AN ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL CONTROL
PRACTICES: A CASE STUDY OF THE ROADS CONTRACTOR COMPANY
(RCC)

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Abstract

The purpose of this study is to assess whether the Roads Contractor Company Ltd’s internal controls are adequate in processing procurement requirements and to establish the extent to which internal control systems over the procurement cycle affects its operations and financial performance. The study could have covered widely but due to some constraints, it only used on the internal control system and the other constraints included time and the extent to which the selected employees were willing to respond to the questions posed.

The data was collected by way of questionnaires and interviews. Information was further extracted from the completed questionnaires. Data was analysed using simple percentages. The survey revealed that management of RCC understand the extent to which their organisation’s operations objectives are being achieved, and there is adherence to the laws and regulations. The study also revealed that there is clear allocation of duties, the roles and responsibility are clearly defined at the RCC procurement and finance department and there is proper supervision from the superiors. The policies and procedures are adequate for the authorisation and approval of transactions. However, the study also reveals that the financial statements are not reliably published and the procurement processes are not reviewed regularly. On the safeguarding of assets the system which was in place does not identify and safeguard the RCC assets and there are no controls in place to prevent unauthorized and illegal expenditures. The study also revealed that there are no proper corrective actions taken to address weaknesses and management is not acting with a great degree of integrity in the execution of its roles. It further reveals that internal controls are not well monitored and therefore the management do not identify risks that effect the achievement of the objective immediately. The employees do not understand the concept and the importance of internal controls.
including the division of responsibilities. The assessment of this study recommends RCC to adopt COSO framework as it is very broad, and applicable to the effectiveness and efficiency of both operational and financial reporting controls.
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organisations</td>
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<td>RCC</td>
<td>Roads Contractor Company Limited</td>
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<tr>
<td>SOE</td>
<td>State Owned Enterprise</td>
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<td>SOEs</td>
<td>State Owned Enterprises</td>
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<td>SOEGC</td>
<td>State-Owned Enterprises Governance Council</td>
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<tr>
<td>ICS</td>
<td>Internal Control Systems</td>
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<tr>
<td>SAICA</td>
<td>South African Institute of Chartered Accountants</td>
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<tr>
<td>ISA</td>
<td>International Standards on Auditing</td>
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<td>OPM</td>
<td>Office of the Prime Minister</td>
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<td>PMS</td>
<td>Performance Management System</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Principle</td>
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<td>CPST</td>
<td>Centre for Public Service Training</td>
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<td>KFA Ltd</td>
<td>Kenya Farmers’ Association Limited</td>
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<tr>
<td>USGAO</td>
<td>United States General Accounting Office</td>
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DEDICATION

This study is dedicated to my husband Cleophas Mbahijona for his love, care, and understanding which he expressed by empowering me through the whole processes of studies.

Secondly, I would like to dedicate this thesis to all my children’s especially my daughter, Lisa Tjueza, who is planning to study in the same field and have a similar career. Your dreams will come true, if you believe in them. Study hard for you to make it as a Chartered Accountant. Mommy will support you.
DECLARATION

I, Ella Tjiueza, declare hereby that this study is a true reflection of my own research, and that this work, or part thereof has not been submitted for a degree in any institution of higher education.

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Ella Tjiueza Mbahijona

Date..........................................................
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I, Ella Tjiueza, would like to acknowledge the input of the following people that have played an important role in the finalisation of this thesis. Your input is valuable and has encouraged me to carry on:

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I acknowledge my husband Mr Cleophas Mbahijona for his support, sleepless nights and encouragement throughout the entire period. Above all for the time he spent baby-sitting our children. I really thank and appreciate all such support.

To RCC employees who contributed by responding to the questionnaire and interviews. These responses contributed immensely to the writing of this thesis. I appreciate such contribution and willingness to accommodate me in your busy schedules.

To my CEO, Mr Engelhard Haihambo, I would like to extend my gratitude for granting me the opportunity to do a research on this sensitive topic at RCC. His support and willingness to allow me to have access to some confidential information of the institution is greatly appreciated.

Further gratitude goes to Olavi, BigHim Haikela, who helped in carrying out interviews for this study. I really appreciate his input and all he did in this regard.
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CHAPTER ONE: INTRODUCTION

1. Background of the study

The Committee of Sponsoring Organisations (1992; 2011) defines internal control as a “process, affected by an entity's board of directors, management and other personnel.” This process is designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. Therefore every organization, business or government establishment, notwithstanding size, must have effective and efficient internal control systems so as to protect it from possible losses of organizational resources.

Adepoju (2011) says that internal control systems should be measurable in order to be effective on the high level. This can only happen if the board of directors and management have reasonable assurance that:

1. They understand the extent to which the entity’s operation objectives are being achieved,
2. Published financial statements are being prepared reliably, and
3. Applicable laws and regulations are being complied with (COSO, 1992).

Therefore the evaluator must understand the operation of the five components and how they are applied across the organization in order to measure the effectiveness of internal controls systems in RCC, and adopt COSO’s 1992 principles and assumptions.

Kola (2007) says that any form of control is imperative for an organisation to succeed. The collapse of internal control will certainly lead to the extinction of the organisation (Kola, 2007).
Adequate internal control should encompass proper accountability for assets from the organization of finance transactions to reporting and proper documentation of all tasks and procedures must be maintained (COSO, 2011). According to International Standard on Auditing 315 (2013) the term internal control system means that all the policies and procedures adopted by the management of an entity to assist in achieving management objectives of insuring as far as practicable, the orderly and efficient conduct of its business including adherence to management policies should be adhered to. It can be summarised from these definitions that the internal control system extends beyond those matters which relate directly to the function of the accounting system. Therefore, internal control system provides assurance to the management of the dependability of accounting data used in making decisions (COSO, 2011).

The RCC is engaged in the construction and maintenance or roads as well as the development of land infrastructure related to civil engineering.

1.1 Orientation of the study

The Roads Contractor Company Limited (RCC) is one of three State-Owned Enterprises (SOEs) established in accordance with the Roads Contractor Company Act, No 14 of 1999. The RCC came from what used to be the Department of Works in the Ministry of Works, Transport and Communication. Three SOEs were established out of the Road Sector Reform Programme of the Ministry of Works and Transport.

In terms of the RCC Act, the objective of the company is to undertake work relating to the construction or maintenance of roads in accordance with sound and generally accepted business principles.
As a parastatal working with public resources, this requires significant safeguarding, good governance and special care. Effective internal control mechanisms should be in place so as to safeguard these public resources. The RCC should strive to achieve sound financial management to safeguard the assets of the company.

The Roads Contractor Company Limited strives to maintain and improve its financial and operational system of internal controls in compliance to the highest standard of generally accepted business principles. The company wants to provide reasonable assurance regarding the achievement of its objectives in the effectiveness and efficiency of operations, reliability of financial reporting, as well as compliance with the applicable laws and regulation.

Despite the RCC’s strategic objective to implement a sound financial reporting system for the company, the external audit report issued by (Deloitte and Touché, 2012) revealed the following shortcomings:

a) late submission of pay-as-you-earn;
b) late submission of value added tax returns;
c) non-compliance with International Financial Reporting Standards (IFRS);
d) unwanted system generated errors;
e) reassessment of useful life of assets not performed annually;
f) fixed assets location not known and fully depreciated assets still appear on the fixed asset register.

The findings of Deloitte and Touché suggest that failure to address the shortcomings highlighted above, could negatively affect the operations and financial performance and position of RCC due to possible litigations against the company. COSO (2013) explained that external parties such as external auditors
and regulators are not part of the system internal control and cannot be considered as a source of detection and assessment of internal control deficiencies when a company assesses the effectiveness of its internal control structures. COSO (2013) framework further explained that the responsibility for identifying and assessing internal control deficiencies rests with the organization’s personnel in the normal course of performing their on-going functions. It is with this background that the researcher embarked on this study to assess the effectiveness of internal control practices at RCC focusing on the procurement and the finance department. The study adopted the COSO’s 1992 principles and assumptions.

1.2 Statement of the Research Problem

It has been established that the public sector organization forms an important part of the economy (Snyder, 2007). Currently, there is a general fall in the operational performance of SOEs in Namibia forcing the government to achieve less than its targeted objectives (Delloitte & Touché, 2009; 2012).

According to Deloitte and Touché (2012) audit, the RCC is not complying with the international financial reporting standards as well the local statutory laws. According to Sinvula, S. (personal communication, August 20, 2016) general manager of procurement department he revealed that the company has inadequate systems in place, slow and cumbersome processes in procurement and bidding processes, no transparency and these results in compromising quality, services and pricing of goods and services, lack of accountability and this created opportunities for corruption, dishonest and unethical behaviour. This leaves the assets of RCC being improperly safeguarded, records being incomplete and information being inaccurate.
which often results in misleading information that cannot be relied on by the stakeholders of RCC. Therefore RCC may not be able to fulfil its mandate of undertaking work relating to the construction or maintenance of roads due to dysfunctional internal control systems. In order to assess the effectiveness of the internal controls systems of the RCC a descriptive qualitative study was conducted.

