding of the context of research and process being enacted, and it involves interview, observation, questionnaires, and documentary analysis. Therefore a case study strategy fits this study of the role of internal control systems in financial performance of fuel companies in Uganda with a case study of Gapco (U) Ltd, This is in line with Amin (2005), Sekeran (2003),

### **Research Duration**

The study is based on longitudinal study approach which focuses on what has been happening in the organization at a period of time. In this study, duration is from {2012-2017}. The study covered the role of internal control systems on financial performance of fuel companies in Uganda, focusing on Gapco (U) Ltd.

### **Research Classification**

The research adopted both qualitative and quantitative approaches. The qualitative approach helped researcher to describe and explores events concerning internal control in Gapco and establishes theoretical models, approaches and record qualitative factors involved while quantitative helped in the mathematical software to establish causal relationship between the variables.

### **Study Limitations**

While conducting research, the researcher faced the following challenges;

High costs in terms of transport, purchasing stationery, typing and photocopying. This was solved by working within the budgeted cost.

Uncooperative respondents in providing the necessary information, this was solved by availing them with a letter of introduction from Nkumba University and guarantee them that the information provided is only for academic purposes and that would be handled confidentially .

Time constraint in data collection, capturing, coding, editing analyzing and the final presentation of the report. This was solved by ensuring that the time element is put into consideration and honoring each and every appointment as agreed upon with the respondents in the survey population. The management of time constraint was guided by the study plan.

In addition to that, internal control system and financial performance is difficult to obtain since they are regarded as sensitive issues which cannot be provided without caution. However a case study approach was used to gain in depth understanding of the situation in Gapco (U) Ltd and conclusions was drawn therefrom in accordance with responses provided.

## Study Population

Creswell (2004), defines population as the entire collection of all observations of interest to the researcher. The population of the study was 40 which comprises of Gapco (U) Ltd staff at the headquarters. The table below shows the distribution of the population size.

Mechanic

**Table 3.0.1: Distribution of Population, percentage and sampling method**

Category of Population	Number of people	Percentage %	Sampling methods
General Manager	1	2.5	Census
Heads of section	4	10	Census
finance department	7	17.5	Census
marketing & transportation	8	20	Census
field staff	8	20	Census
pump mechanics	7	17.5	Census
support staff	5	12.5	Census
Total	40	100	

Source; *Secondary data, (2017)*

## Sample size

Sample size is the process of collecting representative sample of people, document, forms, and records as et al McMillan & Schumacher (2006). The researcher selected General manager, a sample of members of head of section, finance department, marketing and transportation, field staff, pump mechanics and support staff. The sample size comprises 40 respondents. Above table demonstrates details of population study.

### **Sampling methods**

Mugenda and Mugenda (2003) define sampling as a formulation of a procedure of selecting the subjects or cases to be included in the sample. This study used census sampling technique to select the, marketing and transportation, field staff, pump mechanics and support staff at Gapco (U) Ltd. While purposive sampling was applied to the General Manager, heads of sections and finance department. These were targeted because of their perceived knowledge arising out of known experience that they have.

### **Sources of data**

The study applied mainly quantitative. Basically, Qualitative data focused on respondent's perceptions towards the respective study's objectives, while the quantitative methods focused on frequencies and percentages with regards to the relevant data as collected from the respective respondents.

The researcher used both primary and secondary sources of data. Primary data were generated by the researcher and obtained directly from the respondents. This were first-hand and original information gathered with the use of self-administered questionnaires.

Secondary data involved sourcing data from already processed information and data was obtained by reviewing relevant text books, journals, newspapers, magazines, online published articles and previous records about the search topic.

### **Data Collection instruments**

The researcher employed various methods for data collection. The Primary data collected through observation, interview using questionnaires and focus group discussion using checklist. Secondary data also collected through documentary review journals and books of relevant studies.

In this case the researcher chose to use self-administered questionnaires which refers to a compilation of questions which help the researcher gather necessary research data for the study (Amin 2005). It has been designed as shown in {Appendix A} self-administered questionnaires were a popular tool for collecting data. And it was filled by relevant member of staff of Gapco (U) Ltd. The self-administered questionnaires were consisted of a set of close ended questions requiring for respondents to opt for one answer from the given choice. A questionnaire tool is cheaper and less time consuming.



## **Interview Guide**

Interviews are open questions often administered to key informants to give them wide latitude to talk about the subject (Amin, 2005). The researcher was conducted oral face to face interviews with the heads of sections, finance department and marketing at Gapco (U) Ltd. The interview guide has been designed as shown {Appendix B} and to maintain consistency, reduce bias and allow an opportunity to the researcher to interact directly with the respondents.

## **Validity and Reliability of the instruments**

Validity refers to the extent to which questions in an instrument accurately measure the variables therein (Amin, 2005). In other words, validity is the accuracy and meaningfulness of inferences, which were based on the research results (Mugenda and Mugenda, 1999). The questionnaire was subjected to expert face validity and theoretical content validity tests.

## **Reliability**

To ensure reliability of the instruments, questionnaires and interview guides was designed and pre-tested with some administration staff, logistics department and repair and maintenance or technical staff who the researcher did not involve in the study. A test-retest was done to establish consistence in responses. According to Sekaran (2003), pre-test can be used to measure the extent to which the instrument was produced consistent scores when the same group of individuals is repeatedly measured under the same conditions.

## **Data processing**

Data processing occurs in four stages namely: editing the data, categorizing and/or coding the data, entering the data into computer, and finally summarizing of the data into (qualitative data) and into frequency tables (quantitative data). et al sakaran(2003)

The data collected were edited, coded, and entered into the SPSS (version 18), and summary was made in order to obtain the required quality such as consistency, completeness and accuracy of data. Also the researcher was assured that, the data processed was clean and relevant to the study area.

**Data analysis**

Data analysis was used a computerized data analysis tool. Particularly SPSS package was used to To analyze variable in order to draw inferential, frequency and percentages, a test of the model was conducted and a test of hypothesis was done to determine level of relationship between variables.

**Ethical considerations**

The major ethical problem anticipated in this study was the privacy of the respondents and confidentiality of their information. To ensure confidentiality, the respondents were informed upfront that the information they given was solely used for academic purposes and data obtained on private matters was treated in confidence.

## CHAPTER FOUR

### BIOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

#### **Introduction**

This chapter presents biographic characteristics of the respondents. The results of the statistical analysis, generated on the basis of the use of descriptive statistics, are presented in the forms of tables, graphs and percentage. The questionnaires were administered, and analyzed with respect to biographical variables.

#### **Background Characteristics of Respondents**

In order to examine the role of internal control systems on financial performance in fuel companies in Uganda basing on Gapco (U) Ltd. This section shows the gender of the respondents, marital status, age, highest level of education attained and the duration spent in service at Gapco (U) Ltd.

#### **Gender of respondents**

Respondents were requested to reflect their gender and their response were as shown in the table 4.1.

**Table 4.1: Gender of respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Males	26	65
Females	14	35
Total	40	100

**Source: Primary data 2018**

The result as indicated in table 4.1 revealed that 65% were male and 35 % were female. This means that the organization employs both male and female employees though the majority are Males.

#### **Marital status of respondents**

The study looked at marital status of respondents and their categories were as presented in the table 4.2.

**Table 4.2: Marital status of respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Single	26	65
Married	14	35
Widower	0	0
Total	40	100

**Source: Primary data 2018**

Table 4.2 above shows that 65% of the respondents who work with Gapco Uganda Ltd are single and the married are 35%, this shows the majority of employee are in single status.

### **Age group of respondents**

The study looked at the respondent's age group and their categories were shown as in the table 4.3 below.

