INTERNAL CONTROL AND GOVERNANCE: A CASE OF CCBRT, DAR ES SALAAM, TANZANIA

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A DISSERTATION SUBMITTED IN PARTITIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE OPEN UNIVERSITY OF TANZANIA

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by The Open University of Tanzania a Dissertation titled "Internal Control and Governance, Case of CCBRT, Dar Es Salaam, Tanzania" presented in partial fulfillment of the requirements of the degree of Master of Business Administration.

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Dr Proches Ngatuni

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Date

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DECLARATION

I, Yahya Abdul, do hereby declare that this thesis is my own original work and that it has not been presented to any other university for a similar or any other degree award.

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Signature

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Date

DEDICATION

This dissertation is dedicated to my lovely family and My parents, My dad, Abdul Salum and my Mum, Khadija Mwalim.

ABSTRACT

A proactive preventive approach to the inefficiencies and fraudulent problems requires a critical evaluation of internal control (IC) structure and practices of good governance. This will enable the organization to determine its capacity on ensuring that organization's activities are carried out efficiently, reports are generated timely in accordance with the established goals, compliance with applicable laws and regulations, policies and procedures is met and practice good governance principles. Research objectives were to establish how IC works to enhance the efficiency and effectiveness of operations, evaluate how IC ensures accuracy and timeliness on reporting, establish the relationship between IC and good corporate governance and assess the degree to which the practices of IC enhance compliance with the applicable laws and regulations and internal policies and procedures. Multiple data collection methods were used for getting more insight. Questionnaires were used to collect data in numeric form for analysis using multiple regressions. The research used case study strategy. Sample was selected using non probabilistic technique, based on convenience on access. Results of analysis revealed that the regression models explain the variability of the four different dependent variables and each of the four overall models fit the data well. Findings indicated that ICS of the organization did not take into considerations some of the predictor variables in the control framework. (i.e. some elements of effective ICS are lacking). This renders the current control structures ineffective. Recommendations put forward included the organization has to review the ICS to determine its effectiveness and work on variables that were statistically significant.

ACKNOWLEDGEMENT

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LIST OF ABBREVIATIONS AND ACRONYMS

ANOVA	-	Analysis of Variances
ATIER	-	Accuracy and Timeliness on Internal and External
BoDs	-	Board of Directors
BoT	-	Bank of Tanzania
BoTs	-	Board of Trustees
CACG	-	Commonwealth Association for Corporate Governance
CALRIPP	-	Compliance with Applicable Laws, Regulations and
CC	-	Combined Code (on corporate governance-UK)
CCBRT	-	Comprehensive Community Based Rehabilitation in Tanzania
CEO	-	Chief Executive Officer
CICA	-	Canadian Institute of Chartered Accountants
COBIT	-	Control Objectives for Information and related Technology
CoCo	-	Criteria of Control model
COSO	-	The Committee of Sponsoring Organizations (of the Treadway Commission)
EAC	-	East Africa Community
EE	-	Efficiency and Effectiveness of business operations
EPA	-	External Payment Account
FASB	-	Financial Accounting Standard Board (Based in New York, USA)
GDP	-	Gross Domestic Product
GoT	-	Government of Tanzania
IASB	-	International Accounting Standard Board (Based in London, UK)
IC	-	Internal Control

ICS	-	Internal Control System
IFAC	-	International Federation of Accounting (Based in new York, USA)
		Internal Policies and Procedures
NBAA	-	National Board of Accountants and Auditors(Tanzania)
OECD	-	Organisation of Economic Corporation and Development
PCGC	-	Principles for Corporate Governance in the Commonwealth
PGCGP	-	Practices of Good Corporate Governance Principles
		Reporting
RoD	-	Reliability of Data
RP	-	Research Paradigm
SAC	-	Systems Auditability and Control
SEC	-	Securities Exchange Commission
SMART	-	Specific, Measurable, Aggressive/Achievable, Realistic,
TANESCO	-	Tanzania Electric Supply Company
UDA	-	Usafiri Dar Es Salaam
UK	-	United Kingdom
USA	-	United States of America
VoD	-	Validity of Data

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Problem

In recent decades, Government of Tanzania (GoT) has adopted a new approach on involving the private sector and NGOs to participate in economic and social activities through Public Private Partnership (PPP). Absence of the framework of internal control system (ICS) or unclear structure on the regulatory and supervisory role of the central government or its departments or its agencies poses some risks.

Lack of instituting sound ICS might be contributed by several reasons, such as small knowledge and low awareness of managers and practitioners on designing sound ICS to safeguard resources of the organization and increasing efficiency. Members of the Board of Directors (BoDs) or Board of Trustees (BoTs) might not be aware or properly informed and fully engaged on their roles of overseeing the efficiency and conduct of the management. Traditionally, most of the boards are just being put as a structural statutory formality. Development of this problem is a cross cut issue involving the organizations concerned, GoT, Regulatory Authorities (RA), Internal and External Auditors and the Agencies of the Developments Partners.

1.2 Statement of the Problem

Absence of sound ICS is a problem that shifts the burdens to tax payers and the community at large, through delivery of poor services due to frauds, embezzlement, transactional errors, misstatements and misrepresentations in the financial reports.

Such problems may happen anywhere in Europe, America, Asia or Africa. Findings of the Treadway Commission Report of 1987 in the United States (USA) confirmed absence of or weak ICS as the primary cause of many cases of fraudulent financial reporting. Notable cases include Enron and WorldCom in the USA, Parmalat in Europe, and ChuoAoyama in Asia. In Nigeria, the Managing Director and Chief Financial Officer of Cadbury Nigeria plc were dismissed in 2006 for inflating the profits of the company for some years before the company's foreign partner acquired controlling interest.

In Tanzania, scandals such as those of TANESCO on irregularities to the procedures used to purchase and the very high costs of power plant, Bank of Tanzania (BoT)'s excessively high costs on the twin tower constructions due to irregularities on the procedures used to amend the construction contract and miss-management in external payment account (EPA), irregularities on the procedures and excessively high costs on the purchase of military radar, the recent saga on the ownership of 'Usafiri Dar Es salaam' (UDA) are good examples of absence of sound ICS and practices good governance principles. These scandals emphasize the need to institute a proactive system of checks and balances to guide corporate executives in decision-making. Top executives are legally and morally obliged to produce honest, reliable and accurate and informative corporate financial reports periodically.

1.3 General Objective of the Research

Assessing applicability of internal control and practices of good governance

1.4 Specific Objectives of the Research

i) To establish how the internal control practices work to enhance the efficiency and effectiveness of business operations,

ii) To evaluate how internal control system of the organization ensures accuracy and timeliness of internal and external reporting,

iii) To establish the relationship between internal control practices and good corporate governance,

iv) To assess the degree to which the practices of internal control system assist to enhance compliance with the country's laws and regulations, internal policies and procedures of the organization.

1.5 Research Questions

i) How internal control systems enhance efficiency and effectiveness of business operations?

ii) How internal control system of organization ensure accuracy and timeliness of internal and external reporting?

iii) How internal control practices related to good corporate governance?

iv) To what extent practices of internal control system of the organization ensure compliance with the laws and regulations of the country, internal policies and procedures of the organization?

1.6 Rationale and Significance of the Study

This study will help to add knowledge to managers and practitioners in finance and governance to institute sound ICS and practices of good governance principles. Findings of the study will help the participating organization and other interested organizations to benefit through identification of weaknesses in the design and implementation of the ICS framework as promulgated by the central authority and whether they have sound ICS, good policies, procedures and good control environment to compliment the internal control objectives.

The study of findings will also provide literature to other researchers to investigate further on this area or other related areas.

1.7 Scope of the Study

The research concentrated on studying the internal control system and practices of good corporate governance principles. The study focused mainly in private and NGOs because of their increased importance in the contribution of the economic and social well being of the community.

Emergency of private sector, multinational corporations and Non Governmental Organizations brought about the needs for ensuring that corporations and organizations (commercial firms and not for profit organizations), design and implement internal control systems that will also ensure practices of good corporate governance.

1.8 Limitation and delimitation of the Study

1.8.1 Limitation

The fact that Tanzania was under the closed mode of economy, ownership of the most of corporations were under the Government. IC and governance were not seen as playing a role in the existence of business firms. This explains why studies and literature on IC and practices of good corporate governance principles is limited. The study is limited by size of the sample unit and the size of the sample of respondents. Some of the respondents viewed it as the researcher is assessing the weaknesses of the management and were reluctant to disclose some of the information.

1.8.2 Delimitation

Searched for online literature available from different sources, books, journals and literature from libraries of other universities in Dar Es Salaam.

The research involved technical issues relating to ICS and governance. Sample distribution of respondents was carefully selected in order to obtain reliable responses. For getting access to the data, I was able to convince the management that information collected will be only for the intended academic use and not otherwise. Finally I was granted access to the data. During all this period of negotiating access, I was observing ethical issues for conducting the study.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews some of the available literature on concepts, philosophies, theories, models and previous research findings pertaining to the research problem so as to establish the theoretical and empirical base of the study. The literature review aims at finding the gap between what others researchers and authors have explained theoretically and empirically and what has not been explained.

The knowledge gap needs to be established and fitted by the researcher. The literature review begins with definition of some key concepts, followed by the critical review of theories and empirical studies. Then the empirical framework is presented and the relationship between the variables is discussed.

2.2 Critical Review of the Theory

This section describe the different control models, present the definitions of internal control (IC) they provide, and indicate the components of ICS.

2.2.1 The COSO Model

In USA, many organizations have adopted the IC concepts presented in the report of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published in 1992. COSO defines internal control as a process, affected by an entity's BoDs, management and other personnel, designed to provide reasonable assurance

regarding the achievement of objectives in the categories of effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

The COSO model is depicted as a pyramid, with control environment forming a base for control activities, risk assessment, and monitoring. Information and communication link the different levels of the pyramid. As the base of the pyramid, the control environment is arguably the most important component because it sets the tone for the organization. Factors of the control environment include employees' integrity, the organization's commitment to competence, management's philosophy and operating style, and the attention and direction of the board of directors and its audit committee. The control environment provides discipline and structure for the other components.