1.3 Objectives of the study

The objectives of this study are:

1. To assess if RCC’s internal controls systems are adequate in processing procurement requirements.

2. To establish the extent to which internal control systems over the procurement cycle affect the operations and financial performance at the RCC.

1.4 Hypotheses of the study

The research hypotheses were:

H0: There is no significant relationship between internal control over procurement and financial performance of the RCC.

H1: There is a significant relationship between internal control over procurement and financial performance of the RCC.

1.5 Significance of the study

Internal control systems promote efficiency, reduce risk of losing assets and help ensure the reliability of financial statements and compliance with rules and regulations. This study brought awareness to the need for effective internal control systems in public sector in general and the RCC in particular. This hopefully will
enhance the company’s achievements in attaining its business plan targets in terms of profitability and business sustainability, translating into meeting their shareholders’ mandate and this will positively contribute to the Namibian economic development as part of Vision 2030. The study was a benefit to academics, researchers, and students who were interested in internal control and financial management. The study therefore provided informative reference material as well as adding knowledge to the existing body of literature.

The findings of this study will aimed at improving the internal controls system at RCC and management to implement sound and adequate controls in place.

1.6 Limitation of the study

The study could have covered widely but due to some constraints, it only used on the internal control system.

The other constraints include time and the extent to which the selected employees were willing to respond to the questions posed.

The study was conducted only at the Windhoek branch, which also limits the participants to only those working at the head office, so the input was reduced to rely only on a few employees.

1.7 Delimitation of the study

This study was done to the internal control system in the Road Contractor Company (RCC). Additionally the research covered procurement activities to financial reporting of the RCC only.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section reviews related literature, relevant for this study. The chapter defines and specifies the scope of internal control in section 2.2. Section 2.3 deals with the Internal Control Objective and section 2.4 deals with Limitation of internal control. On the other hand, section 2.5 covers the components of Internal Controls. In section 2.6 the study indicates types of internal control systems commonly used by business organisations. In section, 2.7 then it lays out the importance and advantages of internal controls. Section 2.8 enlightens on the disadvantages associated with tightened internal controls and section 2.9 the study covers internal control evaluation. This is followed by section 2.10 that informs on empirical studies and the internal control systems in Namibia’s SOEs’ context. Section 2.11 provides a brief summary on internal control systems.

2.2 Definitions and the Scope of Internal Control

The Committee of Sponsoring Organisations (1992; 2013) defines internal control as a “process, affected by an entity's board of directors’ management and other personnel.” This process is 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, 1992; 2013). The Committee of Sponsoring Organisations approach to internal control is recommended in its Internal Control Integrated Framework as it is widely used all over the world and the researcher adopted the definition of this framework to describe what we generally mean by internal control. Similarly the Basel (1998) committee on banking supervision defined internal
controls “as a process affected by board of directors’, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the bank” (Basel, 1998). Furthermore, the United States General Accounting Office (1999) defines internal control as an integral component of an organisation’s management that provides reasonable assurance and states that internal control is a major part of managing an organisation and it has plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, supports performance-based management (Landes, 2009; Willis & Lightle, 2000; Mayer, Nolan & Wolfe, 2012; Snyder, 2007; Shanker, 2013; M O’Hara & Reisch 1992; SAICA guide). The definitions and meanings of internal control system presented by the aforementioned authors suggest that internal control serves as the first line of defence in the safeguarding of a company’s assets and the prevention and detection of errors and possibilities of fraud.

Willis et al., (2000) argues that a robust internal control system is a powerful management tool and a means for a business to achieve performance and profitability targets, and to prevent loss of resources. Such systems help to ensure reliable financial reporting and compliance with laws and regulations. The aforementioned author further states that cases of financial fraud are often linked to a firm’s weak system of internal control.

Wolfgang (2011) stated that corporate internal control has now become an integral segment of risk management framework in any corporation. Wolfgang (2011) further states that corporate internal control is simply the effective integration of activities, policies, plans, and efforts of employees working together in an
organisation, in order to achieve its goals. The prime purpose of corporate internal control is to promote economic as well as efficient operations that go with the objectives of an organisation.

Adepoju (2011) states that there are ways and means of putting an effective structure of internal control in place in our State Owned Enterprises to ensure that the control systems described above provides positive results. An effective internal control system not only enhances accountability and professionalism in our SOE’s, it also attracts the best talent rather than the over bloated system.

Snyder (2007) states that sound systems of internal control are an important element of risk management. Every organization, especially a State Owned Organization, should have internal control policies approved by the board, to guide their operations.

According to the Monetary Authority of Singapore (2006), a system of effective internal controls is fundamental to the safe and sound management of institutions. Effective internal controls help an institution protect and enhance shareholders’ value and reduce the possibility of unexpected losses or damage to its reputation.

Marinkov and Geldenhuys (2011), states that, in the best-case scenario, poor internal controls result in increased bureaucracy, reduced productivity, increased complexity, increased time to process transactions, and increased non-value activities. In the worst case, poor internal controls interfere with the accomplishment of the unit's goals and objectives and allow for misuse or abuse of assets.

The International Standards on Auditing 315 (2013) addresses that “the auditor should obtain an understanding of internal control relevant to the audit and when obtaining an understanding of controls that are relevant to the audit, the auditor shall
evaluate the design of those controls and determine whether they have been implemented”. It also defines internal control as “the process designed, implemented and maintain by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations”.

2.3 **Objectives of effective control system**

“Internal control is a process affected by the company’s board of directors, management and other personnel, and designed to provide reasonable assurance regarding the achievement of objectives in the following three categories.

   a) Efficiency and effectiveness of operations

   “Performance and profitability goals as well as safeguarding of resources are the major objectives to be attained in order to have effective and efficient operations.

   b) Internal financial control

   It relates to the preparation of reliable published financial statements, including interim and condensed financial statements and selected financial data derived from such statements.

   c) Compliance with applicable laws and regulations

   An organization is required to comply with laws and regulations governing its existence. The organization must be aware of all laws and regulations to which it is subject such as the generally accepted accounting principle (GAAP).

   The literature on internal control commonly acknowledges that the three main objectives that the organization should follow in order to design an effective internal control system are the Reliability of Financial Reporting, Efficiency and
Effectiveness of Operations and Compliance with Laws and Regulations (COSO, 1992)

Basel (1998) states that board of directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an on-going basis. However, each individual within an organisation must participate in the process”. The internal control process seeks to ensure that personnel throughout the organisation are working to achieve the organizational goals with efficiency and integrity, without unintended or excessive cost or placing other interests (Basel, 1998).

Tunji (2013) states that the objective of efficient internal control system is primarily to ensure assurance those things are working according to plan; hence every establishment must institute controls that will capture both the operational and compliance aspects as:

1. That the existence of valid and authorized transaction are processed at all time.

2. There should be a cut off procedures for the transactions that occur during the period and are the only ones captured in the system.

3. There should be no omission for the transaction of the period under review all transactions should be completed.

4. Rights and obligations: the company’s assets should be appropriately identified and the obligations recognized in the book to ensure complete booking of all transactions at all time.

5. Presentation and disclosure: proper classification and presentation of assets and liabilities in the statement of financial position must be done.
6. Transactions that appear in the book must be reasonable relative to other data.

According to Moorthy (2011), Internal Control comprises the plan and all methods of coordinating and measuring adopted within an organization with the express objectives to:

1. Safeguard the assets of the organization,
2. Verify the accuracy and reliability of its accounting data,
3. Promote operational efficiency,
4. Foster and encourage adherence to the prescribed managerial policies.

Marinkov and Geldenhuys (2011) stated that internal controls should be proactive, value-added, and cost effective. To establish good internal controls, administrators must:

1. Identify the unit goals for operations as they relate to the mission (education, research, and public service).
2. Identify the unit goals for finance and administration (budgets and human resource management).
3. Identify the unit compliance goals.
4. Identify and evaluate the risks and conflicts involved in the accomplishment of those goals. This can be accomplished through discussions with upper management and the Office of Audit & Compliance Review or through benchmarking with similar units within the university or with similar institutions.
5. Establish written policies and procedures that minimize material risks and
conflicts and incorporate key internal controls.