**Table 4.3: Showing Age of respondents**

<b>Age group of respondents in years</b>	<b>Frequency</b>	<b>Percentage</b>
18-25	3	7.5
25-35	18	45
35-45	8	20
45+	11	27.5
Total	40	100

**Source: primary data 2018**

Table 4.3 shows that 45% of the respondents who work with Gapco Uganda Ltd are within the age group of 25-35 years followed by those in the age group of 35-45 years at 20 %. Those in the age group of 45+ years are 27.5% and lastly those below the age of 25 at only 7.5%. This means that the Gapco Uganda Ltd is more interested in people within the age group of 25-35 because these are still energetic and thirst to achieve a lot ahead.

### Education level of Employees

The respondents were asked their level of education in order to establish whether they understood the role of internal control system in financial performance of the company, the results are summarized in the table 4.4.

**Table 4.4: Showing Education level of Employees**

<b>Level of Education</b>	<b>Frequency</b>	<b>Percentage</b>
Post Graduate	14	35
degree	18	45
Diploma	6	15
Certificate	2	5
<b>Total</b>	<b>40</b>	<b>100</b>

**Source: Primary data 2018**

From the results in table 4.4 shows 45% are degree holders and 35% are post graduate is clear that Gapco staff are knowledgeable and well positioned to implement the various internal control systems in the company. This means that Gapco considers education and experience highly when selecting its employees.

### Duration at work

The researcher asked the respondents duration of work in order to know whether they enough experienced to the company's operation.

**Table 4.5: Results on duration in work**

<b>Length of service</b>	<b>Frequency</b>	<b>Percent</b>
Less than 1 year	5	12.5
1-3 years	8	20
3-6 years	10	25
6+	17	42.5
<b>Total</b>	<b>40</b>	<b>100</b>

**Source: primary data 2018**

From table 4.5 above, majority of the respondents that is 42.5% pointed out that they have been working with Gapco for over 6+ years, 25% of the respondents indicated that they had been in operation for period 3-6 years, 20% of the respondents pointed out that they have been working in this company for a period of 1-3 years. This shows the majority of respondents served more than 6 years which indicate most respondents had vast knowledge which could be relied upon this study.

## **CHAPTER FIVE**

### **HOW GAPCO PROVIDE AN ADEQUATE CONTROL ENVIRONMENT TO ENHANCE PROFITABILITY**

#### **Introduction**

The chapter presents an analysis and interpretation of research findings in line with the study objective number one which states that provide an adequate control environment for effective operation, these findings were generated from both primary and secondary data using the methodology in chapter three. The findings were consistent with research questions and the provided answers which were used as a basis for drawing logical conclusions and recommendations from the study. In the presentation of the findings, tables were used so as to provide a better analysis and presentation of findings. The findings presented reflected responses generated from all categories of populations under this study. The chapter presents and discusses respondent's perception about contribution of control environment to the effectiveness and efficiency of operation hence profitability.

The objective of control environment is to ensure the correct functioning of the Gapco's internal processes, particularly those relating security of assets. Data presentation and analysis about the effectiveness and efficiency of the company operations are presented as below

#### **Board of directors approves the overall business strategies and significant policies**

The board of directors of Gapco (U) Ltd have the responsibility for approving and periodically reviewing the overall business strategies and significant policies of the company; understanding the major risks associated with organization, setting acceptable levels for these risks and ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks; approving the organizational structure; and ensuring that senior management is monitoring the effectiveness of the internal control system (Institute of Internal Auditors, UK). Therefore the study asked respondents whether Board of directors approves the overall business strategies and significant policies and the results are indicated in the table 5.1:

**Table 5.1: Board of directors approves business strategies and significant policies**

	<b>Responses</b>	<b>Frequency</b>	<b>Percent</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	0	0	0
	Disagree	0	0	0
	Not Sure	6	15	15
	Agree	13	32.5	47.5
	Strongly Agree	21	52.5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

From the table 5.1 shows that 52.5% of the respondents strongly agreed with the statement that board of directors approves the overall business strategies and significant policies, 32.5% agreed, and 15% were not sure. Majority of the respondents 85% generally agreed with the statement and this shows that the board of directors approves and reviews the overall business strategies and significant policies of the company periodically.

### **Board of directors has established adequate and effective internal control systems**

The board of directors has the ultimate responsibility for ensuring that an adequate and effective system of internal controls is established and maintained. Board members should be objective, capable, and inquisitive, with a knowledge or expertise of the activities and risks run by the company. In those countries where it is an option, the board should consist of some members who are independent from the daily management of the Company (Institute of Internal Auditors, UK). Therefore the study asked respondents whether Board of directors establishes adequate and effective internal control systems and the results are indicated in the table 5.2



**Table 5.2: Board of directors establishes adequate and effective internal control systems**

	<b>Responses</b>	<b>Frequency</b>	<b>Percent</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	3	7.5	7.5
	Disagree	8	20	27.5
	Not Sure	2	5	32.5
	Agree	6	15	47.5
	Strongly Agree	21	52.5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

From the table 5.2 indicates that, 52.5% of the respondents Strongly Agreed with the statement that board of directors has established adequate and effective internal control systems, 15% agreed, 20% disagreed, 7.5% strongly disagreed and 5% respondent rated not sure. Majority of the respondents 67.5% generally agreed with the statement and this means that the board of directors of Gapco (U) Ltd ensures that adequate and effective systems of internal controls are established and maintained. During the interviews held with of heads section Gapco (U) Ltd, it was revealed that *“establishing and maintaining effective internal control systems provides a clear understanding about the major risks associated with company, setting acceptable levels for these risks and ensuring that necessary steps are taken to identify, measure, monitor and control these risks”*.

### **Board of directors have promoted governance, guidance and oversight to senior management**

The International Federation of Accountants (IFAC) believes that establishing an integrated and effective system of governance, risk management, and internal control is desirable for all types of organizations and can make an invaluable contribution to achieving sustained organizational success. Therefore the study asked respondents whether Board of directors provides governance, guidance and oversight to senior management and the results are indicated in the table 5.3

**Table 5.3: Board of directors promotes governance and guidance to senior management**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	0	0	0
	Disagree	12	30	30
	Not Sure	0	0	30
	Agree	20	50	80
	Strongly Agree	8	20	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

According to table 5.3 shows that 20% of the respondents strongly agreed with the statement that board of directors have promoted governance and guidance to senior management, 50% agreed and 30% Disagreed. Majority 70% of the respondents generally agreed with the statement and therefore Board of Directors of Gapco (U) Ltd continue providing governance, guidance and this will help to act as a deter to financial misbehavior in the organization.

#### **Senior management commitment to internal control system in the organization**

Senior Management as the company's executive body and reports to the Board of Directors, therefore the study asked respondents whether senior management committed to the internal control system of Gapco (U) Ltd the results are indicated in table 5.4:

**Table 5.4: Senior management commitment to operation of internal control system**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	11	27.5	27.5
	Disagree	10	25	52.5
	Not Sure	7	17.5	70
	Agree	10	25	95
	Strongly Agree	2	5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

From table 5.4, above, shows that 27.5% of the respondents strongly disagreed with the statement senior management committed to the operation of accounting system, 25% disagreed, 17.5% not sure while 25% of respondent rated agree and 5% rated strong disagree that management is committed operation of accounting system. Majority 52.5% of the respondents generally disagreed and this shows that senior management of Gapco (U) Ltd have not committed to the operation of accounting system in the company. Therefore this leads to poor performance and loss of resources. Commitment to the operations of the Accounting and financial management system verses with Whittington and Pany's assertion of the control environment setting the tone of the organization and influencing the control consciousness of everyone in the organization. It supports the assertion by Whittington and Pany that control environment (especially management philosophy and operating style) is the foundation for all other components of internal control. Management's commitment to the operations of the internal control system is very crucial to success of an organization. There is therefore need for the board of directors of the company to review its strategies in appointing management to engage only those that are and will be committed to the company's policies and system.