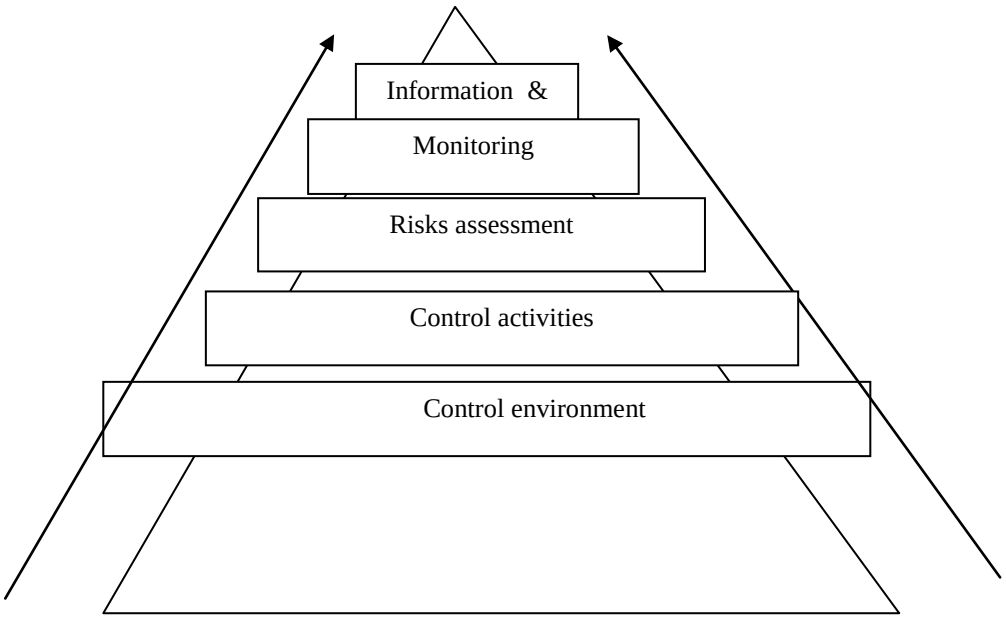

Figure 2.1 COSO Model of Internal Control System

Source, COSO (1992)

Risk assessment refers to the identification, analysis, and management of uncertainty facing the organization. It focuses on the uncertainties in meeting the organization's financial, compliance, and operational objectives. Changes in personnel, new product lines, or rapid expansion could affect an organization's risks.

Control activities include the policies and procedures maintained by an organization to address risk-prone areas. An example of a control activity is a policy requiring approval by the board of directors for all purchases exceeding a predetermined amount. Control activities were once thought to be the most important element of internal control, but COSO suggests that the control environment is more critical since the control environment fosters the best actions, while control activities provide safeguards to prevent wrong actions from occurring.

Information and communication encompasses the identification, capture, and exchange of financial, operational, and compliance information in a timely manner. People within an organization who have timely, reliable information are better able to conduct, manage, and control the organization's operations.

Monitoring refers to the assessment of the quality of internal control. Monitoring activities provide information about potential and actual breakdowns in a control system that could make it difficult for an organization to accomplish its goals. Informal monitoring activities might include management's checking with subordinates to see if objectives are being met. A more formal monitoring activity would be an assessment of the internal control system by the organization's internal auditors.

2.2.2 CoCo Model

Some users of the COSO report found it difficult to read and understand. A model that some believe overcomes this difficulty was found in a report from the Canadian Institute of Chartered Accountants (issued in 1995). The report, Guidance on Control, presents a control model referred to as Criteria of Control (CoCo). The CoCo model is builds on COSO and was thought to be more concrete and user-friendly. CoCo describes IC as actions that foster the best result for an organization. These actions, which contribute to the achievement of the organization's objectives, center around the effectiveness and efficiency of operations, reliability of internal and external reporting and compliance with applicable laws, regulations and internal policies.

CoCo indicates that control comprises of those elements of an organization (including its resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of the organization's objectives. CoCo model recognizes four interrelated elements of IC, namely purpose, capability, commitment, and monitoring and learning.

An organization that performs a task is guided by an understanding of the purpose (the objective to be achieved) of the task and supported by capability (information, resources, supplies, and skills). To perform the task well over time, the organization needs a sense of commitment. Finally, the organization must monitor task performance to improve the task process. These elements of control, which include twenty specific control criteria, are seen as the steps an organization takes to foster

the right action.

2.2.3 SAC Model

Institute of Internal Auditors Research Foundation issued its model on Systems Auditability and Control (SAC), in 1991 and revised in 1994. SAC's definition of IC states that, IC is a set of processes, functions, activities, sub-systems, and people who are grouped together or consciously segregated to ensure the effective achievement of objective and goals. The Institute of Internal Auditors Research Foundation issued the SAC model to provide guidance to internal auditors on internal controls related to information systems and information technology (IT).

2.2.4 COBIT Model

COBIT model (Control Objectives for Information and related Technology), was issued in 1996 by the Information Systems Audit and Control Foundation. COBIT focuses primarily on efficiently and effectively monitoring information systems. The report emphasizes the role and impact of IT control as it relates to business processes. This control model can be used by management to develop clear policy and good practice for control of IT. The COBIT definition of internal control adapted that from COSO, that. 'The policies, procedures, practices, and organizational structures are designed to provide reasonable assurance that business objectives will be achieved and that undesired events will be prevented or detected and corrected'.

2.2.4.1 Common Concepts in the Three Models Above

While the specific definition of IC differs across the various models, a number of concepts are very similar across these models. In particular, all the models emphasize

that IC is not only policies and procedures to help an organization accomplish its objectives but also a process or system affected by people. In these models, people are perceived to be central to adequate ICS. These models also stress the concept of reasonable assurance. ICS cannot guarantee that an organization will meet its objectives. Instead, IC can only be expected to provide reasonable assurance that a company's objectives will be met.

2.3 Parties Responsible for and affected by Internal Control

The primary responsibility for the development and maintenance of IC rests with an organization's management. With increased significance placed on the control environment, the focus of internal control has changed from policies and procedures to an overriding philosophy and operating style within the organization. If internal control is not a priority for management, then it will not be one for people within the organization either.

IC must be evaluated in order to provide management with some assurance regarding its effectiveness. IC evaluation involves everything management does to control the organization in the effort to achieve its objectives. IC would be judged as effective if its components are present and function effectively for operations, financial reporting, and compliance. The board of directors and its audit committee has responsibility for making sure the ICS within the organization is adequate.

The two parties involved in the evaluation of ICS are the organization's internal auditors and their external auditors. Internal auditors' responsibilities include

ensuring the adequacy of the system of IC, the reliability of data, and the efficient use of the organization's resources. They identify control problems and develop solutions for improving and strengthening ICS.

External auditors assess the effectiveness of IC within an organization to plan the financial statement audit. External auditors focus primarily on controls that affect financial reporting. They have a responsibility to report IC weaknesses, as well as reportable conditions about IC to the audit committee of the board of directors.

2.4 General discussion - Internal Control and Corporate Governance

2.4.1 Corporate Governance "CG"

CG is defined as the system by which companies are directed and controlled (Cadbury, 1992). It is also explained as holding the balance between economic and social goals and between individual and company goals (Cadbury/Word Bank, 1995 and King, 2002). Good governance deal with the ways in which suppliers of finance to the corporations assures themselves of getting a stream of return on their investments.

Good governance therefore addresses the framework under which corporate entities (public, private or NGOs) uphold economic or social interest while at the same time behaving ethically and responsibly to stakeholders and the community. This is concerned with both corporate performance and social equity.

2.4.2 The Origin of Corporate Governance

The origin of corporate governance is traced to the innovation that bought into existence the joint stock companies in the mid of 19th century, and with it, the

separation of ownership, control and management. While corporation is owned by the shareholders, it is controlled almost entirely by their agent known as board of directors. This creates both the agency problem and agency cost to the shareholders (Braeley and Myers, 2003).

In fact, the agency problem started, and was recognized, much earlier than the legal innovation that created a limited liability concept in companies to limit the liability of the owners of the enterprise in case of bankruptcy and liquidation.
(Adam Smith, 1776).

Companies in Adam Smith's time were unincorporated business where shareholders had unlimited liability and were thus extremely sensitive to company directors' actions which could bring them financial ruin. The early limited liability companies, when this finally arrived, where all public companies with hundreds of unrelated share holders. It was the need to canvass for capital from the general public that in fact fed to this innovation of creating an artificial entity that had a separate legal (power) separate from its owners and which could sue or be sued. Entrepreneurship was rearing to go but was facing the constraint of capital, and this gave the origin of joint stock companies where created to empower entrepreneurs to expand. The 19th century was the century of the entrepreneur. The 20th century was the century of management. The 21st century will be / is the century of governance
(King, 2002).

In a way, this is consistent with life generally which is always a series of problems and solutions. As soon as a problem is solved, another one emerges. Brought about

by the solution to the last problem or merely getting attention because the bigger problem that had been dwarfing it has been removed. Poor corporate governance is a problem brought about, partly, by the phenomenal success of entrepreneurship. Today, poor corporate governance is a problem brought about, partly, by the lack of appropriate management skills (unsound and inefficiency control systems) and human behaviours (intentional individual behaviors and collusions among individuals).

Thus, corporate governance is an old concept that was long sidelined as a background function, but gained considerable importance in politics, economic and academic interest from 1990s largely due to corporate scandals in America and Europe. Now such scandals are becoming more common in Asia and Africa.

Company Act 2002 and Society Ordinance Act give Board of Directors and Board of Trustees respectively, considerable powers of decisions and controls of the organizations. Good corporate governance is now-days a cross cutting issue to politics, economic and social activities around the global.

2.4.3.1 Governance Philosophies and Models

There are two philosophies or perspectives on corporate governance, namely Stakeholders approach and Shareholders approach.

2.4.3.2 Governance Philosophies

The Stakeholders Approach: The “inclusive” or “communication” or “stakeholders” approach sees the company as being a social organization with responsibilities to

several parties including shareholders, employees, creditors, customers and the community in which the Company is based (King, 2002 and Melyoki, 2005).

The Shareholders Value Perspective: The shareholders value or "Libertarian" perspective however, sees the company as mainly a private economic vehicle owned by the shareholder and sees the purpose of the company therefore as maximization of shareholders wealth. The shareholder value or libertarian philosophy is underpinned by social inclusion, human holism and justice through cooperation (Melyoki, 2005).

When the company is small with few shareholders, the libertarian philosophy looks to be the more reasonable of the two. But when the company grows in size that it becomes a giant organization operating in several countries of the world, employing thousands of people, and making a significant contribution to a country's GDP, the shareholder's value philosophy becomes difficult to defend and, the shareholders philosophy becomes much more plausible.