6. Provide the policies and procedures and appropriate training to staff to encourage compliance.

2.4 Limitation of internal control

According to Tunji (2013) there is no control that is instituted by any organization that cannot be circumvented by operators. The aforementioned author also lists controls that have some inherent limitation which includes;

a) Abuse of responsibility;

b) Fraud;

c) Management override of controls;

d) Changes in environment which makes controls impossible.

e) Human cleverness or ingenuity;

f) Potential human errors caused by stress of workload, alcohol etc.

g) Poor remuneration system and

h) Poor working conditions

2.5 Components of Effective Internal Control

In this chapter we will focus on providing the categories that will be used as distinct dimensions in the data analysis section. In this section we explore the literature with the general components or attributes of effective internal control and will depend heavily on this section in order to achieve the research objectives.

In order to achieve the preceding three objectives and for the internal control system to be effective, the system of internal control needs to fulfill the following key components of an effective internal control system; control environment, risk assessment, control activities, information and communication system, monitoring
and evaluation system (COSO, 1992; 2013).

In order for the study to be consistent, the study adopts the terminology by COSO Intergrated Framework of Internal Control that is ‘components’ of effective internal control. The components of the system of effective internal control are discussed in detail as follows:

2.5.1 Control Environment

Rokeya & Muhammad (2011) stated that every organization, regardless of size, should devise a strong internal control environment. The aforementioned authors further suggest that a weak control environment often indicates weaknesses in the other components of the ICS. They mention a few actions of setting an example of ethical behaviour by following a personal code of ethics establishing a formal corporate code of conduct, stressing the importance of internal control and treating personnel fairly and with respect. The authors also state that ethical and unethical behaviours of managers and employees can have a pervasive impact on the entire ICS, by creating an atmosphere that can significantly influence the validity of the financial reporting process.

The firms must recruit competent and trustworthy employees to encourage initiative and creativity and to react quickly to changing conditions.

According to Dickins, O'Hara, & Reisch, (1992), the COSO framework suggest that the foundation of an effective system of internal control is a strong control environment whereby the management and organization’s governing body are committed to competence, integrity and valuing the assignment of responsibility over internal control. In the layman’s terms Dickins, O'Hara, & Reisch, (1992), describe
control environment as the “tone at the top,” which simply refers to how much the people at the top of an organization care about the entity’s internal controls. This is the conducive operating environment provided by the management, which sets the tones of an organization and influences the control consciousness of its people. It is the foundation for all the components of internal control system by providing fundamental discipline and structure within the organization (COSO, 1992; 2013).

Control environment encompasses the ethical values of the staff, corporate’s philosophy and operating style, assignment of authority and responsibility, and is not limited to the following elements:

a) Existence and implementation of code of conduct;

b) Financial reporting attitudes;

c) Degree of emphasis on meeting performance targets;

d) Entity’s organizational structure;

e) Methods of assigning authority and responsibility;

f) Human resource policies and practices

g) Entity’s commitment to competence, through training and retraining;

h) Formal and informal job descriptions;

i) Employees’ reward and sanctions procedure;

j) Membership and operation of the board’s audit committee and

k) The presence and responsibilities of an internal audit function (COSO, 1992-2013).
This is the environment whereby competent people understand their responsibilities, the limits of their authority, gain knowledge, mindful, committed and doing right things in the right way. They comply with their organizational policies and procedures as well as ethical and behavioural standards (Tunji, 2013).

Tunji (2013) states that a good corporate governance code in the organization is one of the key elements of the control environment as this code gives birth to the audit committee, which is the sub-committee of the board of directors that is composed of three to six non-executive board members. The aforementioned author further states that it is compulsory for the board members to be financially literate in this regard and there should be one who is a financial expert. The non-executive board members provide an independent check on the audit team and the management. This check allows the internal audit team to report any controversial findings to members of the board of directors without fear or intimidation from top management.

2.5.2 Risk assessment

Rokeya & Muhammad (2011), point that regardless of size, structure, or industry, organizations face significant external and internal risks. The aforementioned authors further maintain that the risk assessment component of the ICS consists of the identification and analysis of relevant risks that may prevent the attainment of companywide objectives and objectives of organizational units and the formation of a plan to determine how to manage risks.

According to Oseifuah & Gyekye (2013) risk assessment is the identification of factors that threaten the achievement of an organization’s objectives and goals. It involves identifying risks to the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations.
Tunji (2013) holds the view that risk is part of business and every business concern and every business faces both financial and business risks. Businesses should take steps to identify risks, and to consider how to manage risk.

The operations of businesses can face danger and the objective will remain unattained by uncontrolled risk taking. Therefore the management must assess all risks and risk assessment will prove to be effective if the management helps to determined what the risks are, and what controls should be in place and how to manage the risks (COSO, 1992; 2013).

It is very essential for the risk to be comprehensive at all levels for the operations, financial reporting, and for the compliance objectives as mentioned above, and the management should be always ready to resolve any risks that can derail the operations of their organization (COSO, 1992; 2011).

2.5.3 Control activities

Rokeya & Muhammad (2011) stipulate that a firm should develop a specific control activity-policy and procedures to help ensure that employees properly carryout management directives, and ensure that objective control activities are implemented to address specific risks identified during risk assessment.

The policies and procedures designed by management to help ensure that the organization’s objectives and goals are not negatively impacted by internal and external risk should be adhered to (Tunji, 2013). The COSO report identifies a range of control activities such as: approvals, authorizations, verifications, reconciliations, and reviews of operating performance, security of assets and allocation of duties.

Management should carry out performance reviews frequently and timeously to detect errors promptly and make the necessary corrective actions. Internal auditors
or the internal control staff should frequently and periodically do comparisons and action the errors to lower risks (Tunji, 2013). Management must first determine whether the identified risk should be shared, avoided, reduced or accepted (Dickins et al., 1992). In other words management should establish its appetite for risk. They further state that if management choses to respond to the risks identified, then they might establish quality control functions to test goods received from suppliers on the spot, and to sample the production output.

Allocation of duties: The four functional responsibilities (authorization, recording, custody and reconciliation) should be performed by different departments. Duties should be divided so that no one person can control two or more of the four independent responsibilities for checking any irregularities that may occur (Tunji, 2013).

Tunji (2013) further lists the following control procedures that must be in place:

a) The physical access to assets and important records, documents, blank cheques, vouchers, inventory and securities should be restricted to only those who handle them. There should be physical security to the computer as well as limited accesses to computer program files,

b) Top level reviews or management control should be in place. This includes the detailed analysis of actual results and organizational goal and plans and other key performance.

c) An organization is expected to have an organizational chart in place, to establish functional areas as well as responsibilities of each executive and staff. There should be control and authority limit to ensure that there is no overload that can lead to inefficiency.
d) Personnel control. An organization should institute procedures for ensuring quality recruitment, selection and placement of competent and honest personnel that will discharge various duties and tasks effectively, with minimum supervision.

e) Supervisory control: the whole activities rest on the effectiveness of the supervisors, hence this control is necessary for efficient management.

f) Arithmetical and accounting control: establish a workable bookkeeping and accounting system that ensures that all transactions are recorded and accurately processed in the appropriate books of accounts in order to ensure transparency, accountability and integrity.

2.5.4 Information and Communication System

The COSO Internal Control Framework recognize the importance of the quality time lines and the effectiveness of information and communications in ensuring that all those assigned to monitoring can execute their responsibility effectively.

Oseifuah & Gyekye (2013) states that, “information is the vehicle by which control policies and procedures are introduced and reinforced and communication is the context within which employees become aware of management’s commitment to internal controls.”

The Committee of Sponsoring Organization (2013) executive summary states that, “Pertinent information must be identified, captured and communicated in a form and time frame that enables people to carry out their responsibilities. Information systems produce reports containing operational, financial and compliance-related information that make it possible to run and control the business.” COSO (2013) also states that information must flow throughout the organization so that individuals
Understand their own roles in the internal control system and how their work relates to the work of others. As part of the information and communication system, it is important to inform all employees that control responsibilities are to be taken seriously.

Tunji (2013) states that information has a pivotal role to play in internal control system as all personnel must receive a clear message from top management that control responsibilities must be taken seriously. He further says that every staff should understand the role expected of him in the internal control systems.

2.5.5 Monitoring and Evaluation System

The purpose of monitoring, the final component of the ICS is to assess the quality of the ICS over time by conducting ongoing activities and separate evaluations.

Rokeya & Muhammad (2011) further states that ongoing monitoring activities, such as supervision of employees, are conducted daily whereby others such as audits of internal control structure and accounting records are performed periodically.

Monitoring is a review of an organization’s activities and transactions to assess the quality of performance over time and determine whether controls are effective. Management should focus monitoring efforts on internal control and achievement of organizational objectives. For monitoring to be most effective, all employees need to understand the organization’s mission, objectives, and responsibilities and risk tolerance levels.