### **Senior management takes steps to monitor implementation of control over financial activities in the organization**

The study went ahead and asked the respondents whether senior management takes steps to ensure that activities are monitored and controlled in Gapco (U) Ltd and the Results are presented in table 5.5:

**Table 5.5: Senior management takes steps to monitor implementation of control**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	6	15	15
	Disagree	10	25	40
	Not Sure	4	10	50
	Agree	9	22.5	72.5
	Strongly Agree	11	27.5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

From table 5.5, above findings show that 27.5% of the respondents strongly agreed, 22.5% agreed, 15% strongly disagree, 25% disagreed and 10% were not sure. However Majority 50% of the respondents generally agreed but 40% of respondents rated disagreed, this shows that management is somehow weak in regard monitoring and controlling of internal control system. This is in line with finding Sarens & De Beelde (2006) 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” is critical to the success of an internal control system. Therefore, the management of Gapco U Ltd develop control mechanisms over internal control system at Gapco (U) Ltd.

**The working of board of directors and senior management affects the integrity and ethics**

Effective approaches to instilling ethics and integrity, and using codes of conduct, are key elements of ensuring sound corporate governance and management control. The Committee of Sponsoring Organizations of the Treadway Commission (COSO)’s principle one of the control environment in the Internal Control Integrated Framework covers the need for the organization to demonstrate a commitment to integrity and ethical values. Therefore the study asked respondents whether the working board of directors and senior management affects the integrity and ethics at Gapco (U) Ltd and the results are indicated in the table 5.6

**Table 5.6: Board of directors and senior management affects the integrity and ethics**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	5	12.5	12.5
	Disagree	2	5	17.5
	Not Sure	2	5	22.5
	Agree	11	27.5	50
	Strongly Agree	20	50	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

According to finding in table 5.6, shows 50% of the respondents strongly agreed with the statement that working of board of directors and senior management affects the integrity and ethics, 27.5%

agreed, 12.5% strongly disagreed, 5% rated disagreed and 5% rated not sure. However Majority 77.5% of the respondents generally agreed and this means that the words, attitudes and actions of board of directors and senior management affect the integrity and ethics, therefore the management of Gapco (U) Ltd are doing good work to promote ethical behavior in the workplace. During the interviews with departmental staff, it was revealed that *“the conduct of the board of directors and the senior management determines the behavior of other staff and the entire control culture”*.

### **Methods by which people are hired, trained and compensated is important element of control environment**

According to Phil Rabinowitz (1953) Hiring the right people and training them properly are the most effective ways to ensure the success of any organization. Also Hiring individuals with good personalities and good work ethics truly can increase the performance of the organization. Therefore the study asked whether respondents Methods by which people are hired, trained and compensated is important element of control environment and the results are indicated in table 5.7

**Table 5.7: Methods by which people are hired, trained, promoted and compensated are important element of organization control environment**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	2	5	5
	Disagree	5	12.5	17.5
	Not Sure	7	17.5	35
	Agree	11	27.5	62.5
	Strongly Agree	15	37.5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

From table 5.7, shows that 37.5% of the respondents Strongly agreed with the statement; methods by which people are hired, trained, promoted and compensated is important element of control environment, 27.5% of the respondent rated agreed, 17.5% rated not sure and 12.5% were disagreed. Majority 65% of the respondents generally agreed and this shows that methods, by which people are hired, trained and compensated is important element of control environment in Gapco (U) Ltd However, during the interview held by Gapco (U) Ltd human Resource Manager

it was revealed that “when we are recruiting new employees in Gapco, we consider specific internal control policies and procedures in the company”

**Management acts with a great degree of integrity in execution of their roles**

The competency is a description of a required skill, attribute or behavior for a specific job used to define and measure an individual’s effectiveness. Therefore the study asked respondents whether senior management act competence and high degree of integrity in order to leads better execution of tasks and the results are indicated in table 5.8.

**Table 5.8: Senior management’s competence leads to better execution of tasks**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	4	10	10
	Disagree	7	17.5	27.5
	Not Sure	2	5	32.5
	Agree	14	35	67.5
	Strongly Agree	13	32.5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

From table 5.8, above shows that 32.5% of the respondents strongly agreed with the statement that senior management’s competence and integrity leads to better execution of tasks, 35% agreed, while 17.5% disagreed and 10% of respondent rated strongly disagree. Majority of the respondents 67.5% generally agreed with the statement and this implies that senior management’s competence leads to better execution of tasks at Gapco. Therefore the management of Gapco (U) Ltd ought to introduce a competence based remuneration system.

**Appropriate measures are taken as preventive corrective strategies to cutter errors in operation of internal control system.**

The respondents were asked the whether appropriate measures are taken to prevent and correct repetitive errors in the operation of internal control system in Gapco, their response were rating in the table 5.9.

**Table 5.9: Appropriate measures are taken to correct errors in operation of internal control system**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	5	12.5	12.5
	Disagree	9	22.5	35
	Not Sure	3	7.5	42.5
	Agree	9	22.5	65
	Strongly Agree	14	35	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

The results from the table 5.9 indicate that respondents seem to agree that appropriate action is normally taken by management to correct errors in operation of internal control, since 35% of respondent strongly agreed and 22.5% agreed, 22.5% of respondent disagreed and 12.5% strongly disagreed , the majority 57.5% of respondent generally agreed although the rate of disagreed is high 35% this provided same respondents possess varied understanding about the aspect of the measures taken as preventive and corrective action to any weaknesses in the controls. This means that measures taken are sometimes not communicated or formal. Management’s action to correct misfeasance in the system is an indication of management’s commitment to the operation of the internal control system.

#### **Strict action is taken against employees involved in fraudulent activities**

Organizations always have policies in place concerning punishments and therefore the study asked respondents whether stringent action is taken against employees involved in fraudulent activities in Gapco (U) Ltd and the results are indicated in table 5.10

**Table 5.10: Stringent action is taken against employees involved in fraudulent activities**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	5	12.5	12.5
	Disagree	7	17.5	30
	Not Sure	1	2.5	32.5
	Agree	14	35	67.5
	Strongly Agree	13	32.5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

According to table 5.10, it is seen that 32.5% of the respondents strongly agreed with the statement that stringent action is taken against employees involved in fraudulent activities, 35% agreed, while 12.5% of respondents disagreed, 17.5% strongly disagreed. A majority of 67.5% of the respondents generally agreed, and this means that taking severe action is taken against employees involved in fraudulent activities.

From the tables above, the study sought to establish the level at which respondents agreed or disagreed with the above statements relating to control environment and profitability of Gapco (U) Ltd. From the findings, the study established that a majority of respondents strongly agreed that the board of directors approves business strategies and significant policies as shown in table 5.1, it also shows that the board of directors promotes governance, guidance to oversight senior management as shown in table 5.3, but the management slightly was not committed to implement operation of internal control system in order to operate in an adequate manner as shown in table 5.4, (52%) of respondents generally disagreed with management commitment to effective operation of internal control system. In addition to that, appropriate measures were not taken to correct errors in the system, and yet they were not communicated, informed to junior staff who involve operation of system to avoid repetitive errors, this weakness in performance as shown in table 5.9. The respondents who indicated that the internal control environment plays a number of roles in supporting the systems. Ten respondents said that they played oversight roles. These were in the management. Their key role was to put in place internal control activities, monitor and evaluate them. Another group of fifteen respondents indicated that they were competent and trustworthy to ensure that all documents are authentic. Other respondents further indicated that internal control means too much bureaucracy.



in the paper work hence delays in service delivery, which affect revenue generation. Systems of internal control are functioning as per the intended plan as indicated by most of the respondents. It has enhanced efficient and accurate data capturing. This is clear in many firms that are up to date with technology.