Governance Models: From these two corporate governance philosophies, four corporate governance models practiced around the world are identified. (Brealey and Myers, (2003). These are the Anglo Saxon model that is the libertarian and is practiced in English speaking countries of the world including Tanzania, the Germanic model that stands on stakeholder philosophy and is practiced in German, Netherlands and Scandinavia.

The third model is Japanese one practiced in Japan and the forth model is Latin practiced in France, Italy, Spain and Latin America. The Japanese system of

corporate governance is the Kereitsu – a network of companies that is usually organized around a major commercial bank. (Brealey and Myers 2003).

Support for the stakeholder philosophy and the Germanic model of corporate governance that sees a company as autonomous institution serving several stakeholders arises partly from concerns for the growing power and influence of business corporations. Beric and Means (1932, 1968) observed:-

"The rise of the modern corporation has brought a concentration of economic power which can compete on equal terms with the modern state – economic power versus political power, each strong on its own field. The state seeks in some aspects to regulate the corporation, while the corporation, steadily becoming more powerful, makes every effort to avoid such regulation. The future may see the economic organism, now typified by the corporation, not only on an equal plane with the state but possibly even superseding it the dominant form of social organization."

While therefore the USA and the UK have concentrated on protecting shareholders and investors so as primarily to safeguard the flow of capital around the world, some other people were looking at the social and political impact of the modern corporation. The work of Berle and Means is reported to have contributed to a rethink of USA government policy on corporate governance, that led to the creation of Securities Exchange Commission (SEC) in 1934.(www.corpgov.net). In a paper on business ethics and Christianity, Michael Lejeure and Phillip Rosemann (Eds) (1996) observed:-

“Impressive arguments have been developed to show that, in modern societies the real power has not shifted from the church to the political authorities. Rather, power is nowadays largely in the hands of great captains of the industry, of the chairperson and managing directors of the huge industrial conglomerates and multinational corporations” Some people see the libertarian philosophy and its Anglo Sexon model as having failed to work because nearly all of the big financial scandals have happen in the countries. The USA government has responded with more legislation (Sarbanes-Oxley Act 2002) but many doubted this solution would work. There was also criticism of the FASB for using rule based accounting standards that create loopholes.

Some experts were arguing that principles based Accounting Standards like those issued by FASB could have prevented the kind of accounting malpractices that precipitated the collapse of Enron in 2001. The collapse of Parmalat from massive fraud in Italy in 2003 was in fact the first case of big company collapse outside the Anglo Saxon model zone.

2.4.4 Principle of Good Corporate Governance

Following different financial scandals around the world, different committees (such as Cadbury Committee Report 1992, The King Report 1994, 2002) came up with a list of principles on good corporate governance.

2.4.4.1 The King Report 2002

The South African private sector constituted the King Committee on Corporate

Governance under the auspices of South African Institute of Directors in 1992, under the leadership of Mervyn King. Their report dated November 1994 was notable for taking corporate governance further that financial reporting and regulatory framework. This report was updated through a process of inquiry and deliberations to produce a revised King report in 2002.

The King report and recommendations was / is a voluntary private sector initiatives. The revision and updating of the 1994 report became necessary partly because many of the recommendations were taken up the by South African government and become law. The other reason was developments in corporate governance elsewhere in the world.

The report advanced strongly for the stakeholder approach with vigorous consideration of the workers, community and the environment. It did however distance itself from the Germanic stakeholder approach that demands a two tier board with significant work representation in the supervisory Board. King Report, 1992 says: “The stakeholder concept of being accountable to all legitimate stakeholders must be rejected for the simple reason that to ask board to be accountable to everyone would result into them being accountable to no one.”

While effectively remaining on the Anglo Sexon model of corporate governance with single board that comprise executive and non executive directors, King report recommends the inclusive approach to corporate governance and address each

company to define its ‘purpose’ and formulate and communicate to all stakeholders the ‘Value’ that will dictate its activities.

The report recognizes centrality of entrepreneurship and enterprise to survival and prosperity of the firm, and the need therefore for those qualities to be nurtured by a good governance system. It argues for a balance to be stuck between entrepreneurial activity (financial performance) and conformance with governance constraints. Without profitability, the report argue, the firm may not survive for long and all the other stakeholders may not remain in that category.

In building its logic on corporate governance and especially in rejecting the narrow shareholders supremacy view and advocating instead, for an inclusive approach, the King report (2002) affirms that a public limited liability company as a legal entity is not owned by anyone and that this fact has been confirmed by courts in various jurisdictions and that the duty of directors is therefore to the company alone. The relationship between the company and the shareholders is a contractual through the Memorandum and Articles of Association.

The committees then formulated 7 principles of good corporate governance as follows:-

a) **Corporate Discipline:** The ethical platform by which directors and senior managers behalves within defined limits.
b) **Transparency:** to enable stakeholder easily comprehend company motives and performance.

c) **Independence** of the board and its various committees from influence by dominant shareholders or the CEO.

d) **Accountability** by those within the company who makes decisions that affect the company's bottom line.

e) **Responsibility:** While the board is accountable only to the company, it must act with responsibility towards all stakeholders.

f) **Fairness** to all shareholders, large and small and fairness to all stakeholders.

g) **Social responsibility:** Adapts policies and procedures that are not discriminative, not exploitative, are environmental friendly and have regard to social interests.

2.4.4.2 The CACG Principles 2001

The Commonwealth Association of Corporate Governance (CACG) issued its own 'Principles for Corporate Governance in the Commonwealth (PCGC).' In 2001 and in 2002 they issued 'Corporate Governance in Government Companies (CGGC).' These general CACG principles, while covering all aspects of corporate governance, are structured differently from the USA and the UK reports and recommendations. The CACG was chaired by an Indian Professor and approach and style looked to be too conservative and apologetic. This contribution seems to be inferior to the other contributions.

2.4.4.3 OECD Principles 2004

The Organisation for Economic Corporation and Development (OECD) first issued their corporate governance principles in 1999 and revised them in 2004. OECD is a body of all advanced economies including Anglo Sexon, Germanic, Latin and

Japanese governance systems. Its recommendations had however a strong Anglo Sexon inclination by demanding accountability of boards of directors to shareholders and protection of shareholders rights. OECD list six (6) principles of corporate governance in its 2004's edition. It recommended that the national governance framework should:-

a) Promote transparency and efficient markets, be consistent with the rule of the law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.
b) Protect and facilitate the exercise of shareholders rights.
c) Ensure equitable treatment of all shareholders including minority and foreign shareholders.
d) Recognise the rights of shareholders established by law or through mutual agreements and encourage active participation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises.
e) Ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company.
f) Ensure the strategic guidance of the company, the effective monitoring of the management by the board and the board's accountability to the company and to the shareholders.

2.4.5 How ICS enhance Practices of Good Corporate Governance

Internal control as one of the good governance practices is all about balancing many

of the competing considerations, long and short term notions of gains, cash and accounting concept of value, democracy and authority. Companies must seek to attain equilibriums in the management and supervision of the business affairs.
This equilibrium is well described by Cadbury (1992).

Cadbury (1992) has provided word class leadership and guidelines with respect to corporate governance. He has been the notably successful CEO and then Chairman of Cadbury Schweppes, a non- executive director of IBM Europe and the bank of England and thereafter the Chairman of the Cadbury Commission, which in 1992 published governance guidelines for the UK. Many more researchers developed his work based on the key aspects raised by Sir Adrian in his commission's report.
(Robert and Nell, 2008).

Since the Cadbury and the Rutteman guidelines were issued, there has been much criticism of regulators and consultants alike that organizations are being driven to create bureaucratic processes - divorced from managing the business - with the sole purpose of complying with regulations. The spirit of Cadbury was right, the enactment was flawed. By taking the easy option of reporting on internal financial control, companies created an annual review process disconnected from managing the business (KPMG, 1999).

2.4.5.1 Internal Control and Risk Management

Despite the increased focus on risk management in recent years, controlling risks to maximize business objectives is not a new issue. IC is one of the principal means by which risk is managed in order to avoid managing crisis. Other devices used to

manage risk include the transfer of risk to third parties, sharing risks, contingency planning and the withdrawal from unacceptably risky activities. Of course, as discussed above, companies can accept risk too. Getting the balance right is the essence of successful business – to knowingly take risk, rather than be unwittingly exposed to it.

2.4.5.2 2Evolving Environment and Corporate Objectives

In the modern business world, corporate objectives and the environment in which companies operate are constantly evolving. As a result, the risks facing companies are continually changing too. A successful system of IC must therefore be responsive to such changes - enabling adaptation quicker than its competitors. Effective risk management and IC are therefore reliant on a regular evaluation of the nature and extent of risks.

Compliance with the spirit of the Turnbull guidance, rather than treating it as an additional layer of bureaucracy, will go a long way to realizing the benefits of effective risk management and IC. A successful system of internal control must be responsive to change. KPMG (1999) recommends that the Board must demand a business case centered on the proposition that the enhancement of business performance is dependent on embedding risk management.

2.4.5.3 Risks Management and Value Destruction / Creation

Controls with regard to risk management comprises those elements of an organization that, taken together, support people in the achievement of the organization’s objectives. Controls are effective to the extent that they provide

reasonable assurance that the organization will achieve its business objectives reliably. Good risk management is not just about avoiding value destruction – but it is also about facilitating value creation (KPMG, 1999).

2.4.5.4 2Efficiency and Effectiveness is key Role of Management

Efficiency and effectiveness in day to day operations of the organization is the core responsibility of the management. In order to achieve this goal, those empowered with the role of supervising day to day activities of the organization have the duty to ensure that they design and formulate policies and procedures that direct and safeguard all the resources of the undertaking.

This is done by putting in place a system of IC that will provide checks and balances on the daily operations of the business. A sound system of IC has to provide reasonable assurance that financial statement so produced from the daily accounting transactions gives true and fair view of the operations of the organization and they are free from major misstatements, errors and omissions. To achieve and maintain good ICS, management should ensure that IC activities and all transactions and other significant events are clearly documented and the documentation is readily available for examination by any other party interested with. Management should also ensure that transactions are promptly recorded to maintain their relevance and value to the management in controlling operations and making decisions.