Control activities must be monitored to ensure their operational effectiveness and efficiency (Dickins et al., 1992). Monitoring activities include periodic assessments of the effectiveness of internal controls by manager, internal auditors and external auditors and communication between parties and the board of directors.
Oseifuah & Gyekye (2013) uphold the view that monitoring helps to ensure that significant control deficiencies are identified timeously and rectified. Monitoring helps to identify new risks and the need for new control procedures.

Ngwema (2013) suggest that the day-to-day work of employees should be properly supervised. This aspect is carried out by the management of the organization, as a means to check compliance with the laid down procedures. The aforementioned author further states that for allocation of duties to be effective, it should take into account; authorization, execution and recording and that if these aspect is performed by one individual, it is possible for that person to misappropriate assets and manipulate the accounting records by passing false entries to conceal shortages. Good control requires that the three aspects underlying any transaction should be performed by different individuals or departments (Ngwema, 2013).

Monitoring is done when there is an evaluation of control not when one carries out regular management and supervisory controls and other routine statutory duties (Tunji, 2013).

As a guide Tunji (2013) lists the followings as some of the examples of monitoring controls:

1. Operating managers’ comparison of internal reports and published financial statements with their knowledge of the business.
2. Analysis of customer complaints of amount billed;
3. Analysis of vendor complaints of amount paid;
4. Regulator’s reports on compliance with laws and regulations;
5. Accounting manager’s supervision of the accuracy and completeness of transaction processing;
6. Periodic comparison of recorded amounts to actual assets and liabilities;
7. Internal auditors’ reports on control effectiveness and recommendations for improvement’
8. Training sessions for management and employees to heighten awareness of the importance of controls.

COSO uses these elements to define the control objectives to be audited, assess the components of control system, and report the results to management. Integrating COSO in this manner adds structure to audit process, ensures that appropriate criteria are considered in key phases of each audit, and provides a trail to support the conclusions reached.

An operations objective focuses on controls governing efficiency and effectiveness. Effectiveness concerns the quality of controls over the achievement of specific management objectives, while efficiency addresses the quality of controls yielding an optimum measure of resource inputs to productive outputs (COSO, 1992).

### 2.6 Types of Internal control systems

There are different types of internal control systems that business organisations can implement. According to Wolfgang (2011) the type of corporate internal control system adopted in a business organisation depends upon varying requirements of an organisation. However, the most common types that are implemented in many of the business organisations include preventive internal control, detective internal control systems, and corrective controls.

Preventive control system is designed in such a way that it detects and eliminates errors and irregularities before they have occurred.
With detective corporate internal control systems, errors and irregularities are detected after they happen and then they are corrected.

Corrective internal controls are implemented to ensure that errors and irregularities that have occurred can be corrected for the smooth running of a business organisation.

**Figure 2.1: Control categories with the types of controls**

![Control categories with examples](image)

Figure 2.1: Control categories with the types of controls, Adapted from COSO, (2013).

**2.7 Importance and Advantages Internal Control**

Marinkov & Geldenhuys (2011) stated that good internal controls are essential to assuring the accomplishment of goals and objectives of the organization. They provide reliable financial reporting for management decisions. They ensure compliance with applicable laws and regulations to avoid the risk of public scandals.
Good internal controls help ensure efficient and effective operations that accomplish the goals of the organization and still protect employees and assets. Adepoju (2011) states that it is important to apply strong internal controls to all areas of financial management, risk management, staff management developments as well as asset control. The aforementioned author further states that by adopting these principles it will minimise the rot in our governments and agencies.

As stated by Wolfgang (2011) implementation of an effective corporate internal control system can result in a number of benefits for an organisation. He further states that good internal control system ensures that the resources are utilised only for their intended purposes. According to Wolfgang (2011) is that good internal control systems help to overcome the risk associated with the misuse of organisation's funds and other resources.

Wolfgang (2011) states another important benefit of internal control; that it prevents errors and irregularities by detecting them timeously, thereby promoting reliable and accurate accounting records. In addition, good internal control systems can quickly resolve issues arising as a result of reporting errors. Good internal control systems also protect the interests of employees by clearly specifying their duties and responsibilities and safeguarding them from being accused of irregularities or misappropriations.

2.8 Disadvantages of the Internal Control System

If internal controls are badly planned or executed, employee frustration or apathy may result. In addition, an internal control system that is too rigidly designed to allow for adaptation to a particular organisation may be difficult to sustain. Perhaps the biggest disadvantage to internal control is that it may cause a company's auditors
to become over-dependent on the internal control system, which may lead them to relax other measures of checking for fraud and errors. Marinkov & Geldenhuys (2011) further indicate that poor or excessive internal controls reduce productivity, increase the complexity of processing transactions, increase the time required to process transactions and add no value to the activities. With regard to the deficiency of internal control in the system, COSO (2013) states that it “is a shortcoming in a component or components and relevant principle(s) that reduces the likelihood that the company can achieve its objectives,” Deficiency in the system exist when management determine that a component is not present or not functioning or that the components are not functioning together. The existence of a major deficiency prevents the organization from concluding that the internal control system is effective (COSO, 2013).

2.9 What is meant by Effectiveness of Internal Control System?

Although internal control systems operate at different levels of effectiveness, a system of internal control is effective when it fulfils the following key attributes of an effective internal control system: sound control environment, sound risk assessment process, sound operational control activities, effective information & communication system and effective monitoring & evaluation system (COSO, 1992). According to the updated vision of COSO (2013) the effectiveness of internal control is directed to the five components and the underlying principles. COSO (2013) states that the five components of internal control must be present, functioning and operate together, and the supporting principle should be present and functioning to provide a “reasonable assurance” that relevant objectives are met.
The meaning of “present and functioning” applies to both components and principles. “Present” refer to “the determination that components and relevant principles exist in the design and implementation of the system of internal control to achieve specified objectives.”

“Functioning” refer to “the determination that components and relevant principle continue to exist in the conduct of the system of internal control to achieve specified objectives. Therefore, “present” is about effective design and implementation, whereas “functioning” is about effective operation (COSO, 2013).

“Operating together” refers to” the determination that all five components collectively reduce the risk of not achieving objectives to an acceptable level (COSO, 2013).

2.9.1 Obtaining an understanding of internal control system

Ngwema (2013) points that every employee should be fully aware of his or her responsibilities and lines of authority. Lines of reporting and levels of responsibility should be clear. The aforementioned author further state the quality of internal control is directly related to the quality of the personnel operating the system. The firm should have sound personnel policies for hiring, orienting, training, evaluation, counselling, promoting, compensating and taking remedial actions.

The obligation to safeguard the assets of an organisation requires that transactions are entered into, once they have been authorized by the appropriate individuals, and that each transaction conforms to the terms of its authority (Ngwema, 2013). The aforementioned author further suggests that it ensures that approval of transactions is undertaken by responsible officials within regulatory limits, that is all financial
transaction should require the authorisation or approval of an appropriate responsible person, and there should be an authorisation limit to how spending each responsible person can approve.

Mwakimasinde, Odhiambo and Byaruhanga (2014) maintains that commitment to competence is the second element of the control environment. They further suggest that competence is the knowledge and skills necessary to accomplish tasks that define the individual’s job. Commitment to competence includes management’s consideration of the competence levels for particular jobs and how those levels translate into requisite skills and knowledge.

2.9.2 Internal Control system evaluation

Basel (1998) requires that regardless of size, an organization must have an effective system of internal controls that is consistent with the nature, complexity, and risk inherent in their on- and off-balance-sheet activities and that responds to changes in organization environment and conditions. In those instances where supervisors determine that an organization’s internal control system is not adequate or effective for that specific risk profile they should take appropriate action (Basel, 1998).

The board of directors and senior management bear the ultimate responsibility for an effective system of internal controls, supervisors should assess the internal control system in place.

Basel (1998) further avers that supervisors should also determine whether the management gives prompt attention to any problems that are detected through the internal control process. Supervisors should require the company they supervise to
have strong control cultures and should take a risk-focused approach in their supervisory activities.

Supervisors evaluating the internal control systems may choose to direct special attention to activities or situations that historically have been associated with internal control breakdowns leading to substantial losses. Certain changes in the organisational environment should be the subject of special consideration to see whether accompanying revisions are needed in the internal control system. These changes include the following:

1. a changed operating environment;
2. new personnel;
3. new or revamped information systems;
4. areas/activities experiencing rapid growth;
5. new technology;
6. new lines, products, activities,
7. corporate restructurings, mergers and acquisitions; and
8. expansion or acquisition of foreign operations.