**CHATER SIX**  
**HOW CONTROL ACTIVITIES HAVE BEEN PUT IN PLACE TO IMPROVE**  
**LIQUIDITY AT GAPCO (U) LTD.**

**Introduction**

This chapter presents discussion of results on the second objective of the study which is on how control activities have been undertaken to improve liquidity in Gapco (U) Ltd. The presentation, analysis and interpretation of findings are reflected under the variance section herein;

**Clear separation of roles**

The study asked respondents whether the company has Clear separation of roles as result of adopting internal control systems and the results are indicated in table 6.1

**Table 6.1: Clear separation of roles**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	1	2.5	2.5
	Disagree	5	12.5	15
	Not Sure	3	7.5	22.5
	Agree	20	50	72.5
	Strongly Agree	11	27.5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

The results of table 6.1 indicate that respondents agreed that there is a clear separation of roles while executing finance and accounting functions. This is shown by 27.5% who strongly agreed, & 50% agreed, while 12.5% disagreed and 7.5% were not sure, the majority 77.5% of respondent generally agreed that there was clear separation of roles in Gapco U Ltd. This is in line with Ray and Pany (2001)'s "suggestion of segregation of duties" such that no one person should handled all aspects of a transaction from the beginning to the end. The result implying that Gapco U Ltd has maintained clear segregation of roles in order to execute task and activities appropriately.

### **Appropriate supervision by senior staff**

The respondents were asked whether appropriate supervision was carried out by senior staff to junior staff when a cutter were carrying out their work as result of adopting control systems, the results are indicated in table 6.2.

**Table 6.2: Appropriate supervision by senior staff**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	5	12.5	12.5
	Disagree	6	15	27.5
	Not Sure	2	5	32.5
	Agree	12	30	62.5
	Strongly Agree	15	37.5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

The table 6.2 reveals that respondents agreed that there is appropriate supervision of junior staff by their seniors. This is shown by 37.5% who strongly agreed, 30% agreed, while strongly disagreed 15%, disagree 12.5% respondents and 5% of respondent rated not sure, the majority 67.5% of respondents agreed to the statement that senior staff conduct appropriate supervision to junior staff. However 15% disagreed ,12.5% strongly disagreed and 6% were not sure, this shows that supervision was weak , the lack of strict supervision by senior staff is an indication of deficiencies in strategic controls as advocated for by Hitt, Hoskisson, Johnson, and Moesel (1996) which if not addressed may lead to material internal control weaknesses.

### **Corrective action is taken to address weakness**

The respondents were asked whether correction action was taken to address weakness as a result of adopting internal control systems and the results are indicated in table 6.3.

**Table 6.3: Corrective action taken to address weakness**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	6	15	15
	Disagree	8	20	35
	Not Sure	4	10	45
	Agree	10	25	70
	Strongly Agree	12	30	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

The results in table 6.3 reveal that respondents agreed that corrective action is normally taken to address weaknesses as shown strongly agreed 30%, agreed 25%, And 10% of respondent rated not sure, while 20% disagreed, and 15% strongly disagreed. Only the majority of 55% generally agreed that corrective action was normally taken to address weaknesses, however the total of the 45% who generally disagreed and who not sure is a high rate implying that many cases corrective action has not been address weaknesses. Action being taken to address weaknesses in the system is an indication of the commitment to the system. This is the commitment referred to by Whittington and Pany (2001).

#### **Staff trained to implement system**

The study went ahead and asked the respondents whether staff were trained to implement systems as result of adopting internal control systems and the results are indicated in the table 6.4

**Table 6.4: Staff trained to implement system**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	5	12.5	12.5
	Disagree	6	15	27.5
	Not Sure	2	5	32.5
	Agree	11	27.5	60
	Strongly Agree	16	40	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

Table 6.4 reveals that respondents agreed that staff are trained to implement the accounting and finance system and this is shown by 40% who strongly agreed, 27.5% agreed, while 15%, Strongly disagree, 12% disagreed and 5% rated not sure, the majority 67.5% of respondent generally agreed staff are trained to implement accounting system hence that the majority respondents do seem to appreciate internal control activities. However the contrary response rate of 31% some failure at times by the management to train staff in the implementation of accounting and financial management systems. Staff being trained in the use of accounting system is an indication of the commitment to the effectiveness of systems of internal control. It is what Verschoor, (1999) recommended as “programs of selection and training of personnel”.

**Valuable information accessed only with consent of senior staff**

The study asked the respondents whether is impossible for one staff to have access to all valuable information without the consent of senior staff. The results were shown in table 6.5 below.

**Table 6.5: Information accessed with consent of senior staff**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	3	7.5	7.5
	Disagree	6	15	22.5
	Not Sure	3	7.5	30
	Agree	12	30	60
	Strongly Agree	16	40	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

The results in table 6.5 indicate that respondents were asked as whether “it is impossible for one staff to have access to all valuable information without the consent of senior staff. This was revealed by strongly agreed 40%, agree 30%, of respondent while strongly disagreed rated 15%, disagreed 7.5% of respondent and not sure rated 7.5%. The majority 70% of respondent generally agreed with statement, this shows that Gapco has strong accounting system since majority of respondent agreed with statement that is difficult to access valuable information without consent of senior staff.

### Controls are in place to exclude incurring expenditure in excess of allocated budgets

The study asked the respondents whether there is control on expenditure over allocated budgets and the results shown in the table below.

**Table 6.6: No expense is incurred in excess of budgeted**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	3	7.5	7.5
	Disagree	4	10	17.5
	Not Sure	8	20	37.5
	Agree	12	30	67.5
	Strongly Agree	13	32.5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

The results in table 6.6 reveal that 20% respondents were not sure as to whether controls are in place to exclude incurring expenditure in excess of allocated budgets, strongly agreed and disagreed rated 7.5% & 10% of respondents, This is close to respondents agreed 30%, and strongly agree 32.5%. However, this suggests that majority 62.5% of respondents agreed but the level of not sure and disagree respondents is high 37.5%. The finding could be there is a failure in the monitoring aspect which weak as referred to by Hayes, et al (2005).

### Security systems safeguards Assets

The respondents were asked whether the security systems safe guards assets as an aspect of internal control system in Gapco U ltd, and the results shown in the table 6.7.

**Table 6.7: Security systems safeguards Assets**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	6	15	15
	Disagree	9	22.5	37.5
	Not Sure	5	12.5	50
	Agree	8	20	70
	Strongly Agree	12	30	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

The results of table 6.7 above shows strongly disagreed 22.5%, disagree 15%, not sure 12.5% of respondents, while strongly agreed rated 30% and agreed 20% of respondents ,those who generally rated disagreed and not sure about the security safeguard assets of the organization is equal to those who generally agree 50%, the failure by the system to safeguard assets of the organization does not promise well, with Ray and Pany (2001)’s recommendation for “physical controls” (necessary to provide security over both records and other assets.

**The company policies on information and communications provide well established techniques and mechanisms to address non-compliance in financial matters.**

Therefore the study asked respondents whether the company policies on information and communications provide well established techniques and mechanisms to address non-compliance in financial matters and the results are indicated in the table below.