2.4.5.5 Authorisation and Execution of Significant Events

IC has to ensure that transactions and other significant events are authorized and

executed only by persons acting within the scope of their authority. This means that there must be clear roles and responsibilities of all the personnel in the organization - from the members of the BoDs, management team to an ordinary staff.

BoDs of the organization has the role of overseeing that management establishes and put in place right policies and procedures governing organization's resources to safeguard interest of the owners and other stake holders in the public and the community.

According to Robert and Nell (2008), corporations cannot be run by consensus or referendum. Managers must be given the power to make decisions quickly and take reasonable risk. If every managerial decision had to be communicated to the company's owners, and much less ratified by them, industrial progress would paralyze and everybody would lose.

2.4.5.6 Importance of Information System

Management should ensure that Information systems produce reports containing operational, financial and compliance related information that make it possible to run and control the business.

Information system should deal not only with internally generated data, but also information about external events, activities and conditions necessary to guide to informed business decision-making and external reporting. Effective communication must also occur in a broader sense, flowing down, across and up the organization.

For ICS to be effective, all personnel in the organization must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well showing individual activities relate to the work of others. They must have a means of communicating significant information across the organization and upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders.

A company's system of IC commonly comprises four major components, namely control environment, Identification and evaluation of risks, control objectives as well as control activities.

2.4.5.7 Control Environment

Control environment sets the tone of an organization by influencing the control consciousness of its people. It is the foundation for all other components of IC, providing discipline and structure. The control environment factors includes the (1) integrity, ethical values and competence of the people in the organization, (2) management's philosophy and operating style, (3) the way management assigns authority and responsibility, (4) how the management organizes and develops its people, and (5) the attention and direction provided by the BoDs.

Board of Directors is the crucial part of the corporate structure. They are the link between the people who provide capital (the shareholders) and the people who use that capital to create value - the managers (Robert and Nell, 2008).

2.4.5.8 Identification and Evaluation of Risks and Control Objectives

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and must be internally consistent. Risk assessment is the identification and analysis of relevant threats (risks) to achievement of objectives, forming a basis for determining how the threats (risks) should be managed.

Because economic, industry, regulatory and operating conditions will continue to change, management should ensure that mechanisms are in place to identify and deal with the special risks associated with changes.

2.4.5.9 Control Activities

Control activities are the policies and procedures helping to ensure that management directives are carried out. They help to ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as (1) approvals, (2) authorizations, (3) verifications, (4) reconciliations, (5) reviews of operating performance, (6) security of assets and (7) segregation of duties.

Thus, ICS encompasses the policies, processes, tasks, behaviors and other aspects of a company that taken together - facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's objectives. This includes the

safeguarding of assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed. ICS help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organization.

ICS help ensure compliance with applicable laws and regulations, and also internal policies with respect to the conduct of business. ICS allows the management to determine the measurement of the conditions or characteristics that can damage part or the entire organization and turning them into the improvements and cost-effectiveness. These are changes that might drive the organization change its process and objectives over the time. IC is an ongoing process of situation analysis and can help the entire organization to analyze and evaluate its goals and objectives.
(Brewer and List, 2004)

The following concepts are important in understanding the nature and context of control:-
Control should be capable of responding quickly to evolving risks to the business arising from factors within the company and to changes in the business environment. Risks include not only those related to the achievement of a specific objective but also those fundamental to the viability and success of the company such as failure to maintain the company's resilience or capacity to identify and exploit opportunities.

Resilience refers to the company's capacity to respond and adapt to unexpected risks and opportunities, and to make decisions on the basis of telltale indicators in the

absence of definitive information. Control needs to be ‘close’ to the associated risks. The shorter the chain, the quicker is the reaction.

2.4.6 Importance of Procedures and Controls as key Parts of ICS

ICS is supported in two basic parts which are policies and procedures together with controls. The procedures can establish the necessary performance of the organizations through the operation meanwhile; the controls are applied to ensure the procedures of the business are conducted as intended. Regardless of whatever form of ownership and whatever sector / industry the business is operating - theft, frauds, miss-statements and inefficiencies may cause more harm to the organization’s resources allocation perspective and the delivery of non differential services to the public than the cost of introducing and maintaining sound ICS.

According to KPMG (1999), Directors have the responsibility of overseeing and maintaining a sound system of internal control. For most organizations the formulation of a risk committee would be beneficial and appropriate. It is important that audit committees do not become overburdened and deflected from their already significant obligations.

While the ‘tone at the top’ is set by the Board, it is the role of management to implement the policies adopted by the Board. In fulfilling its responsibilities, management should identify and evaluate the risks faced by the organization – for consideration by the Board - and design, operate and monitor an appropriate system of internal control. The Board should send out a clear message to the management that control responsibilities must be taken seriously.

The operation and monitoring of the system of internal control should be undertaken by individuals who collectively possess the necessary skills, technical knowledge, objectivity, and understanding of the company and the industries and markets in which it operates.

2.4.7 Reviewing the Effectiveness of ICS - The Underlying Assumptions

In the KPMG's review on internal control- a practical guide, it is recommended that companies should adapt a framework which can articulate how all the components fit together. The existence of all the components enables risk management to be embedded into the organization. For any control model to work effectively and be relevant to the performance of the business, it must contain the following key components.

2.4.7.1 Philosophy and policy

The Board should make its risk management expectations very explicit. Managers must be clear as to both what is expected of them and what is not. Management should provide answers to such questions like; is the organisation's risk management philosophy and policy clearly defined? Are there clearly defined roles and responsibilities for the identification, management and reporting of risk?
(KPMG, 1999).

2.4.7.2 Roles and Responsibilities

KPMG (1999) insisted that the roles and responsibilities of all key constituencies in an organization - in respect of the identification, evaluation monitoring and reporting

on risk - should be made explicit. In particular, the Board should determine their own role, together with that of any Board committees, responsible officers, management heads and internal audit.

2.4.7.3 Converting Strategy to Business Objectives

Risks, which include those which directly impact on the strategic objectives together with those which threaten the achievement of business objectives, should not be defined too narrowly. By making strategic and business objectives explicit, the likelihood of overlooking significant risks will be reduced. The link between strategy and business planning is therefore a critical risk management process which is very often overlooked. (KPMG, 1999).

2.4.7.4 2. Risk to Delivering Performance

The Board should formally identify the significant business risks (or review and endorse the process by which they have been identified) and be able to demonstrate that they are aware of such risks. Without a clear focus on the significant risks to strategic objectives, the review of internal controls will be compromised.

2.4.7.5 Performance Appetite

KPMG's guide on risk management diagnostic demands that, for each identified risk, the Board should consider the probability of the risk occurring and the impact its crystallization would have on the business. Controls identified and implemented should be appropriate to maintain the key business risks within the Board's defined risk tolerance levels. Cost/benefit considerations apply here.

2.4.7.6 2Demonstration of performance and risk effectiveness

The Board should be periodically provided with an assessment of the effectiveness of control. However, a balance must be struck between direct involvement by the directors and a high level review in which some areas of responsibility are delegated. Performance should be monitored against the targets and indicators identified in the organization's objectives and plans. This process has a degree of circularity as monitoring may signal a need to re-evaluate the company's objectives or control.

2.4.7.7 Behavior

Shared ethical values, including integrity, should be established, communicated and practiced throughout the organization. KPMG insists that employees are key to successful risk management behavior. Management has to ask itself on such questions like, are those responsible for risk provided with appropriate formal training? Does employee's manage the company's risk profile in preference to their own?

Authority, responsibility and accountability should be clearly defined and support the flow of information between people and their effective performance toward achieving the company's objectives. Taking together all those elements, produce indicative of an embedded system of internal control in organization.

Determining the risks is an important scope of the control that can be describe as the detective and preventive controls. (Brewer and List, 2004; Benison, 2007)

2.5 Empirical Studies

Empirical Studies involves review of literature on similar work done by other people. Three empirical studies were made in order to understand what has been done by others and what not from the reviewed literature. Aim being to build knowledge and identify the research gap.

2.5.3 Study on Evaluation of Internal Control System in Uganda

In 2009 Angela Amudo and Eno L. Inanga (from Maastricht School of Management, Endepolsdomein, The Netherland) made a study on evaluation of ICS in Uganda. The study was on the regional member countries (RMCs) of the African Development Bank (AfDB) focusing in Uganda, East Africa.

The study used mixed method of experiment, survey, grounded theory, ethnography, action research, cross sectional and longitudinal methods, exploratory, descriptive and explanatory. The objective was to ascertain whether the ICS provides adequate framework of checks and balances established by the government and provides basis for understanding of the operations to ensure that projects funds are used solemnly and wholly for intended purpose. Strategy used was a case study.

The outcome of the evaluation process is that some control components of effective ICS are lacking. This renders the current control structures ineffective. The results of the study are that, measuring effectiveness of IC is concerned with existence and functioning of the six major control components identified by the model. On the outset, the structure and framework was inadequate for control mechanism. Risk

assessment component should be categorically and directly designed, embedded within the rest of the activities and spelt out in the control structure. The operational control components when measured against the model's control components, they were inactive.

IC structure, policies and procedures focused control over preparation of withdrawal, applications of funds, control over bank and cash balances, control over purchases and payments, control over payroll and finally monitoring, evaluation and reporting. Non-compliance with established policies and procedures is common practice.

These challenges were addressed by instituting a code of ethical conduct to guide management and all personnel in executing their day-to-day transactions. The structure of ICS was strengthened though incorporation of missing elements of an effective ICS. Where policies and procedures are documented, they are not updated with changing legislations, regulations, policies and procedures. Internal auditor's responsibilities are limited in scope. Projects' funds are retired without verification by the internal auditors. This leads to undetected errors. The study identified violations of operation processes, authorization policies, reconciliation of accounts record and books, segregation of duties and accountability.

2.5.4 Effectiveness of internal control system over expenditure

In 2008 Jamilah Ally Mvugalo made a study on effectiveness of internal control system over expenditure, using a case study of Tanzania Institute of Accountancy, (TIA), Dar Es Salaam. Data collection tools used was structured interview, self

administrative questionnaires and observations - researcher participating. Specific objectives were to identify qualifications and skills of staff in the department of finance, to find out how ICS at TIA works and compare with known good practices in IC, to find out how TIA utilizes information communication technology (ICT) in implementing ICS and to analyze motivation scheme of staff in the department of finance.