Basel (1998) suggests that in order to evaluate the quality of internal controls, supervisors can take a number of approaches. Supervisors can evaluate the work of the internal audit department of an organisation through reviews of its work papers, including the methodology used to identify measure, monitor and control risk. If satisfied with the quality of the internal audit department’s work, supervisors can use the reports of internal auditors as a primary mechanism for identifying control problems for identifying areas of potential risk that the auditors have not recently reviewed. Some supervisors may use a self-assessment process, in which
management reviews the internal controls on a business-by-business basis and certifies to the supervisor that its controls are adequate for its business. Other supervisors may require periodic external audits of key areas, where the supervisor defines the scope. Finally, supervisors may combine one or more of the above techniques with their own on-site reviews or examinations of internal controls. Supervisors in many countries conduct on-site examinations and a review of internal controls is an integral part of such examinations. An on-site review could include both a review of the business process and a reasonable level of transaction testing in order to obtain an independent verification of the bank's own internal control processes (Basel, 1998).

2.9.3 Assess the control risk

According to COSO (1992), the effectiveness of internal control is assessed by using a Principle–based approach which is relevant to the five components of internal control. To have an effective internal control system all five components should be present and functioning together. Basel (1998) suggests that it is important that supervisors not only assess the effectiveness of the overall system of internal controls, but also evaluate the controls over high-risk areas. In those instances where supervisors determine that internal control system is not adequate or effective for that specific risk profile, they should take appropriate action. This will involve communicating their concerns with senior management and monitoring what actions to take in order to improve its internal control system.
2.10 Empirical studies and the Internal Control System in Namibia SOE’s

Rokeya & Muhammad (2011) conducted a critical evaluation of internal control systems in firms in their research paper on “Evaluation of Internal Control Structure: Evidence from Six listed Banks in Bangladesh”. The study concluded that the sample banks used, accomplished the objectives and that there was a least amount of deviation in the achievement of control objectives.

The study conducted by Oseifuah & Gyekye (2013) investigated the efficiency of control systems in the SMEs, specifically in the Vhembe district in South Africa. The result was that the efficiency of the control system practiced by the small business sector was quite low with the 45% sampled firms having satisfactory control systems. The findings of the research suggested that small businesses should be encouraged and promoted to assist growth and expansion that will further enable increased efficiency or the internal control system.

Ngwema (2013) researched on the topic “Application of Internal Controls in NGOs: Evidence from Zimbabwe”. In that study the researcher assessed the degree to which NGOs in Zimbabwe implement internal control structures and the finding was that NGOs in Zimbabwe have a sound internal controls system, overall in terms of control environment, controls procedures and monitoring control.

According to a research by Qaisar (2012) it was found that a well-established and successfully implemented control system assists in proper utilization of resources and produces reliable financial reporting which is helpful to the stakeholders in making excellent decisions. This paper established the importance that internal control system have in helping organizations reduce their operational risk and improve the reliability of financial reporting to build the confidence of shareholders.
Azu (2013) carried out a quantitative correlational and comparative study to examine the extent to which internal control effectiveness (ICE) is related to financial performance in the Nigerian banking sector and the results showed a significant, positive relationship between ICE and financial performance before and after Central Bank of Nigeria (CBN) intervention and a decline in the values of both variables after the intervention. The results of the study may help identify industry best practices for supporting banking operations to avoid failure.

Magu (2016) research topic on the “Influence of Internal Control System on Financial Performance of Kenya Farmers’ Association Limited” established the influence of internal control system on financial systems and the result showed that there was a positive relationship between internal control system and financial performance of KFA Ltd. The control environment and control activities contributed 61.3% of the variation in financial performance.

Ayam (2015) carried out a study to assess the level of effectiveness of the Revenue Cycle Internal Control Systems of the Universities in Ghana using COSO of the Treadway commission control framework. The result indicated that all five components of the COSO framework were in place and functioning effectively.

Aramide & Bashir (2015) investigated a deep understanding of effective internal control system for good financial accountability at the local government council level in Nigeria. The results of the findings showed that internal control system is positively significant for the good financial accountability in the local government area council in Nigeria. The study further recommended that local government authority should increase an effort to ensure that a proper and highly effective internal controls system is put in place within local government to enhance their
Ejoh (2014) carried out a study to establish the relationship between internal control activities and financial performance of in Tertiary Institutions in Nigeria. The study result further showed that there is no significant relationship between internal control activities and financial performance of Cross River State College of Education and the study also recommended that management of the institution should organize regular training for staff on control mechanisms.

In Namibia, State Owned Enterprises are regulated by the *State-owned Enterprises Governance* Act no 2 of 2006. In this Act, RCC is classified under Tier 3, as an Economic and Productive Enterprise. According to the Oxford Dictionary, the word productive means “able to produce large amounts of goods, crops, or other commodities”. This therefore, necessitates the need for the company to be as productive as possible in the Namibian economic sector.

According to the Minister of Finance in 2010 Hon. C. Schlettwein, in the report presented at NamPower Convention Center in August 2010, over the period 2000/2001 to 2009/10, less than 1 percent of Government revenue came from SOE dividends. In 2008/9, the State received N$173.4 million in dividends, amounting to 0.7 % of Government revenue. A total of 9 % of the total expenditure was spent by the State on SOE subsidies for that year, which was a whopping N$ 1.9 billion. This therefore means that the SOEs are not performing well enough to reward their shareholders, the government; hence, it is necessary to determine the main reason behind the low performance. This study tackles part of this question through investigating the effectiveness of internal controls in one of the SOEs, the Roads
Contractor Company (RCC).

According to Simataa (2004) during 1998, the Office of the Prime Minister (OPM), with the assistance of the Center for Public Service Training (CPST), conducted a training needs analysis amongst Senior Management across the Public Service of Namibia. A need was identified to introduce a Performance Management System (PMS) in the Public Service of Namibia. During the same period the OPM also facilitated the development of Strategic and Management Plans for Offices/Ministries/Agencies (O/M/As) and underscored the fact that performance management should play a key part in the effective implementation of such plans.

The researcher acknowledges that proper internal control forms an integral part of this performance management.

This study adopts the systems theory to evaluate the effectiveness of internal control system at the RCC. A system is a set of interrelated and interdependent components that interact in a way to achieve a set goal (COSO, 1992; 2011). These components or sub-systems are inter-dependent and the failure of one component leads to the failure of the whole system. An organisation is a complex system, which is divided in various sub-systems (Units, divisions, departments, etc.) and hence requires a system of controls over units, divisions, departments, etc., for its effectiveness and survival (COSO, 1992; 2011). An effective internal control system is an integrated system with interrelated components, supporting principles and attributes (Snyder 2007). Snyder (2007) argued that internal control system available to a firm consists of the following: management oversight and the control culture; risk recognition and assessment; control of activities and segregation of duties; information and communication and monitoring activities and correcting deficiencies.
COSO (1992; 2011) maintains that an internal control system can be judged to be effective on a high level if the board of directors and management have reasonable assurance that: they understand the extent to which the entity’s operations objectives are being achieved, published financial statements were being prepared reliably, and applicable laws and regulations are being complied with (see COSO, Internal Control-Integrated Framework, 1992; 2013). (Amudo & Inanga, 2009) also contend that an internal control framework that places too much emphasis on detailed explanation of the different components of the system and methods for their design but ignores details on how each of the components can be measured to assess their effectiveness is a deficient control system in itself. COSO (2011) argues that the effectiveness of an internal control system is a function of the workings of the five components of the system. Consequently, assessing effectiveness of internal controls must be done in relation to the components of internal control. Judging whether an internal control system of an organisation is effective or not is a subjective verdict resulting from the assessment of the workings of the five components of internal control system across the entire organisation. In assessing internal control effectiveness, the evaluator must understand the operations of the five components, the intent of the principles and assumptions underlying the operations of the control components and how they are applied across the organisation.

Shipanga and Strompen (2010) found that most SOEs lacked sound financial performance despite the government’s financial injections. Further, Shipanga and Strompen (2010) argued that SOE’s faced difficulties to fill key positions with qualified staff and these weaknesses were a result of the lack of timeous reporting,
monitoring, and inconsistent enforcement of the basic corporate governance principles from the State-Owned Enterprise Governance Council (SOEGC).

In Namibia, allegations of misappropriation of public resources are reported on several occasions where large amounts of money are involved (see Shipanga & Strompen, 2010, Auditor General Report 2011-2014). To date there are numerous cases that are still before the courts regarding misuse of public resources especially those of the SOEs. According to Shipanga and Strompen (2010), in order to maintain good performance and internal controls, performance contracts are usually written agreements between the State Owned Enterprise (SOE’s) management and the government.

The researcher in assessing the effectiveness of the internal control system of RCC adopts COSO’s 1992 and 2011 principles and assumptions of assessing the effectiveness of internal control systems.