**Table 6.8: The company policies on information and communications provide well established techniques and mechanisms to address non-compliance in financial matters**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	0	0	0
	Disagree	0	0	0
	Not Sure	4	10	10
	Agree	24	60	70
	Strongly Agree	12	30	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

According to table 6.5, above shows 60% of the respondents agreed with the statement that the company policies on information and communications provide well established techniques and mechanisms to address non-compliance in financial matters, 30% of respondent rated strongly agreed, while 10% rated not sure , the majority 90% of respondent generally agreed with the statement which means the company policies on information and communications needs to be well observed by all the staff in the company since the company has put in place techniques and mechanisms to address non-compliance in financial matters, this helps in preventing financial misuse and non-compliance within the company.

### **Chart of Account**

The respondents were asked whether Gapco had a well-developed charts of accounts and their results were presented in the table 6.9



**Table 6.9: Chart of Account**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	5	12.5	12.5
	Disagree	7	17.5	30
	Not Sure	5	12.5	42.5
	Agree	17	42.5	85
	Strongly Agree	6	15	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: primary data (2018)**

The results from the table 6.9 shows that respondents had different opinion as the whether Gapco had a well-developed chart of account 42.5 % agreed, 15% of respondents strongly agreed, 17.5% strongly disagreed, 12.5% disagreed and 12.5% rated not sure, however the majority of 57.5% of respondents generally agreed with statement that Gapco have chart of accounts although 30% rated disagreed as to whether charts accounts there or they do not know, Having a well-developed Chart of Account is both a strategic control and a financial control referred to by Hitt, *et al*; (1996).

### **Cash receipts bear fairly strong controls**

The respondents were asked whether cash receipts bear strong control, the results are shown in the table 6.10

**Table 6.10: cash receipts bear fairly strong control**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	4	10	10
	Disagree	0	0	10
	Not Sure	6	15	25
	Agree	17	42.5	67.5
	Strongly Agree	13	32.5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: primary date (2018)**

From table 7.10 shows that majority of respondents generally agree with statement that cash receipts bear strong control as reflected strong agree 32.5%, agreed 42.5%, while 15% rated not

sure and 10% disagreed, however high strong of cash receipts control shows that fraudulent activity that may arise in cash receipt is under control. *In an interview asked by finance staff told that other control activities that are used in Gapco include use of Retail management system which is software that generate receipts and inventories receipts.*

According to the findings, the respondents agreed there is clear segregation of roles and duties, such that no one person should handle all aspects of a transaction from the beginning to the end, staff were trained to implement accounting system , but there was weak supervision to junior from senior staff which shows some staff were not committed their tasks ,as well there is lack of implementation of corrective action to avoid repetitive errors in accounting system , in addition to that the findings showed there is weak control over incurring expenditure and there was lack of adequate physical control to safe guard assets in Gapco .

## CHAPTER SEVEN

### HOW INTERNAL AUDITING ENHANCES PRODUCTION OF QUALITY FINANCIAL REPORTING AT GAPCO (U) LTD.

#### Introduction

This chapter presents discussion of results on objective three of the study which is to examine how internal auditing enhance quality financial reporting at Gapco (U) Ltd.

#### The company has a functional internal audit unit/department

The study asked respondents whether the Company has a functional internal audit unit/department as a result of adopting internal control systems and the results are indicated in the table below.

**Table 7.1: The Company has a functional internal audit unit/department**

	Responses	Frequency	Percentage	cumulative percentage
valid	Strongly Disagree	10	25	25
	Disagree	9	22.5	47.5
	Not Sure	4	10	57.5
	Agree	9	22.5	80
	Strongly Agree	8	20	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

According to table 7.1 above it is clearly evident that the majority 47.5% of the respondent did not see a functioning internal audit department in Gapco (U) Ltd as reflected by 25% strongly disagreed, 22.5% disagree, 10% were not sure, while only 22.5% of respondent agreed and 20% strongly agreed, this shows that the internal audit unit is not functioning well or is not strong and this may lead delay or lack of assurances, reliability and quality of financial reports in the company, obviously this underscores the importance of an internal audit department in helping an organization achieve its objectives, as stated by Subramaniam, (2006), Reid & Ashelby, (2002). Therefore there is strong need the Company to maintain a functional internal audit unit/department as this will help to track the financial flows of the Company proper recording and reporting.

### **Sufficiently staffed internal audit department**

The study went ahead to ask the respondent whether the internal audit unit or department is sufficiently staffed and the results are shown in the table 7.2.

**Table 7.2: Sufficiently staffed internal audit department**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	9	22.5	22.5
	Disagree	12	30	52.5
	Not Sure	2	5	57.5
	Agree	10	25	82.5
	Strongly Agree	7	17.5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

From the results shown in table 7.2, the majority 52.5% of the respondents seem to disagree that the internal audit unit in the company was insufficiently staffed and was unable to conduct regular internal audit activities. This was revealed by 30% strongly disagreed, 22.5% disagreed, 5% were not sure, while 17.5% of respondent strongly agreed 25% agree. This means that the internal auditor's role of examining and evaluating the effectiveness, efficiency and the economy of the management control system as advocated by Subramaniam, (2006) may not be achieved. This findings is in agreement with findings 5.4 which shows low Management commitment on the operations of the system.

### **The internal audit department reports functionally to the audit committee of the Board**

The study asked respondents whether the internal audit department reports functionally to the audit committee of the Board of Directors and the results are indicated in the table 7.3.

**Table 7.3: The internal audit department reports functionally to the audit committee**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	2	5	5
	Disagree	8	20	25
	Not Sure	5	12.5	37.5
	Agree	15	37.5	75
	Strongly Agree	10	25	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

According to table 7.3, shows that 37.5% of the respondents agreed that the internal audit department reports functionally to the audit committee of the Board, 25% strongly agreed, while 5% of the respondent rated strongly disagree, 20% rated disagree and 12.5% rated not sure, the highest number of respondents 62.5% agreed with the statement which implies that internal audit department on several occasions reports functionally to the audit committee of the Board. Interviewer response indicate audit reports basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing, physical controls (necessary to provide security over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end) and monitoring this is in line with Rezaee and Zabihollah (2002) who argue that there should be effective internal audit procedures to ensure reliability of financial statements, operational reports, safeguarding corporate assets and effective organizational controls. However, the disagreement and not sure rate totaling to 39% implies weaknesses in the internal audit department's functional reporting to the audit committee of the Board.

### **Internal audit report address weaknesses in internal control systems**

The study asked respondents whether internal audit reports address weaknesses in the company internal control systems and the results are indicated in the table 7.4..

**Table 7.4: Internal audit reports address weaknesses in internal control systems**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	0	0	0
	Disagree	3	7.5	7.5
	Not Sure	6	15	22.5
	Agree	23	57.5	80
	Strongly Agree	8	20	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

According to table 7.4, above shows that 57.5% of the respondents agreed with statement that the internal audit report address weaknesses in the company's control systems, 20% strongly agreed, while 15% rated not sure, the majority 77.5% of respondents generally agreed with the statement therefore the company need to enhance and continue trusting reports produced by internal audit and considered by the audit committee since the reports produced address the weaknesses in the internal control system,

#### **The internal audit department conducts its work independent from the management**

The study further asked respondents whether the internal audit department conducts its work independent from the management and the results are indicated in the table 7.5 below

**Table 7.5: The internal audit department conducts its work independently**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	7	17.5	17.5
	Disagree	9	22.5	40
	Not Sure	4	10	50
	Agree	10	25	75
	Strongly Agree	10	25	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: Primary data (2018)**

According to table 7.5 above shows that 25% and 25% of the respondents rated agreed and strong agreed with the statement that the internal audit department conducts its work independent from the management., while 17.5% of respondent rated strongly disagreed, 22.5% disagreed and 10% not sure, the majority 50% of respondents generally agreed with the statement, which is slightly difference from respondents who disagreed and not sure 50%,. This shows that there was a rather high management interference to internal audit unit and their independence were eroded sometimes.