The study revealed that TIA implemented a good system of controls in financial, administrative and store system. There are manuals explaining the procedures to be followed. e.g. writer of the cheques is not a signatory. No cheque is written without authorized voucher. Internal Auditor understands the entity's process of business risk identification relevant to financial reporting objectives.

The weaknesses were lack of separation of duties in some of its departments, shortage of working equipments such as computers prohibit TIA from having effective internal control system over expenditures. Despite of the need of computerizing everything, computers are few. They have to share computers during daily activities.

On ICT, the internal auditor should understand how TIA communicates financial reporting roles and responsibilities and significant matters relating to financial reporting. Both management and internal auditor should obtain a sufficient understanding of control activities to assess the risk of material misstatement at certain level.

2.5.5 Ineffective Internal Control In An Organization

Reginald J. Malley made a study in 2009 on why there is ineffective internal control in an organization? The study was conducted at LSG SKY CHEFS in Dar Es Salaam. Tools of data collection used were interview, observations and questionnaires. Objective of the study was to find out factors influencing inefficiencies of ICS in an organization.

Research questions were what are the main causes of ineffectiveness of internal control system? to what extent does internal control influence performance of the organization? what are the sources of errors resulting to ineffectiveness of internal control? what should be done in order to improve effectiveness of internal control in an organization? and the last one, is the accounting system used well understood to users in the organization?

Findings indicated decline in performance, decrease in production, fall in revenue, low profitability, theft and pilferages of company materials and resources (no strong safeguard of assets, equipments, information, documents, and other resources that could wrongfully used, damaged or stolen). Non-compliance with rules and regulations, improper accounting records and documentation, non-influence of management on ICS, inefficiency and low level of education among the employees are some of the findings. It was recommended that the management to address all those issues seriously, there are signs that the company will collapse if no proactive actions will be taken.

2.6 Research Gap

From the three reviewed empirical literatures, there was a gap that has not been addressed. The studies made focused on control activities - financial controls, segregation of duties, policies, procedures and physical controls. Lack of enforceability appears to be dominant in many studies. Links between IC and different issues affecting the practices of IC have been left uninvestigated, such as the clarity of the BoDs' roles, management, employees, internal auditors, external auditors and practices of good governance principles. This research will fill the gap.

2.7 Conceptual Framework

Below is the conceptual framework for designing and implementing a sound ICS

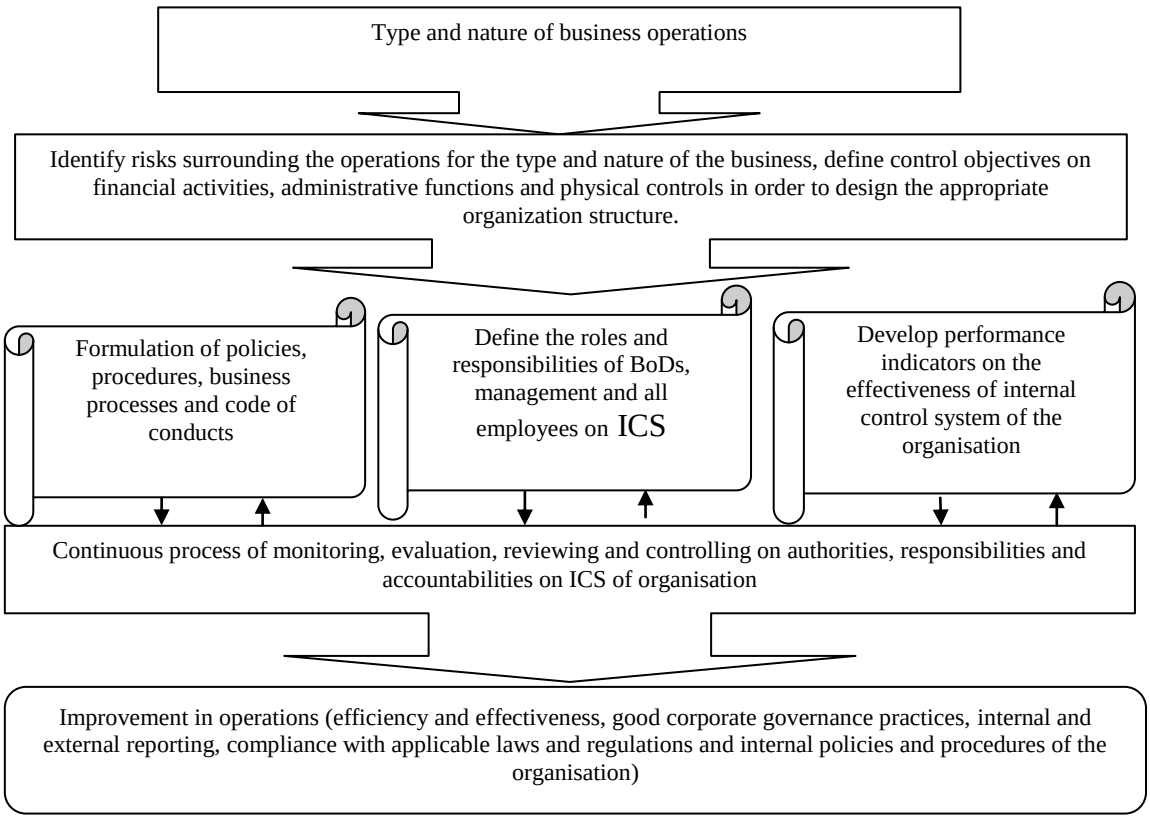

Figure 2.2: Framework for Designing and Implementing Effective ICS

Source; Researcher, 2014

The figure below gives input, process and output variables drawn from the conceptual framework.

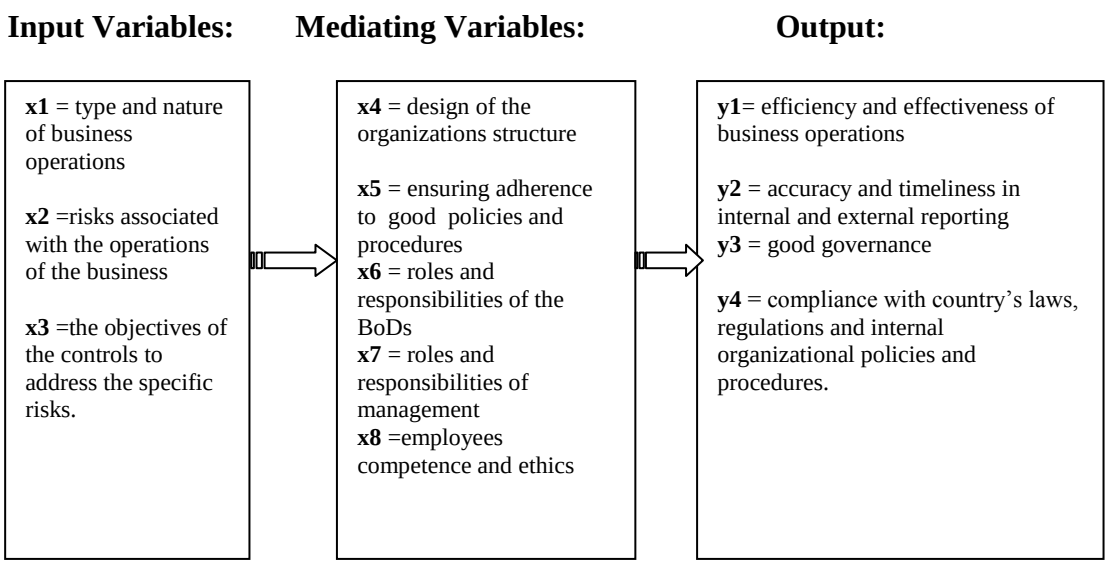

Figure 2.3: Input, Process and Output Variables of the ICS

Source; Researcher, 2014

2.7.3 Relationships between ICS variables

Actions of input variables impact the output variables via the process / intervening variables. The input variables are type and nature of business operations (x1), risks associated with the operations of the business (x2) and the objectives of the controls to address the specific risks (x3).

Intermediate (process) variables are design of the organizations structure (x4), formulation of and adherence to (good) policies and procedures (x5), roles and responsibilities of the BoDs (x6), roles and responsibilities of the management (x7) and employees' competence and ethics (x8).

Taking into consideration good coordination of and quality of input and process variables in the design of ICS will result to overall improvement on the performance of an organization (i.e. the dependent variables of ICS).

The dependent variables were taken to be performance in terms of efficiency and effectiveness of business operations (y1), accuracy and timeliness in internal and external reporting (y2), good governance and (y3) and compliance with country's laws and regulations and organisation's internal policies and procedures (y4).

2.7.4 Explanations of Input and Process Variables (i.e. Independent Variables)

Explanations were given on the independent variables (x) to show the dependence among themselves and the relationships with the independent variables (y). These explanations provided better understanding for constructing research hypothesis and drawing measurement statements included in the questionnaire for collecting data. Data was collected in numeric form. Respondents were asked to express their extent of agreement or disagreement in a 5-1 Likert scale.

(SA = 5, A = 4, N = 3, D = 2, SD = 1).

Where,

SA	=	Strongly Agree	= 5
A	=	Agree	= 4
N	=	Neutral	= 3
D	=	Disagree	= 2
SD	=	Strongly Disagree	= 1

2.7.4.1 Measurement Statements

Total number of measurement statements were 36; 4 of them for y_1 to y_4 + 32 for the paired x,y (i.e. x_1 to x_8), 8 times 4 representing (y_1 to y_4). This was in line with the formulated multiple regression functions below.

$y1= f_1$ (x1, x2, x3, x4, x5, x6, x7, x8)

$y2= f_2$ (x1, x2, x3, x4, x5, x6, x7, x8)

$y3= f_3$ (x1, x2, x3, x4, x5, x6, x7, x8)

$y4= f_4$ (x1, x2, x3, x4, x5, x6, x7, x8)

f = mathematical functional form depicting dependence relationships.

2.7.4.2 Input Variable (x1): Type and Nature of Business Operations

Business operations can either be producing tangible or intangible goods (services). According to Jay and Barry (2011), Services means economic activities that typically produce an intangible product, such as, education, health care, financial, entertainment, lodging, government's public and community services. Services are becoming so important because about 80% of all jobs are in service firms.

Services are usually intangible. e.g. you purchase a ride in an empty airline seat between two cities. Services are often produced and consumed simultaneously. There is no stored inventory. e.g. a beauty salon produces hair cut which is consumed simultaneously, a doctor produces an operation which is consumed simultaneously.