2.11 Summary

The authors defines and specifies the scope of the internal control, objectives, limitation, the importants, advantages and disadvantages of internal control.

Internal control was defined in the same way by the authors that this is a process effected by board of directors, senior management and all levels of personnel, integral component of an organisation’s management and some powerful management tool ecetera, this mean that internal control system serve as the first line of offence in the safeguarding of a company’s asset and the prevention and detection of errors and fraud.

The objective of effective control system are listed and described accordingly for the performance and profitability goals and safeguarding of resources in order to have
effective and efficient operation; secondly the preparation of reliable and financial statement and thirtly the compliance with laws and regulations.

The chapter explores the literature with the component of effective internal control in order to achieve the research objectives, whereby the system of internal control system firstly should fulfill the key components such as; control environment, risk assessment, control activities, information and communication as well as monitoring and evaluation.

The chapter further explores the literature with the limitation, advantages and disadvantages of the internal control system as well as a clear explanation on “What is meant be Effectiveness of Internal Control System.”

Similarly, cases researched by other authors on the effectiveness of internal control where present in the literature and their outcomes and seems that the COSO framework was adopted in most of the cases.

The literature explores on the COSO framework that it is very broad, applicable to the effectiveness and efficiency of both operational and financial reporting controls. COSO framework is fairly easy to understand and is adaptable to both start-up and mature business operations, and it is applicable to more complex businesses that suffer due to its broadness. Proper execution of COSO framework is dependent on the ability to establish strong, formal control environment and it also provides minimal implementation guidance and therefore the Namibian SOE should adopt COSO for the effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This study adopted a descriptive survey method and focuses on the methods that were used to collect data and analyse it. It greatly concerns the research design, the population that was studied, sample selection procedures and the sampling technique used and data collection. Further the study used a simple percentage technique to analyse the data obtained.

3.2 Research Design

Descriptive survey design was used to execute the study. This design was appropriate as it was describing and establishing the study variables. The aim of the study is to understand the employees’ perceptions, perspectives and understanding of a particular situation (Leedy & Ormod, 2005).

The aim of the survey was to assess if RCC internal control system was adequate in processing procurement requirement and to establish the extent to which internal control system over procurement was affecting the financial performance. Descriptive survey method was used to collect data by interviewing targeted RCC employees. This survey consists of 60 employees from five different departments targeting top managers, middle managers, procurement officers and accountants in each department.

3.3 Population

The research population included RCC executive directors, senior management, middle management and specialized/skilled/senior supervisory. The total number of the population in this study was 60 people. The researcher obtained permission from the Chief Executive Officer of RCC to carry out this study.
Table 3.1: Targeted departments and total number of employees

<table>
<thead>
<tr>
<th>Departments</th>
<th>Targeted Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>4</td>
</tr>
<tr>
<td>Procurement/Finance Department</td>
<td>22</td>
</tr>
<tr>
<td>Business Development</td>
<td>4</td>
</tr>
<tr>
<td>Plant Hire</td>
<td>15</td>
</tr>
<tr>
<td>Maintenance</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
</tr>
</tbody>
</table>

Table 3.1 shows the total targeted population of the RCC employees in different departments.

3.4 Research Instruments

The researcher developed and administered closed-ended questionnaires for completion by top managers, middle managers, procurement officers and accountants in each department at the RCC. The questionnaire consists of structured items relating to research questions that necessitated this study.

3.5 Procedure

Data was collected by using both primary and secondary data collection techniques. Primary data was gathered through structured questionnaires and interviews with the targeted employees consisting of top and middle managers, procurement officers and accountants were targeted to take part in the survey as they were knowledgeable on the issues under study and they were responsible for their execution. Secondary data was gathered through text books, journals and periodicals. This method was more suitable for this kind of research design. The sources of data were reviewed and the
researcher decided on the information needed and constructed tables into which the data was placed once it was collected and graphs to support the data collected. Different components of internal control systems namely: control environment, risk assessment, information and communication, control activities and monitoring process were identified by explaining their influence towards the internal controls of RCC.

Figure 3.1: Components of Internal Control System

Figure 3.1 shows the components of Internal Control System and functions. Source: COSO (2013).

3.6 Data Analysis

Once the data was collected the first step was to edit the data and to thoroughly process the data in order to save time in the final analysis of the data. The data was coded for easier classification and writing of the final report. The data was analysed using a descriptive research design which involve the use of simple percentage in analysing the data being collected.

The data collected was synthesized and analysed to give meaning to the objectives of the study. The data collected was then tabulated and presented by using tables and graphs.
The usage of percentages is important to analyse data for two reasons: firstly they simplify data by reducing the numbers to range between 0 and 100. Secondly they translate the data into a standard form with a base of 100 for relative comparison (Schindler, 2003). Narrative analysis was used to explain the qualitative results of the survey. The Likert scale was used to measure respondent’s knowledge and perceptions of the RCC’s internal control system effectiveness.

3.7 Research ethics

As internal control is a sensitive issue that requires respondents to reveal their own personal experiences and how things are done. Therefore, the researcher clarified the objectives of the study to all the participants so that they could feel at ease to respond to the questions posed. The researcher made sure that the participants understood that their input into this study was not to be used for any other purpose other than this research only.

In this study, only the participants who agreed to take part in the study were considered. All the participants were well informed about their rights to decline to take part or to withdraw at any time during the study. Permission to conduct the research on the organisation was sought from the office of the Chief Executive Officer. In order to avoid plagiarism, all literature used was properly referenced.

3.8 Conclusion

Descriptive survey design was used and the aim was to uncover, to understand and to describe the study and what this means which involved the use of simple percentage in analysing the data collected.
CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents documents, data collected and analysed using questioners. The chapter present the background of the participants, present the data and document the analysis of the data. In presenting and analysing the data, the researcher considered complete confidentiality by using pseudonyms for the participants.

4.2 Background of the Participants

This study drew from the knowledge, expertise and input of qualified participants. All the research respondents hold positions of authority and are in the employment of RCC. Some of them have been in the employment of RCC for the last five to ten years.

4.3 Presentation and Analysis of Data

Figure 4.1: Present the responses per departments.

<table>
<thead>
<tr>
<th>Department</th>
<th>QD</th>
<th>QR</th>
<th>QNR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human...</td>
<td>4</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Bath...</td>
<td>22</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>Plant...</td>
<td>15</td>
<td>13</td>
<td>2</td>
</tr>
</tbody>
</table>

QD = Questionnaire distributed
QR = Questionnaire received
PQR = Percentage of questionnaire received
QNR = Questionnaire not received
PQNR = Percentage of questionnaire not received
The graph shows that a total of 60 questionnaires were distributed to the employees and 56 of them, representing 93% were completed and returned. Only 7% of the questionnaires were not returned. Therefore the completed and returned questionnaires were used for the analysis and evaluation of the effect of internal controls system on operation and financial performance of the RCC. Graph 1 shows the responses per department in a graphical format.

**Table 4.1** Analysis of Data Collation of Responses on whether RCC’s internal controls are adequate in processing procurement requirements.

<table>
<thead>
<tr>
<th>QUESTIONS</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Applicable laws and regulations at the RCC are complied with</td>
<td>18 R</td>
<td>32 P</td>
<td>26 R</td>
<td>46 R</td>
<td>2 R</td>
</tr>
<tr>
<td></td>
<td>4 R</td>
<td>5 R</td>
<td>9 R</td>
<td>5 R</td>
<td>9 R</td>
</tr>
<tr>
<td>2. There is adequate segregation of duties in RCC procurement and finance department</td>
<td>20 R</td>
<td>36 P</td>
<td>18 R</td>
<td>32 R</td>
<td>0 R</td>
</tr>
<tr>
<td></td>
<td>0 R</td>
<td>9 R</td>
<td>16 R</td>
<td>9 R</td>
<td>16 R</td>
</tr>
<tr>
<td>3. Superior officers in the procurement and finance department of the RCC supervise the work done by their subordinates regularly</td>
<td>21 R</td>
<td>38 P</td>
<td>18 R</td>
<td>32 R</td>
<td>10 R</td>
</tr>
<tr>
<td></td>
<td>18 R</td>
<td>18 R</td>
<td>6 R</td>
<td>11 R</td>
<td>1 R</td>
</tr>
<tr>
<td></td>
<td>2 R</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Management review procurement</td>
<td>5 R</td>
<td>9 R</td>
<td>13 R</td>
<td>23 R</td>
<td>5 R</td>
</tr>
<tr>
<td></td>
<td>9 R</td>
<td>13 R</td>
<td>23 R</td>
<td>20 R</td>
<td>36 R</td>
</tr>
</tbody>
</table>
processes regularly

5. Departments has budgets reviews where actual expenditure is compared with budgeted expenditure and explanation is given for variances

6. The system in place identifies and safeguards the RCC’s assets

<table>
<thead>
<tr>
<th>Rating</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q5</th>
<th>Q6</th>
<th>AVERAGE</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>26</td>
<td>18</td>
<td>18</td>
<td>13</td>
<td>18</td>
<td>10</td>
<td>17</td>
<td>31%</td>
</tr>
<tr>
<td>SA</td>
<td>18</td>
<td>20</td>
<td>21</td>
<td>5</td>
<td>5</td>
<td>11</td>
<td>13</td>
<td>24%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>31</td>
<td>55%</td>
</tr>
</tbody>
</table>

Note: Strongly Agree=SA, Agree=A, N=Neutral, Disagree=D, Strongly Disagree=SD, R=Respondents and P= Percentage.