**Internal auditor makes appropriate recommendations for management to improve**

The respondents were asked whether internal auditor makes appropriate recommendation for management to improve control system, the results is shown in table 7.6.

**Table 7.6: Internal auditor makes appropriate recommendations for management to improve**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	4	10	10
	Disagree	3	7.5	17.5
	Not Sure	2	5	22.5
	Agree	17	42.5	65
	Strongly Agree	14	35	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: primary data (2018)**

From table 7.6 shows that respondents seem to agree with statement that internal audit recommendations to management improves in internal control system as reflected by strongly agreed 35%, agreed 42.5% of respondents, while 10%, and 7.5% of respondents rated disagreed and strongly disagreed respectively this reveals varied responses from the respondents on the same implying that they have different opinions about this role played by internal auditor. This could also infer as to whether the internal auditor makes appropriate recommendations for management to improve. The finding is in agreement with Gupta’s (2001) statement that “the objective of

internal audit is to assist members of the organization in the effective discharge of their responsibilities”.

### **Internal audit department visits up-country station often times**

The study also asked the respondents to whether internal auditor visits up country station , their results is shown in the table 7.7.

**Table 7.7: Internal auditor visit up country station**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
valid	Strongly Disagree	10	25	25
	Disagree	11	27.5	52.5
	Not Sure	4	10	62.5
	Agree	9	22.5	85
	Strongly Agree	6	15	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: primary data (2018)**

From the result of the table 7.7 shows that respondents disagree with statement that internal auditor visits up country station often times as reflected 27.5% strongly disagreed, 25% disagreed, while 22.5% rated agreed, 15% strongly agreed and 10% rated not sure. The majority 52.5% of respondents generally disagreed with statement that internal auditor visit up country station Therefore Gupta’s statement of “the objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities” may not hold true in this respect.

### **Auditors to carry out their role objectives and in compliance with accepted criteria for professional practice**

The respondent were asked whether auditors carry out their role objectively and in compliance with accepted criteria for professional practice, their results are shown in the table 7.8



**Table 7.8: Auditors carry out their role objectively and in compliance with professional practices**

	<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>	<b>cumulative percentage</b>
Valid	Strongly Disagree	2	5	5
	Disagree	0	0	5
	Not Sure	5	12.5	17.5
	Agree	20	50	67.5
	Strongly Agree	13	32.5	100
	<b>Total</b>	<b>40</b>	<b>100</b>	

**Source: primary date (2018)**

From the table 7.8 shows that respondent generally agree with statement that internal auditors carry out their role objective and in compliance with accepted criteria for professional practice as reflected 50% agreed, 32.5% strongly agreed, while not responses rated 12.5%, the majority 72.5 % of respondents generally agreed with statement that internal auditor carry out their role objectively and in compliance with professional practice.

Therefore there is need for the company management to leave the internal auditors perform their work independently without pressure as this will lead to accurate results, this is in line with Gupta study (2001) who asserts that “Internal audit is an independent appraisal function established within an Organization to examine and evaluate its activities as a service to the organization. Also Bakibinga’s study (2001) who asserted that 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 entity’s objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity.

### **Relationship between Internal Control systems and financial performance**

This section looks the relationship between internal controls systems and financial performance in Gapco U LTD was investigated using control environment, internal audit and control activities as

dimensions for internal control systems while profitability, liquidity and quality reporting were for financial performance.

**Table 7.9: Pearson’s Correlation analysis**

	1	2	3	4	5	6
1 Control environment	1					
2 Internal Audit	0.217*	1				
3 Control Activities	0.301**	0.502*	1			
4 Liquidity	0.294**	0.091*	0.291**	1		
5 profitability	0.218*	0.073**	0.281**	0.074**	1	
6 Quality reporting	0.276**	0.389**	0.299**	0.179**	0.266**	1

\*\*  $\sigma=0.01$  (correlation is significant at 0.01 level (2-tailed))

\*  $\sigma=0.05$  (Correlation is significant at 0.05 level (2-tailed))

**Source: Primary data, 2018**

The correlation table presents the relationship between dimensions of Internal Controls measured by control environment, Internal audit and control activities against Financial performance, measured by liquidity, profitability and quality reporting. The results show that all the dimensions relate positively.

Specifically, control environment relates positively with liquidity, profitability and reporting ( $r = 0.294, p < 0.01$ ;  $r = 0.218, p < 0.01$ ;  $r = 0.276, p < 0.01$ ) respectively. These suggest that the control environment relates positively with financial performance.

### **Control environment is related with financial performance**

Table 7.9 above shows that the control environment is positively related to liquidity with  $r = 0.294$  and standard error,  $p < 0.01$ , the control environment there is positively related with profitability

with  $r = 0.218$  and standard error,  $p < 0.01$ , and the control environment is positively related to reporting with  $r = 0.276$  and  $p < 0.01$ . The results seem to agree with Whittington and Pany's (2001) assertion of the control environment setting the tone of the organization.

The control environment (as reflected by the audit committee) is what DeZoort *et al.*, (2002) referred to as "protecting the owners' interests by monitoring management's actions, in terms of financial reporting, risk management and internal control". Owners' interests can only be protected through reporting and accountability. This suggests that the Control environment is related with financial performance and therefore hypothesis one (**H1**), *there is a relationship between the control environment and financial performance of Gapco (U) Ltd* is accepted.

### **Internal Control activities and financial performance.**

Results in table 7.9 above indicate a positive relationship between internal control activities as a component of internal control systems with liquidity,  $r = 0.291$  with a standard error,  $p < 0.01$ . Internal control activities further relate positively with profitability,  $r = 0.281$  with a standard error,  $p < 0.01$  and with reporting,  $r = 0.299$  with a standard error,  $p < 0.01$ . This seems to agree with Ray and Pany (2001)'s belief that "control activities are policies and procedures that help ensure that management directives are carried out". Therefore, internal control activities affect financial performance, thus hypothesis two (**H3**), *Functionality of internal control activities and financial performance of Gapco (U) Ltd* is accepted.

### **Internal audit and financial performance.**

The results in table 7.9 indicate a positive relationship between internal audit and liquidity with  $r = 0.091$  and  $p < 0.01$ , internal audit is positively related to profitability with  $r = 0.073$  and  $p < 0.01$ , and positively related to reporting with  $r = 0.389$  and  $p < 0.01$ .

These results seem to agree with Sebbowa (2009) where he notes that "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of management control and governance processes". Since there is a positive relationship between the internal audit

function and the dimensions of financial performance; liquidity, profitability and reports, hypothesis three (*H2*); *an effective internal audit function is related with the financial performance of Gapco (U) Ltd* is accepted.

**Table 7.10: Multiple Regressions**

Variable	Standard Coefficients (B)	t-test	Sig	R2	Adj. r <sup>2</sup>	F	Sig.F
		2.166	0.031	0.214	0.201	35.910	0.000
Control environment	0.2709	2.058	0.000				
Internal Audit	0.1982	3.521	0.000				
Control Activities	0.1527	2.710	0.000				

**Source: Primary data, 2018**

Table 7.10 above illustrates that, the independent variable (Internal Control Systems), through its dimensions; control environment, internal audit and control activities) explains the variation in the dependent variable up to 20.1 % as denoted by adjusted R<sup>2</sup> value in the table.

Similarly, considering the dimensions of internal control systems in this study, control environment seems to provide better explanation in the variation in the dependent variable by a standardized coefficient of 0.2709 followed by internal audit 0.1982 and control activities 0.1527, respectively. The results seem to re-enforce the correlations established under the correlation table 7.9. This finding further confirms the explanation given under the correlation analysis.