This means one cannot keep inventory of a style of hair cut or a surgery of appendectomies. Services are often unique. e.g. a medical surgery or hair cut

produced for you is not exactly like anyone else's. Services have higher customer interaction. Services are often difficult to standardize, automate and make as efficient as we would like because of customers interaction demands uniqueness. In many cases, this uniqueness is what a customer buying services is paying for.

It is obvious therefore that, the design of the ICS needs to take into account of the nature and type of the business in question (x1) in order to make the design suitable and appropriate. One could postulate that the nature of the business influences the design of a suitable and effective ICS. It can also be argued that taking into consideration the nature of business operations in the design of the organisation's accounting and information system improves the accuracy and timeliness of the internal and external reporting (y2), it influences positively the design of the organizational structures (i.e. x4) and the way one ensures formulation of and adherence to good policies and procedures (x5).

2.7.4.3 Input Variable (x2): Risks associated with the Operations of the Business

KPMG (1999) explained risks as real or potential events which reduce the likelihood of achieving business objectives. The term includes both the potential for gain and exposure to loss. Internal control plays an important role in the prevention and detection of risks, including the risk of frauds. Companies are required to identify scenarios in which theft or loss could occur and determining if the existing controls and procedures effectively manages the risk to an acceptable level.

There is also risk that senior management might override important financial controls

to manipulate financial reporting. Risk assessment forms the basis for determining how the threats (risks) should be managed.

Thus, the structure of the organization (x4), objectives of the control (x3) and formulation of and adherence to policies and procedures (x5) are therefore influenced by the need for identification, assessment and management of risks associated with the business operations(x2) for ensuring efficiency and effectiveness (y1) and compliance with applicable laws and regulations and internal policies and procedures (y4).

2.7.4.4 Input Variable (x3): Objectives of the Controls to Address Specific Risks

The specific target used to determine whether a control is operating effectively is called the control objective. In financial auditing, they relate to particular financial statement assertions. e.g. 1) Existence (Validity): Only valid or authorized transactions are processed (i.e., no invalid transactions). 2) Occurrence (Cut-off): Transactions occurred during the correct period or were processed timely. 3) Completeness: All transactions that are processed should be complete (i.e., no omissions). 4) Valuation: Transactions are calculated using an appropriate methodology or are computationally accurate. 5) Rights & Obligations: Assets represent the rights of the company, and liabilities its obligations, as of a given date. 6) Presentation & Disclosure (Classification): Components of financial statements (or other reporting) are properly classified (by type or account) and described. 7) Reasonableness: Transactions or results appear reasonable relative to other data or trends.

Control objective for the accounts payable function may be stated as: "Payments are made only for authorized products and services received." This is a validity objective. Control procedure designed to achieve this objective might be "The accounts payable system compares the purchase order, receiving record, and vendor invoice prior to authorising payment."

There is therefore a positive relationship between relevance of objectives of the control (x3) and formulation of and adherence to good policies and procedures (x5). Employees in the organization tend to adhere to good policies and procedures (x5) formulated by the organization once they better understand the objectives of different controls.

This drives the willingness to ensuring compliance with applicable laws and regulations and internal policies and procedures (y4). Combining the risk appetite and the need on the relevance to the different objectives of the controls – provides a catalyst in the roles of the BoDs (x6) and the management (x7) to develop good policies and procedures that will help to increase efficiency and effectiveness of business operations (y1) and to provide assurance to accuracy and timeliness of internal and external reporting (y2). All these together in turn, will influence practices of good corporate governance principles (y3).

2.6.2.4 Process Variable (x4): Design of the Organizations Structure

Structure of the organization is a key success factor to be considered seriously. Board and the management should be able to answer such questions as ‘do the strategy,

policies and procedures determine structure or structure determines the strategies, policies and procedures in the organization?'

Issues to be considered for deciding to have vertical or horizontal structure includes; 1) what are the objectives and goals of the organization? what is the size of the organization? (geographical market coverage, customer dispersion)?, what is the work to be done?, how and who is to be involved in doing the work?, what are the functional and non functional authority for assigning responsibilities and delegation of power and authority?, are there overlapping responsibilities? which method of coordination, communication to be adopted?, what are the constraints for introducing changes? what are the necessary skills required to run the organisation?

Thus, formulated strategies, policies and procedures of the organization (x5) determine the appropriate structure (x4). when designing the ICS. The key players on this are the shareholders, BoDs, management and all other employees in ensuring that the right structure is in place and the powers, authority, duties, roles and responsibilities of BoDs (x6), management (x7) and all employees (x8) are clearly defined. This is the beginning of ensuring (transparency, delegation of authority, responsibility, accountability, management and leadership style and employee competences) i.e. practices good corporate governance principles(y3).

2.7.4.5 Process Variable (x5): Formulation of Policies And Procedures

ICS of an organization is supported in two basic parts which are policies and procedures together with controls. Procedures establish the necessary performance of

the organizations through the operation meanwhile; the controls are applied to ensure the procedures of the business are conducted as intended. Control activities are the policies and procedures helping to ensure that management directives are carried out. Control activities (approvals, authorizations, verifications, reconciliations, review of operating performance, security of assets and segregation of duties) occur throughout the organization, at all levels and in all functions.

A relationship exist that, objectives of controls (x3) are defined according to the risks surrounding the business operations (x2). In turn, the two dictate the type, extent of tightness of the policies and procedures (x5). The higher the risk, the higher is the need for clearer objectives and for tighter policies and procedures. Good policies and procedures influences the efficiency and effectiveness on operations (y1), accuracy and timeliness on internal and external reporting (y2), good corporate governance practices and compliance with the applicable laws and regulations and internal policies and procedures (y4).

2.7.4.6 Process Variable (x6): Roles and responsibilities of the BoDs

Effective board members are objective, capable and inquisitive. They also have knowledge of the entity's activities and environment, and commit the time necessary to fulfill their responsibilities. A strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions, is often best able to identify and correct such problems as inefficiencies, corrupt practices, non compliance to laws and regulations, policies and procedures.

BoDs are the crucial part of the corporate governance structure. They are the link between the people who provide capital (the shareholders) and the people who use that capital to create value - the managers. (Robert and Nell, 2008)

According to KPMG (1999), BoDs have the responsibility of overseeing and maintaining a sound system of IC and overall role of overseeing the management's conducts. Composition of the board members has to be appropriate and committees of the board are formed to oversee audit matters, risks surrounding the operations and remuneration for senior staff. Board committees are crucial for providing guidance and overseeing of the management.

Thus, main roles and duties of the BoDs are to provide guidance and overseeing the performance of the management (x7). Because of lack of necessary expertise and time, BoDs delegates its functions on ensuring efficiency and effectiveness of the operations (y1) to the management. Management, in turn, develops (good) policies and procedures (x5) in order to ensure smooth operations. In order to formulate good policies and procedures, management has to identify risks involved in business operations (x2) and define objectives of different controls (x3).

Then management train employees in order to be competent and ethical (x8) on carrying out their day to day responsibilities to ensure accuracy and timeliness of internal and external reporting (y2) and compliance with applicable laws and regulations and internal policies and procedures (y4). While doing all the above using all their expertise, demonstrating sound leadership and management style they all find achieving practices of good corporate governance principles (y3).

2.7.4.7 Process Variable (x7): Roles and Responsibilities of the Management

More than any other individual, the CEO has to set the "tone at the top" that influences positive control environment (e.g. competence, integrity and ethics) In a large company, CEO fulfills this duty by providing leadership and direction to senior managers and reviewing the way they are controlling the business. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions.

In a smaller entity, the influence of the CEO, often an owner-manager, is usually more direct, has to put in place management processes through application of planning, organizing, staffing, leading and controlling to the achievement of objectives. The dependence between the roles and responsibilities of the management on ICS with other variables has already been covered when explaining the roles and responsibilities of the BoDs (x7).

In addition to that, management has the role of creating conducive control environment (i.e. good atmosphere) for ICS to be effective. While the BoDs set the tone to the top management on importance of ICS, the management sets the tone to all other employees in the organization, on the importance of ICS.

2.7.4.8 2Process Variable (x8): Level of Employees' competence and Ethics

Everyone in an organization has responsibility for IC to some extent. Established-shared ethical values, including integrity, should be communicated and practiced throughout the organization by all employees. Employees are key to successful risk

management behavior (KPMG, 1999). Employees have the duty to care, show due diligence, display integrity and ethical behaviors. They should support the flow of information between people and their effective performance toward achieving organisation's goals and objectives. Employees should also report irregularities done by their colleagues. All personnel should be responsible for communicating upward problems in operations, non compliance with the code of conduct, or other policy violations or illegal actions.

One can therefore generalize that level of competencies of employees and their ethical behaviours (x8) affect ICS. These two aspects must be closely monitored in order to ensure that efficiency and effectiveness on operations will be improved (y1), reasonable accuracy and timeliness on internal and external reporting is ensured, (y2) and employees cooperate with the management on practices of good governance principles (y3) and understand, observe and comply with the applicable laws and regulations and internal policies and procedures (y4). Thus, the higher the level of competencies and ethical behaviors of employees, the higher is the level of attaining all the output variables. The vice versa is also a truth.

2.7.5 Meanings and Explanations of Output Variables (Y)

Explanations were also given for the dependent (predictor) variables in order to have better understanding for drawn measurement statements included in the questionnaire and meanings in the conclusion if the regression models predicts the variability or / and fits the data.

2.7.5.1 Output Variable (Y1): Efficiency and Effectiveness of Business Operations

If the ICS is implemented only to prevent fraud and comply with laws and regulations, then an important opportunity is missed. Sound ICS has also to aim at improving effectiveness and efficiency of business operations. According to Jay and Barry (2011), efficiency means doing the job well with minimum of resources and wastes. A job well done say, by applying the 10 decisions of operations management; 1) design of goods and services, 2) managing quality, 3) process strategy, 4) location strategies, 5) lay out strategies, 6) human resources, 7) supply chain management, 8) inventory management, 9) scheduling and 10) maintenance help us to be efficient.

On the contrary, effective means doing the right thing and achieving the set goals. Developing and using the correct strategy help us to be effective. Strategy means line of manager action in the pursuit of the organization mission and goals.