Table 4.1.1 has been presented and analysed to show whether RCC’s internal controls are adequate in processing procurement requirements.

Table 4.2 Rating is presented with question 1-6.

The data in table 4.2 above shows that 31 respondents representing 55% agreed that RCC’s internal controls are adequate in processing procurement requirements.
The Table 4.3 Analysis of Data Collation of Responses to establish the extent to which internal control systems over the procurement cycle affect the operations at the RCC.

<table>
<thead>
<tr>
<th>QUESTIONS</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
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<tr>
<td>7. Management understands the extent to which RCC’s operation objective are being achieve</td>
<td>15</td>
<td>27</td>
<td>18</td>
<td>32</td>
<td>5</td>
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<td>8. Published financial statement are being prepared reliable</td>
<td>10</td>
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<td>10</td>
<td>18</td>
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<tr>
<td>9. Roles and responsibilities are clearly stated for all employees</td>
<td>13</td>
<td>23</td>
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<td>32</td>
<td>5</td>
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<td>10. Policies and procedures are adequate for authorizing and approving transactions</td>
<td>13</td>
<td>23</td>
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<td>23</td>
<td>5</td>
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<td>11. Controls are in place to prevent incurring expenditure in excess of allocated funds</td>
<td>0</td>
<td>0</td>
<td>5</td>
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<td>12. Corrective actions are taken to address weaknesses</td>
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<td>18</td>
<td>8</td>
<td>14</td>
<td>5</td>
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<tr>
<td>13. Management acts with a great degree of integrity in execution of its roles</td>
<td>10</td>
<td>18</td>
<td>10</td>
<td>18</td>
<td>2</td>
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<tr>
<td>14. Management has defines</td>
<td>28</td>
<td>50</td>
<td>21</td>
<td>38</td>
<td>7</td>
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</table>
appropriate objectives for the organization

15. Management identifies risks that affect the achievement of the objectives

16. All employees understand the concept and the importance of internal controls including the division of responsibilities

17. Internal control is well monitored and effective at the RCC

Note: Strongly Agree=SA, Agree=A, N=Neutral, Disagree=D, Strongly Disagree=SD, R=Respondents and P= Percentage.

Table 4.3 has been presented and analysed to show whether the internal controls over procurement have any effect on the operational and financial performance of the RCC.

Table 4.4: Rating present from question 7 to 17.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Q7</th>
<th>Q8</th>
<th>Q9</th>
<th>Q10</th>
<th>Q11</th>
<th>Q12</th>
<th>Q13</th>
<th>Q14</th>
<th>Q15</th>
<th>Q16</th>
<th>Q17</th>
<th>AVERAGE</th>
<th>%</th>
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<tr>
<td>A</td>
<td>18</td>
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<td>8</td>
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<td></td>
<td></td>
<td>31</td>
<td>56%</td>
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Note: Strongly Agree=SA, Agree=A
Table 4.4 shows that about 21 respondents representing 38% agreed that internal controls system over the procurement cycle affects the operations at the RCC.

### 4.4 Overall Analysis

Based on the data collected and the responses received, the results of the analysis are presented and discussed below.

Out of 56 employees/respondents, 38 representing 68% were of the opinion that the management understand the extent to which RCC’s operation objectives are being achieved while 18 employees representing 32% express a contrary view. On whether the financial statements are reliably published, 25 employees representing 45% agreed and 31 employees representing 55% disagreed. The table above shows that laws and regulations are adhered to, because 46 employees representing 82% agreed and 10 employees representing 18% disagreed.

Thirty eight (38) respondents representing 68% are of the opinion that there is adequate segregation of duties in the procurement and finance department while only 18 representing 22% expressed a contrary view. The supervision by the superior in the procurement and finance department is done on a regular basis because 49 employees representing 88% agreed with the statement while 7 representing 12% did not agreed with the statement given.

The respondents were asked to indicate whether management regularly reviews the procurement processes and 23 employees representing 41% agreed while 33 representing 59% disagreed. Regarding the question whether the departments conduct budget reviews where actual expenditure is compared with budgeted expenditure and the explanation of variances provided, the responses were equally distributed between those who agreed and those who disagreed.
The study shows that the system in place identifies and safeguards the RCC assets. This is shown by a total of 23 representing 41% of respondents that agreed and 33 representing 59% who disagreed. The roles and responsibilities are clearly stated for all employees and it shows that 36 representing 64% agreed while 20 representing 35% disagreed.

The respondents were asked whether the policies and procedures are adequate for authorizing and approving transactions. A total of 31 employees which is 55% agreed and 25 representing 45% disagreed. They were also asked whether there are controls in place to prevent incurring expenditure in excess of allocated funds and 10 employees agree representing 30% while 46 representing 70% disagreed.

The data collected and presented show that, corrective actions are being taken to address the weaknesses, 23 respondents representing 41% agreed and 33 respondents representing 51% disagreed. It further shows that management does not act with a great degree of integrity in the execution of its roles whereby 22 employees representing 39% agreed and 34 employees representing 61% disagreed.

The data collected and presented above show that 56 respondents representing 93.3% agreed that management has defined appropriate objectives for the organization. On whether management identifies risks that affect the achievement of the objectives of the organisation, 20 respondents representing 36% agreed and 36 respondents representing 64% disagreed.

The respondents were asked whether they understand the concept and the importance of internal controls including the division of responsibilities and 15 respondents representing 27% agreed while 41 representing 73% do not understand
the importance. They were also asked whether the controls at the RCC are well monitored and effective. A total of 21 respondents representing 38% agreed while 35 respondents representing 62% disagreed.

The management of every organization has the line responsibility for designing, implementing and monitoring their internal control systems (COSO, 2013). In order for the management to assess if the RCC’s internal control are adequate in processing the procurement requirements, according to COSO framework the management should understand the extent to which the entity’s operation objective are being achieved, published financial statements are being prepared reliably and applicable laws and regulations are being complied with. The study reveal that management do understand the extent to which RCC’s operation objectives are being achieved and that the laws and regulations at RCC are complied with and the shortcoming is that the RCC’s financial statement are not reliable. This might be a result of a lack of the procurement processes not being reviewed regularly although the supervisors supervise their subordinate’s work on a regular basis. Further, the study also revealed that although all departments review their budgets by comparing actual expenditure with budget expenditure sometimes explanations are given for the variance and sometimes are not given.

Furthermore the study revealed that management had designed and appropriate objectives for the organization but they were not identifying the risk that affect the achievements of the objectives and they also don’t act with a great degree of integrity in the execution of their roles.

The results show that there is adequate segregation of duties in RCC, roles and responsibilities are clearly stated for all employees, but the employees don’t
understand the concept and the importance of the internal controls including the division of responsibilities. The employees are not trained in this area. It was also observed that the system in place doesn’t identify and safeguard the RCC’s assets and no corrective actions is taken to care for and address weaknesses, and there are no controls in place to prevent incurring expenditure in excess of allocated funds and the internal controls are not well monitored and effective over the procurement department.

4.5 Summary of Findings

Based on the data collected and the responses received, the results of the analysis are presented and discussed below. The study adopted descriptive research design using qualitative approach. The targeted population was 60 employees and only 56 responses were received which representing 93.3 percent. Data was collected using close ended questionnaires and analysed using a descriptive research design which involve the use of simple percentage. The data collected was synthesized and analysed to give meaning to the objectives of the study. The study sought to assess if RCC’s internal control are adequate in processing procurement requirements and 31 respondents representing 55% of the targeted population agreed. Secondly, the study establishes the extent to which internal control systems over the procurement cycle affect the operations and the financial performance at the RCC and the study findings was that 21 respondents representing 38% agreed that internal control system over procurement cycle affects the operations and financial performance at the RCC. Further, this study revealed the following shortcomings: financial statements are not reliable, management does not review procurement processes regularly, the system in place does not identify and safeguard assets, there are no controls in place to
prevent incurring expenditure, corrective measures are not taken to address weaknesses, management does not act with a great degree of integrity, management does not identify risks that effect the achievement of objectives, employees do not understand the concept and the importance of internal controls and the controls in place are not well monitored which makes the controls less effective.
CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents a summary as per the study objectives, sets out the relevant conclusions based on the findings and makes recommendations which are based on both the study findings and other relevant literature considered necessary. The study sought to assess if RCC’s internal controls are adequate in processing procurement requirements and to establish the extent to which internal control systems over the procurement cycle affect the operations and the financial performance at the RCC.