## **CHAPTER EIGHT**

### **TOWARDS HARMONIZING INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE AT GAPCO U LTD.**

#### **Introduction**

This chapter links the findings to the literature and suggests the way forward on the role of internal control systems on financial performance at Gapco (U) Ltd.

#### **Link to the literature**

Gapco (U) Ltd play a number of roles in supporting the systems by ensuring all documents are authentic, correct and confirm that the relevant officers have signed all documents before processing to prevent misappropriation of revenues. According to Hayes et al. (2005), internal control comprises five components; the control environment, the entity's risk assessment process, the information and communication systems, control activities and the monitoring of controls. Weaknesses identified within the system are addressed through relevant recommendations made. Systems of internal control were functioning as per the intended plan thus enhancing efficiency and accurate data capturing.

According to Whittington & Kurt (2001), Control activities are policies and procedures that help ensure that management directives are carried out. They basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing, physical controls (necessary to provide security over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end) and monitoring. These are aimed at ensuring that the internal control systems continue to operate as intended (Whittington & Kurt 2001). Generally, internal control systems is very important to the reliability of financial statements when the internal control systems examined closely in timeliness.

Internal controls are essential to corporate success and survival because they provide reasonable assurance on the achievement of objective in a number of categories including: effectiveness and efficiency of operations; reliability in financial reporting; and compliance with applicable laws and regulations (Chambers, 2009). Numerous audits are conducted in line with technological changes

to ensure the systems' sustainability. This enhances an easy detection of errors that have occurred. Frequent audits have helped in evaluating and improving the effectiveness of the systems. Checks and balances of the organizational form a basis for the authority functions to minimize the potential losses due to fraud, abuse and mismanagement (Sarens and De Beelde,2006).

Manual system have been replaced by auto-machine system that reduces time wasted on keep records, producing reports and minimizes errors. The company has formalized policies and procedures for all activities which allows for good and efficient communication, control and monitoring of activities. According to Aldridge and Colbert (1994), found out that internal control requires that all pertinent information be identified, captured, and communicated in a form and time frame that enable people to carry out their financial reporting responsibilities. Audit committee adequately maintains a direct line of communication with the entity's external and internal auditors.

According to 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 entity's objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity.

According to Dixon et al (1990) appropriate financial performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Reid and Ashelby (2002) contend 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. Management has identified individuals who are responsible for coordinating the various activities within the entity. The reporting system on the organizational structures spells out all the responsibilities of each section/unit in the organization. Information must be communicated throughout the entire organization in order to permit personnel to carry out their responsibilities with regard to objective achievement (Amudo and Inanga, 2009). All employees

understand the concept and importance of internal controls, including the division of responsibility.

Management identifies risks that affect achievement of the objectives of the organization and has put in place mechanisms for mitigation of crucial risks that may result from fraud. By controlling, the organization gets provided with assurance that the findings of audits and other reviews are promptly determined (Theofanis et al, 2011; Rezaee et al., 2001). Amudo and Inanga (2009) add that monitoring of operations ensures effective functioning of internal controls system.

It's through controlling that an organization determines whether or not its policies and procedures designed and implemented by management are being carried out effectively by employees.

## **CHAPTER NINE**

### **SUMMARY AND CONCLUSIONS OF THE STUDY**

#### **Introduction**

This chapter looks at the summary of the findings, conclusions, recommendations and areas of further study. This chapter discussed a summary of all the study findings obtained from the field and conclusions in comparison with the study literature. The summary of the findings were discussed according to the study objectives and recommendations given in accordance with the gaps identified.

#### **Summary of findings**

##### **Respondent's demographic characteristics**

According to the respondents' demographics, it was revealed that most of the employees in Gapco U Ltd were degree holders 45%, duration of work was more 4 year 42.5% and they were in position to provide accurate and reliable information in relation to role of internal controls system in financial performance at Gapco (U) Ltd.

##### **Provision of an adequate control environment to enhance profitability**

This section presented the summarized views of the respondents about the contribution of control environment to the effective and efficiency operation at Gapco (U) Ltd are discussed below ; As discussed in chapter five most respondents indicated that board of directors approves the overall business strategies and significant policies (basing on 85% agree rate table 5.1), board of directors establishes adequate and effective internal control systems (basing on 67% agree rate table 5.2), board of directors provides governance, guidance and oversight to senior management (basing on 70% agree rate 5.3), the study looks at senior management commitment to internal control system in Gapco (basing on 52.5% disagree rate table 5.4 ), senior management takes steps to monitor financial activities in the organization (basing on 50% agree rate table 5.5) although 40% of respondents rated disagreed, this shows that management is somehow weak in regard monitoring and controlling of internal control system, the working of board of directors and senior management affects the integrity and ethics (basing on 77.5% agree rate table 5.6), Methods by which people are hired, trained and compensated is important element of control environment (basing on 65% agree rate table 5.7), senior management's competence leads to better execution of tasks (basing on 67.5 agree rate table 5.8), appropriate measure were taken to correct errors in



operation of internal control system (basing on agree 57.5% agree rate table 5.9), although the rate of disagreed is high 35% this provided same respondents possess varied understanding about the aspect of the measures taken as preventive and corrective action to any weaknesses in the controls, Stringent action is taken against employees involved in fraudulent activities (basing on 67.5% agree rate table 5.10 ), The above findings show positive results as concerned control environment for effective operation hence profitability but there is some weaknesses which cannot be left out, third of respondents on whether senior management committed to effective operation on internal control system in Gapco showed that senior management was not liquidity committed to execute function of system which possible could lead loss of resources due to lack of enough monitoring and resourcing, additionally 36% of respondents 6% disagreed and were not sure whether appropriate measures were taken to correct errors in operation of internal control system . There was not sufficient supervision from senior staff to junior staff highly involved in the operation of systems this could result in the loss of resources and revenue.

### **Control Activities and improving liquidity**

There is adequate segregation of roles and duties among employees Gapco (U) Ltd (basing on 77.5% agree rate table 6.1), appropriate supervision by senior (basing on 67.5% agree rate table 6.2), corrective action were taken to addresses weaknesses were slightly weak (basing on 55% agree rate table 6.3), however the total of the 45% who generally disagreed and who not sure is a high rate implying that many cases corrective action has not been address weaknesses, information access with consent of senior staff (basing 67.5% agree rate table 6.5), controls are in placed to exclude incurring expenditure in excess of allocated budgets (basing on 70% agree rate table 6.6), security systems safe guards assets (basing on 50% agree rate table 6.7), the failure by the system to safeguard assets of the organization does not promise well, with Ray and Pany (2001)'s recommendation for “physical controls” (necessary to provide security over both records and other assets. the company policies on information and communications provide well established techniques and mechanisms to address non-compliance in financial matters (basing on 90% agree rate table 6.8).

### **Internal audit and production of quality financial reports**

The company had a weak functioning internal audit unit or department (basing on 47.5% disagree rate table 7.1), this shows that the internal audit unit is not functioning well or is not strong and this may lead delay or lack of assurances, reliability and quality of financial reports in the company, obviously this underscores the importance of an internal audit department in helping an organization achieve its objectives as well this was rectifies that Gapco had a challenger of not producing annual reports on time as mentioned in problem statement.

The study had found insufficiently staffed internal audit department (basing on 52.5% disagree rate table 7.2), internal audit report address weaknesses in internal control systems (basing on 77.5% agree rate table 7.4).