2.7.5.2 Output variable (Y2): Accuracy in Internal and External Reporting

ICS has to help on ensuring the quality of internal and external reporting. This requires proper accounting and information system and maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organization. Accuracy is attained by ensuring records are free from errors, misstatements/ misrepresentation. Timeliness on reporting is assured by ensuring that internal and external reports are generated, reviewed, approved and distributed according to the deadlines (dates) and the requirements (such as format and contents of the reports).

2.7.5.3 Output Variable (Y3): Practices of Good Corporate Governance Principles

"Corporate Governance, 'CG' is a set of systems , structures ,processes and mechanisms by which a corporate entity is led, directed and controlled in the best interests of the shareholders and other stakeholders" (Rwegasira 2000). The major players in this CG game within the firm are the board, management and shareholders. The two major roles of the board of directors are ensuring Corporate Performance – financial and non-financial (by a focus on strategies and policies) and Conformance (with a focus on monitoring management activities as well as accountability and reporting to shareholders and other relevant parties (stakeholders)).

Thus, ICS enhances the capacity of the board in its conformance role as well as accountability and reporting. Sound ICS provides assurance for good governance of corporations. Sound ICS means the ability of the control activities to detect 1) errors, 2) material misstatement, 3) minimize theft, frauds, embezzlements, and 4) ability to identify risks the business is surrounded with.

All these together enable the organization to achieve its objectives (economic and social objectives) through assurance on the quality of reports and good communication flows embedded in conducive control environment. IC ensure good leadership and decision making in the organization if ICS conducted in a transparent way as deemed necessary, communication flows are clear (no unnecessary obstacles), board committees, management committees are formulated and kept active.

2.7.5.4 Output Variable (Y4): Compliance with Applicable Laws, Regulations and Internal Policies and Procedures

ICS of the organization has to help to ensure compliance with applicable laws and regulations and internal policies and procedures. Example, compliance are needed on 1) minimum wage pay, annual leave rights, sickness leave, termination of employment, 2) laws related to deductions and remittance of PAYE, development levy, withholding tax, corporate tax. 3) laws related with environmental protection, waste management, 4) business laws (laws of contract, laws of agency), 5) laws related to occupational safety and health at work places.

2.8 Statements of the Research Hypotheses

Hypotheses are provisional propositions derived by the researcher on the basis of some logic/reasoning and subject to scientific tests for simple acceptance/rejection.

Below are eight (8) hypotheses (H_1 to H_8) corresponding with the selected relationships from ICS input, process and output variables.

H_1: There is a positive relationship between the accuracy and timeliness of the internal and external reporting (y2) and the extent to which the nature and type of the business operations (x1) was taken into consideration in the design of the ICS.

H_2: Low level of risks associated with business operations (x2), higher level of efficiency and effectiveness of business operations (y1) will provide a catalyst to ensure accuracy and timeliness of internal and external reporting (y2).

H_3: Well defined control objectives (x3) helps to guide in the formulation of clear

and relevant policies and procedures (x5) which finally will increase efficiency and effectiveness of business operations (y1), accuracy and timeliness of internal and external reporting (y2).

H_4: Taking into consideration the type and nature of the business operations (x1) influences the design of the appropriate structure of the organization (x4) for easier coordination and quicker decision making in order to increase efficiency and effectiveness of business operations (y1).

H_5: Appropriately designed and formulated policies and procedures (x5) in managing different organizational activities renders it easier and possible to enhance efficiency and effectiveness (y1), accuracy and timeliness of reporting (y2) and compliance with the applicable laws, regulations and internal policies and procedures (y4).

H_6: clarity and relevance of the roles and responsibilities of BoDs (x6) in providing guidance and supervising the management have positive relationships with all the input variables; type and nature of business operations (x1),risks associated with business operations (x2), objectives of control to address specific risks(x3) and all process variables, namely, design of the organization structure (x4), formulated policies and procedures (x5), roles and responsibilities of the management (x7), competence and ethics of employees (x8) and on all output variables, which are efficiency and effectiveness of operations (y1, accuracy and timeliness of reporting (y2), good corporate governance (y3), compliance with the applicable laws and regulations, internal policies and procedures (y4).

H_7: clarity of the roles of management (x7) in ICS, good leadership style and the desire / commitment to ICS ensure the efficiency and effectiveness on operations (y1), accuracy and timeliness on internal and external reporting (y2), practices of good governance practices (y3) and compliance with the applicable laws and regulations and internal policies and procedures (y4).

H_8: There is a positive relation between sound internal control system of the organization and competence and ethics of employees (x8), efficiency and effectiveness of business operations (y1), compliance with the applicable laws and regulations and internal policies and procedures (y4).

CHAPTER THREE

3.0 MATERIALS AND METHODS

3.1 Introduction

This chapter presents the research methodology. The methodology in this study geared towards determining the linkages between aspects affecting internal control system and practices of good corporate governance principles. The chapter spells out research paradigm, research approach, research design, sample size, technique and method of sampling, power levels of different regression models, types of data, data collection methods and instruments. The chapter ends with data processing and analysis procedures.

3.2 Research Paradigm

This is the broad research strategy used in this study. Considering the type of data collected (numeric) and the statistical method on analysing the data, (MRA), this study adopted the quantitative (scietific) paradigm.

3.3.1 Research Approach

Deductive approach of doing research was used in this study. The study was not aiming at developing a new theory; rather it was aiming at assessing how organization is practicing ICS from already developed and existing frameworks. This approach required the researcher to develop hypotheses from some reasoning and tests them quantitatively.

3.3.2 Research Method

Within the quantitative research paradigm, (broad strategy), the specific method of

choice used in testing the hypotheses was Multiple Regression Analysis (MRA). Thus, data was collected for (x1 to x8) and (y1 to y4) in numerical form for scaled responses with 5-1 Likert scale.

3.4 Research Design

Research design is arrangement of conditions for selection and analysis of data in a manner that aim to combine relevance to the research purpose with economy in procedure. In fact research design is the conceptual structure within which research is conducted. In fact, research design constitutes the blue print for the collection, measurement and analysis of data. (Kothari, 2004). This study used a research design involving case study in the broad quantitative research paradigm.

3.4.1 Area of the Study

This research was conducted in Dar es Salaam region. Major reason in selection of Dar es Salaam was the convenience of accessing the sample unit for data collection.

3.4.2 Population of the Study

A population in research studies refers to all the elements which can either be people having a common characteristic, companies and production unit, (Kothari 2008).

Population in this study considered all the stakeholders in private and NGOs hospitals in Dar Es Salaam. There are 25 private and NGOs hospitals in Dar es Salaam City. This number is excluding government and parastatal hospitals, health centers and dispensaries.

Table 3.1. Health Facilities and Ownership in Dar es Salaam City

S/N	Facilities	Government	Parastatal	Private and NGOs	**Total**
1	Hospitals	4	4	25	**33**
2	Health Centers	5	4	23	**32**
3	Dispensaries	89	7	296	**392**
Total		**98**	**15**	**344**	**457**

Source: Dar Es Salaam Health Delivery Report (October – December 2013)

3.4.3 Sample Size and Sampling Techniques

According to Kothari (2004), sampling design is a definite plan designed before any data is collected. Saunders et al. (2012) categorised the probabilistic sampling into four sub grouping (simple random selection, systematic, stratified and cluster). Under probability techniques, each element has an equal chance to be selected. Non probability sampling is also divided in four main sub categories, namely quota, purposive, volunteer and haphazard. Purposive sampling includes extreme case, typical case, critical case, theoretical, homogeneous or heterogeneous, Volunteer is made up with snow ball and self selection.

Non probabilistic sampling technique, based on convenience with access was used for selection of the sample unit and sample of respondents in this study. Sampling techniques plays an important part in determining the size of the sample. A smaller random sample is apt to be much superior to a larger but badly selected sample. If items are to be intensively and continuosly studied, the sample should be small. For a general survey, the size of the sample should be large, but a small sample is considered in technical surveys (Kothari, 2004). Table 3.1 below shows distribution of the sample of respondents.

Table 3.2 Distribution of the Sample of Respondents

S/N	Staff category	Number	Percentage
1	Directors	2	10%
2	Management	5	24%
3	Heads of Department	3	14%
4	Heads of Section	3	14%
5	Staff from finance	4	19%
6	Other staff	4	19%
Total		**21**	**100%**

Source: Researcher, 2014

3.2.3.1 Power Levels in Various Regression Models

In multiple regressions power refers to be probability of detecting as statistically significant a specific level of R^2 at a specified significance level for a specific sample size. (Hair et al., 2010)

Table 3.2 below shows minimum R^2 that can be found statistically significant with a power of .80 for varying numbers of independent variables and sample size.

Table 3.2 Minimum R^2 with Power of .80 (80%) Level of Significance for varying Numbers of Independent Variables and Sample Size

Significance level = .01						**Significance level = .05**				
Number of independent variables						Number of independent variables				
	2	5	10	20			2	5	10	20
Sample size:	R^2 values in percentage					Sample size:	R^2 values in percentage			
20	45	56	71	NA		20	39	48	64	NA
50	23	29	36	49		50	19	23	29	42
100	13	16	20	26		100	10	12	15	21
250	5	7	8	11		250	4	5	6	8
300	3	3	4	6		300	5	4	5	9
1,000	4	2	2	3		1,000	1	1	2	2

Source: Hair at al., (2010)

3.5 Data Collection

Researcher is collecting data in order to provide information for analysis on answering the research questions. This section covers type and sources of collected data, the methods of collection, tools/instruments used for collection of data.

3.5.1 Types of Data

There were two major types of data collected for the study. These are primary data and secondary data. Sources of primary and secondary data are explained below.

3.1.1.1 Primary Data

Primary data are those data collected afresh and for the first time, and thus happen to be original in character. (Kothari 2004:95). In this research, source of primary data were organization's internal reports such as annual reports, organization's work plan, strategy documents and financial policy and procedures. All these data were collected in order to understand better the organization's ICS.

3.1.1.2 Secondary Data

Saunders et al,.(2012) classified sources of secondary data into i) documentary (text and non text), ii) survey (censuses, continuous and regular censuses, ad hoc survey) and iii) multiple sources (snap shot and longitudinal). Secondary data are data that previously were collected for some other purpose. They can be further analysed by the researcher to provide additional or different knowledge, interpretations or conclusions.