5.2 Conclusion

Based on the findings of the study, it is concluded that RCC has an effective internal control system as supported by the study findings of clear supervision of roles, supervision and compliance of law and regulation. However, there are challenges in the implementation of controls such as processes are not regularly reviewed, overspending and that the system in place doesn’t identify and safeguards the RCC’s assets.

Regarding the findings of the extend on whether the internal control systems over the procurement cycle affect the operations and the financial performance at the RCC, the findings were not supported because of challenges such as: published financial statements were not reliable, policies and procedures are not adhered to, no controls were in place to prevent incurring expenditures, corrective action were not taken to address weaknesses, no integrity by management, lack of risk management, employees don’t understand the concept and the importance of internal control and controls were not well monitored.
Confirming the argument of the findings of this study suggests that internal control processes is one of the quoted areas RCC should give attention to in order to enhance the satisfaction or the goodness of the RCC internal control processes. Further, it can be concluded that RCC as one of the parastatals working with public resources should implement an effective internal control system in order to safeguard its resources and to enhance risk management. RCC should comply with the international financial reporting standards as well the local statutory laws.

5.3 Recommendation

Based on the findings and conclusions of the study, it is recommended that RCC should adopt COSO framework as it is very broad, and applicable to the effectiveness and efficiency of both operational and financial reporting controls. The COSO framework is easy to understand and is adaptable to both start-up and mature business operations, and it is applicable to more complex businesses that suffer due to its broadness. Proper execution of COSO framework is dependent on the ability to establish a strong formal control environment that also provides minimal implementation guidance.

COSO framework addresses the following shortcomings: unreliable financial statements, non-adherence of procurement process and non-compliance of budget control within the organization.

RCC should, in order to achieve the above mentioned objectives apply the three primary objectives of internal controls system mentioned in the framework of COSO to ensure (1) efficient and effective operations, (2) accurate financial reporting to ensure that the RCC financial statement are reliably published and (3) compliance with laws and regulations. RCC should comply with International Financial
Reporting Standards as well as the local statutory laws. The framework also outlines five essential components of an effective internal control system such as:

RCC should make use the internal control components to define its control objectives, in order to assess if RCC’s internal controls are adequate in processing procurement requirements and to establish the extent to which internal control systems over the procurement cycle affect the operations and financial performance at the RCC. Integrating COSO in this manner adds structure to procurement processes, and ensures that appropriate criteria are considered in key phases and provides a trail to support the conclusions reached.

The RCC should treat their internal control system as an integral component of an organisations management that provides reasonable assurance and should consider internal control as a major part of managing an organisation. RCC must have plans, methods and procedures that are used to meet mission, goals, and objectives and to support performance management system in order to assess the adequacy of internal control.

In order to establish the extent to which internal control system over procurement cycle effect the operations and financial performance the internal controls should serve as the first line of defence in safeguarding assets and preventing and detecting errors and fraud at RCC, and should also consider internal control as a powerful management tool and a means for a business to achieve performance and profitability targets, and to prevent loss of resources. This will help to ensure reliable financial reporting and compliance with laws and regulations.
RCC should have board approved internal control policies to guide their operations to protect and enhance shareholders’ value and to reduce the possibility of unexpected losses or damages to its reputation.

The RCC should comply with laws and regulations and must be aware of all laws and regulations which it should uphold such as the Generally Accepted Accounting Principle (GAAP) for their process.

The RCC should establish efficient internal control system to give assurance that things are working according to plan. The RCC internal controls should be proactive, value adding and cost effective. It is recommended that RCC should establish good internal control systems and the management should:

1. Identify the goals for operations as they relate to its mission

2. Identify the goals for procurement and finance department (budgets allocation and spending).

3. Identify the compliance goals.

4. Identify and evaluate the risks and threats to the accomplishment of those goals.

5. Establish written policies and procedures that minimize material risks and threats and incorporate key internal controls.

6. Provide the policies and procedures and appropriate training to employees to encourage compliance.
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Appendix 1: INTERNAL CONTROL OBJECTIVES & COMPONENTS
Appendix 2: Understanding and Implementing of Internal Controls

Understanding and Implementing Internal Controls =

Improving Margins +
Plugging Leakages +
Controlling overheads +

= 

Orderly Growth &
Navigating Control
Appendix 3:

- Responsibilities are less at the top but accountability is high.
- Everyone's responsibility and accountability touches components of the Internal Controls as well as all its objectives in some way or other.
- A robust system needs to be developed that provides high level assurance.
Appendix 4: Employees Don’t understand the concept and the importance of internal control.
Appendix 5: Design Framework
Appendix 6: Risk Management Processes

- Set objectives
- Identify risks
- Define success criteria
- Assess risk
- Produce action plan
- Implement action plan
- Monitor performance

Identifying key risks

Governance and administration
- Poor record keeping (including financial risk)
- Conflicts of interest
- Ineffective relations with advisers
- Member communications

Defined benefit:
- Covenant deterioration
- Investment risk (poor governance)

Defined contribution:
- Ineffective retirement processes
- Investment risk (poor governance)
- Non-refundable payment of contributions

A lack of knowledge and understanding

Management

Series of scheme-specific risk management activities to address routine risks.

Series of scheme-specific risk management activities to address event-specific risks.

Implementation and formalisation of controls to mitigate impact and likelihood of occurrence.

Benefits to the scheme

- Trustees understand the link between robust controls and good scheme governance.
- Trustees pay close attention to the management and control of key risks.
- Trustees confident they have implemented robust systems to address critical risks.
- Trustees confident key systems work effectively.
- Trustees regularly undertake systems reviews.
- Formalisation of procedures (documented controls, risk registers).
- Trustees actions ensure better protection for members' benefits.
Appendix 7:

2013 Framework articulates seventeen principles for effective internal controls

- Control Environment
  1. Demonstrates commitment to integrity and ethical values
  2. Exercises oversight responsibility
  3. Establishes structure, authority, and responsibility
  4. Demonstrates commitment to competence
  5. Enforces accountability

- Risk Assessment
  6. Specifies suitable objectives
  7. Identifies and analyzes risk
  8. Assesses fraud risk
  9. Identifies and analyzes significant change

- Control Activities
  10. Selects and develops control activities
  11. Solves and develops general controls over technology
  12. Deploys through policies and procedures

- Information & Communication
  13. Uses relevant information
  14. Communicates internally
  15. Communicates externally

- Monitoring Activities
  16. Conducts ongoing and/or separate evaluations
  17. Evaluates and communicates deficiencies
Appendix 8:  Recommended COSO Internal Control Framework
APPENDIX 9: QUESTIONNAIRE

The survey is to assess the effectiveness of internal control practices as the RCC:
A case study of the Roads Contractor Company (RCC.)

This questionnaire aims to collect data on the effectiveness of internal control systems of RCC, and you are requested to respond to the questions below. The data will be used for academic purposes only and it will be treated with the confidentiality that it deserves. The employees are highly encouraged and persuaded to respond to the statements in this questionnaire in the most truthful and objective way.

THANKING YOU IN ADVANCE FOR YOUR HELP

Demographic Information

1. Employee:...........................................................................................................

2. Position:..............................................................................................................

3. Department:....................................................................................................... 

4. Length of time in this position:.................................................................

5. Highest Qualification:.....................................................................................

6. Gender:...............................................................................................................
1. Analysis of Data Collation of Responses on whether RCC’s internal controls are adequate in processing procurement requirements.

<table>
<thead>
<tr>
<th>QUESTIONS</th>
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<tr>
<td>2. There is adequate segregation of duties in RCC procurement and finance department</td>
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<tr>
<td>3. Superior officers in the procurement and finance department of the RCC supervise the work done by their subordinates regularly</td>
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<td>4. Management review procurement processes regularly</td>
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<td>5. Departments has budgets reviews where actual expenditure is compared with budgeted expenditure and explanation is given for variances</td>
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<tr>
<td>6. The system in place identifies and safeguards the RCC’s assets</td>
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2. Analysis of Data Collation of Responses to establish the extent to which internal control systems over the procurement cycle affect the operations at the RCC.

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<td>15. Management identifies risks that affect the achievement of the objectives</td>
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<td>17. Internal control is well monitored and effective at the RCC</td>
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