### **Relationship between Internal Control systems and financial performance**

The study examined and established a significant relationship between internal control system 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, internal audit, and control activities) were linked to the dimensions of financial performance (liquidity, profitability, and reporting). Details show that control environment is linked to liquidity ( $r = 0.294$ ,  $p \leq 0.01$ ), control environment is also linked to profitability ( $r = 0.218$ ,  $p \leq 0.05$ ), and control environment is related with reporting ( $r = 0.276$ ,  $p \leq 0.01$ ). Similarly, the study found that internal audit as a dimension of internal control system, is related with all the dimensions of financial performance in the following details; internal audit and liquidity are related ( $r = 0.091$ ,  $p \leq 0.01$ ), internal audit is related with profitability ( $r = 0.073$ ,  $p \leq 0.01$ ), and internal audit and reporting have 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 profitability are related ( $r = 0.281$ ,  $p \leq 0.01$ ), and control activities and reporting are related ( $r = 0.299$ ,  $p \leq 0.01$ ).

### **Conclusions**

The study found out that internal management control systems is vital for improving financial reporting standards accountability and value for money which improves financial performance.

Effective control systems help to detect errors fraud and provide reliable assurance that goals will be achieved.

The study reveals that control environment contribute to profitability Gapco (U) Ltd where by directors approves the overall business strategies and significant policies, and board of directors establishes adequate and effective internal control systems. This is in agreement with Alleyne (2005), who argues that the control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control.

The study also reveals that all the activities of company are initiated by the top level management on the effectiveness of the internal audit, the study found out the internal audit department is not functioning effective, doesn't conduct regular audit activities and doesn't produce regular audit reports. They however, agree that the few reports that are produced in the department address the weaknesses in the system.

The study also found that the internal audit department is under staffed and this could be one of the reasons for not producing reports as expected.

Regarding control activities, the study found that, there is a clear separation of roles, supervision of activities by senior staff, weaknesses that are realized are addressed, and there is a training program for capacity building in the company. However, the study also found out that there is lack of information sharing in the organization and also there is weak security measures are put in place to safeguard the assets of the organization.

### **Suggestions and way forward**

Based on the study, the following suggestion are recommendation is made in order to improve Financial Performance of Gapco (U) Ltd.

Since it was evident in the study that the staffing level in the internal audit department is not adequate to cover the entire Gapco (U) ltd, the set up is evidenced by not conducting regular audit activities, not operating efficiently as well as the producing reports not being regular, the study therefore recommends competence profiling which should be based on what the Gapco (U)

Ltd expects the internal audit to do and what appropriate number of staff would be required to do this job.

The study also recommends that Gapco (U) Ltd to establish and manage knowledge/information management system within the institution so as to enable all parties within the organization to freely access and utilize the official information.

### **Areas for further research**

The study focused on the role of internal control system on financial performance another study should be carried out on the effect of external factors on financial performance of petroleum companies in Uganda.

A study on impact of internal control on operational efficiency of public organizations should also be carried out.

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## APPENDENCES

### APPENDIX A: SELF-ADMINISTERED QUESTIONNAIRES (SAQs)

I am Ali Jama Ahmed pursuing a Masters of Business Administration at Nkumba University. This study aims to establish the relationship between internal control systems and financial performance a case study of Gapco (U) Ltd and is considered for partial fulfillment of the award of this Masters degree. Your contribution to this research is very vital. I kindly request you to spare sometime and fill this questionnaire. This is purely for academic purpose and your response will be held with the utmost confidentiality.

#### SECTION A: BACKGROUND INFORMATION

General information (Please tick where applicable)

##### 1. Gender

Male  Female

##### 1.1 Age group

18-25years  25-35 years  35-45 years  above 45 years

##### 1.2 marital status

Single  married  widower

##### 1.3 Educational level

Certificate  Diploma  Degree   
Post graduate

##### 1.4 How long have you worked at Gapco?

Less than a year  1-3 years  3-6 years  above 6 years

**SECTION B: INTERNAL CONTROL ENVIRONMENT AND PROFITABILITY AT GAPCO U LTD.**

**Scale: (Strongly agree=5, agree=4, Neutral=3, Disagree=2, strongly Disagree=1)**

S.NO	Statements	SA 5	A 4	U 3	SD 2	D 1
2.0	The board of directors have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the company.					
2.1	The board of directors is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained					
2.2	The board of directors provides governance, guidance and oversight to senior management					
2.3	Senior management commitment to internal control system in the organization					
2.4	Senior management takes steps to monitor implementation of controls over <i>financial activities in the organization</i>					
2.5	The words, attitudes and actions of the board of directors and senior management affect the integrity, ethics and other aspects of the bank's control culture					
2.6	Methods by which persons are hired, trained, promoted, and compensated are important element of control environment					
2.7	Management acts with a great degree of competence and integrity in execution of their roles					
2.8	Appropriate measure are taken to prevent and correct errors in operation of internal control system.					
2.9	Correction of errors in the system					

2.10	Stringent action is taken against employees involved in fraudulent activities					
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2.8 State any other comments on how control environment in Gapco has affected the company's profitability?

.....  
.....

**SECTION C: CONTROL ACTIVITIES AND IMPROVEMENT IN LIQUIDITY AT GAPCO (U) LTD.**

**Scale: (Strongly agree=5, agree=4, Neutral=3, Disagree=2, strongly Disagree=1)**

	STATEMENTS	5	4	3	2	1
3.1	Our institution has clear separation of roles					
3.2	There is appropriate supervision by senior staff on the work of their juniors					
3.3	Corrective action is taken to address weaknesses					
3.4	Staff are trained to implement the accounting system					
3.5	It is impossible for one staff to have access to all valuable information without the consent of senior staff					
3.6	Controls are in place to exclude incurring expenditure in excess allocated revenue/ budgets					
3.7	Our security system identifies and safeguard organizational Assets					
3.8	The company policies on information and communications provide well established techniques and mechanisms to address non-compliance in financial matters.					
7.9	Gapco had a well-developed chart of accounts					
7.10	Cash receipts bear fairly strong control					

3.9. From your experience, how can control activities be enhanced in your organization to improve financial performance?

.....

.....

5.8. What other control activities have affected liquidity at Gapco U Ltd and how?

.....

.....

.....

**SECTION D: INTERNAL AUDIT AND QUALITY FINANCIAL REPORT AT GAPCO (U) LTD**

Scale: **Scale: (Strongly agree=5, agree=4, Neutral=3, Disagree=2, strongly Disagree=1**

	<b>Statements</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
4.1	The company has a functional internal audit unit/department					
4.2	Our internal audit is sufficiently staffed					
4.3	Internal audit department reports functionally to the audit committee of the board					
4.4	The internal audit department conducts its work independent of the management					
4.5	Internal audit reports address weaknesses in our internal control systems					
4.6	Internal auditors make appropriate recommendation for management to improve					
4.7	Internal auditor department visits up country station often times					
4.8	Auditors carry out their roles with objective and in compliance with accepted criteria for professional practice					

4.6 How else does internal Auditing been helping in the production of quality financial reports of Gapco U Ltd?

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

4.7 What do you suggest Internal Auditing should do to quality financial reporting at the company?

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

**APPENDIX B**

**APPENDIX B: INTERVIEW GUIDE**

1. How long have you been working in Gapco (U) Ltd?  
.....
2. In which department are you working in?  
.....
3. Which internal control systems has Gapco U Ltd put in place?  
.....
4. How has control environment contributed to the effectiveness of operations at Gapco (U) Ltd?  
.....
5. How has control activities operationalized by Gapco (U) Ltd ensure efficiency?  
.....
6. What are weaknesses in the control environment and how can these minimized?  
.....
7. How has the board of directors of Gapco (U) Ltd established adequate and effective control systems?  
.....
8. What are the steps followed by senior management to ensure the activities are conducted by qualified staff?  
.....
9. Is there adequate segregation of duties put in place in Gapco (U) Ltd?  
.....  
.....
10. What control activities have affected liquidity at Gapco U Ltd and how?  
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