Secondary source of data collected for this research consist both text (reports and minutes of committees, organisation's communications flows, mails, internal memos,

newsletters and public releases, internal and external reports) to get more insight on issues related with ICS of the organization. Non text information will include web images and photographs. News papers, some government publications, industry reports, journals and books were studied as secondary sources of data.

3.5.2 Data Collection Methods

Survey method and documentary review were used for collecting data to test the drawn hypothesis and answering the research questions.

3.5.3 Data Collection Instrument

3.5.3.1 Questionnaires

Instrument for data collection used in the survey was questionnaire. Self completed questionnaires were distributed to the targeted respondents. Measurement statements were constructed carefully in order to provide consistency on intended meaning to respondents. Open handed questions were avoided in order to minimize the chance of getting ambiguous responses.

Questionnaire is one of the slowest tools of data collection and slightly expensive in terms of material and time needed to develop it, distribute and collect back the questionnaires. But questionnaire is widely used in collecting data because of its popularity. It is free from personal influence and biasness on filling the responses.

3.6 Data analysis procedure and interpretation

After data being collected, establishment of purposeful and usable categories through source coding was made. Coding helped to summarize collected data into

manageable size of information for further analysis. Multiple Regression Analysis (MRA) was used for analysing the data.

Interpretation of the results was made according to the research objectives with reference to the four dependent variables and their eight associated independent variables. Model summary, analysis of variance (ANOVA) and coefficients of regression reports were generated from SPSS. Data presentation and discussion of findings are made in chapter four (4).

3.6.1 Organisation and Presentation

Actual score of responses from the questionnaires were recorded in the data view sheet in SPSS. General information from the questionnaire and measurement statements were summarized and recorded in SPSS using variable view sheet. Using SPSS, the actual scores of paired (x,y) variables were then standardised by the respective regression coefficients (b_1, b_2, b_3,…, b_8) for each pair. b_1, b_2, b_3,…, b_8 represents the amount of change of the dependent variable due to one unit change of the independent variable. Researcher can select the 'best' independent variable based on the correlation coefficient.

Due to number of independent variables (4) and dependent variables (8), instead of using mathematical procedure, known as least square method to estimate the constant values of b_0 and b_1,…,b_8,. SPSS calculated these values and determined the Sum of Squared Error (SS_E), Sum of Squares Regression (SS_R), Total Sum of Squared (SS_T), Standard Error of Estimate (SEE) and the coefficient of determination (R^2).

3.6.2 Statistical Relationship and Interpretation

Statistical relationship represents relationship based on the correlation of one or more independent variables with the dependent variable(s). This measure of association, (correlation), represents the degree of relationship because there is more than one value of the dependent variable for each value of the independent variable.

3.6.2.1 Sum of the Squared Errors (SSE or SSE)

SSE is the sum of the squared prediction errors (residuals) across all observations. It is used to denote the variance in the dependent variable not yet accounted for by the regression model.

3.4.2.2 Total Sum of Squares (SST)

If no independent variables are used for prediction of SSE, it becomes the squared errors using the mean as the predicted value. This will be equals to the total sum of squares (SST). It represent amount of variations that exists to be explained by the independent variables. This is calculated by summing the squared differences between the mean and actual values for the dependent variable across all observations. NB: SST=SSE + SSR.

3.6.2.2 3.4.2.3 Sum of Squares Regression (SSR or SSR)

SSR is also known as regression sum of squares. This is the Sum of the squared differences between the mean and the predicted values of the dependent variable for all observations. It represents the amount of improvement in the explanation of dependent variable attributed to the independent variable(s).

3.6.2.3 Coefficient of Determination (R2) = SSR/SST

This measure the proportion of the variance of the dependent variable about its mean that is explained by the independent, or predictor variables. In other words, it represents the combined effects of the entire variate in predicting the dependent variable. R^2 always lies between zero (o) and one (1) if the regression model is properly applied and estimated. The higher the value of R^2, the stronger (greater) is the explanatory power of the regression equation and the greater the predictive accuracy of the dependent variable.

If R^2 is close to zero (o), indicates that the regression equation is not very useful for making predictions on the dependent variable. If $R^2 = 0$, there is no linear relationship between y and (x1, x2). If R^2 is near to one (1), indicates that the regression equation is very useful for making predictions on the dependent variable. If $R^2 = 1$, there is exact linear relationship between y and (x1, x2).

3.6.2.4 Standard Error of Estimate (SEE or SEE)

SEE is the measure of variation in the predicted values that can be used to develop confidence intervals around any predicted value. It is similar to the standard deviation of the variable around its mean, but instead is the expected distribution of the predicted values that would occur if multiple regressions of the data were taken.

3.7 Validity of Data (VoD)

There are several aspects to be considered on validity of data depending to the collection tool used by the research, i.e. VoD associated with interview, VoD related with observation and VoD related with questionnaires.

3.7.1 VoD related with Questionnaire

All validity issues related to collection of primary data are known as internal validity, sometimes known as measurement validity. This refers to ability of the questions in the questionnaire to measure what intend it to measure. (i.e. it refers to concerns that what you find with your questionnaire actually represent the reality of what you are measuring). Internal validity also refers to the cause effect linkage.

In this research, the linkage was ensured through measurement statements that were formulated in the way that they captured necessary information explaining the influence, relationship and the effects of input, process and output variables have to each other. Un-related and irrelevant measurement statements drawn from the input and process variables that did not have any effect to the collected data were omitted. Variables that will not have any correlation or effect on their dependency relationships will be explained in the analysis.

Bloomberg et al. (2008) as cited in Saunders et al.(2012) says that often when discussing validity of questionnaire, researchers refers to content validity, criterion related validity and construct validity.

3.7.2 Content Validity

This refers to the extent to which the measurement device provides adequate coverage of the investigative statements/questions. Judgment on what is adequate coverage can be made by careful definition of the research through literature review, prior discussions with others and using panel of individuals to assess whether each

measurement question in the questionnaire is ‘essential’, ‘useful but not essential’ or ‘not necessary.’

In this study therefore, judgment on what is adequate coverage was made by involving my research supervisor to assess whether each measurement statement in the questionnaire was ‘essential’, ‘useful but not essential’ or ‘not necessary.’

3.7.3 Criterion Related Validity (CRV)

CRV is sometimes known as predictive validity.

This is concerned with the ability of a question to make accurate prediction on the outcome. In assessing this, Measurement statements for collecting data in this study were constructed in a coherent manner in order to capture all relevant information in a predictive way. The aim was to ensure that one can predict the response of the second measurement statement through the answer of the first (previous) measurement statement(s).

3.7.4 Construct Validity

This refers to the extent to which your measurement questions actually measure the presence of those constructs you intend to measure, such as attitudes scale, aptitude and personality tests. In the case of qualitative case study research method Yin suggests triangulation.

Construct validity is the extent to which a set of measured variables actually represent the theoretical latent construct they are designed to measure. (Hair 2010). In the case of some quantitative methods like MRA, we assess construct validity by

examining convergent (covariance and correlation) or normalogical. Construct validity of the model is measured by determining the goodness of fit (GoF). In this research GoF was measured using ANOVA, the analysis resulted from SPSS.

3.8 Reliability of Data (RoD)

Reliability refers to consistency. Respondents may interpret a question in a questionnaire differently, while the research meant something else. This will lead to your research question not being answered. RoDs is concerned with whether or not the measurement will produce consistent findings at different times and under different conditions, such as under different samples or, in the case of an interviewer completed questionnaire with different interviewers. (Saunders et al,. 2012).

Mitchell (1996) as cited in Saunders et al,. (2012) outline three common approaches, to be considered at the questionnaire design stage on assessing RoD; these are test re-test, internal consistency and alternative form.

i) Test re-test estimate of reliability is obtained by correlating data collected, with those from the same questionnaire collected under as near equivalent conditions as possible.

ii) Internal consistency involves correlating the responses to questions in the questionnaire with each other. It measures consistency of responses across either a subgroup of the questions or all the questions in your questionnaire. One of the common statistical methods used to measure internal consistency from a set of questions is Cronbach's alpha. It consists of an alpha coefficient with a value between 0 and 1. Values of 0.7 or above indicates that the questions combined in

the scale are measuring the same thing. Saunders et al,. (2012) acknowledges that more details on such sophisticated statistics are available in books like Mitchell (1996) and Field (2009).

iii) Alternative form tests the consistency (reliability) within your questionnaire through comparing responses to alternative form of the same question or group of questions. This is done by designing and including 'check questions' within longer questionnaire. The draw back on this approach is sometimes difficult to ensure that these 'check questions' are equivalent to the intended other questions in different form. Responded may suffer from fatigue of answering lengthy questionnaire and discouraged to fill the questionnaire or spot similar questions and just say refer to my previous answer in question so and so.

3.9 Ethical Issues

During the entire period of conducting the research, I have abided to the professional ethics and institutional ethics from the open university of Tanzania. Ethical issues are very important to be considered by a research in order to have access to information, demonstrate integrity and honest during both stages in data collection to analysis and recommendations. Some organizations may not respond to the inquiry for permission to conduct research to their organization because of the fear that the findings may cause some damage to the organization.

In order to avoid such fear, I have designed the research questions, research objectives and measurement statements in such a way that they do not pose any fear to the participating organization or individuals.

3.9.1 Ethical issues associated with Data Collection

Data collection stage was associated with a range of ethical issues. The foremost ethical issue at this stage was to ensure that during the time of conducting my research, I have obtained the necessary approvals for granting access to the data. When doing my research, I was always ensuring that I have the duty of not causing any harm to the participating organization, participating individuals or myself. For the confidentiality of data and anonymity of participants' identity, I always seek concert and anonymity for discussions held with the participant. On respecting privacy, I was ensuring that content of the data and information collected during the research will be treated as private conversation and used only for the intended purpose on this educational project.

3.9.2 Ethical issues during Analysis of Data and Reporting of Findings

Research findings may finally be for consumption of the participating organization and the public at large. Zikmund (2000) as cited in Saunders et al,. (2012: 245) says, "the maintenance of you objectivity will be vital during the analysis stage to make sure that you do not misrepresent the data collected. This will include not being selective about which data to report or, where appropriate, misrepresenting its statistical accuracy."

In order to maintain my integrity, I kept reminding myself that I have the duty to represents the data honestly during analysis and reporting stage of my research. The ethical issue of confidentiality and anonymity for the participating organization and individuals also come to the fore during the reporting stage of my research.

CHAPTER FOUR

4.0 RESULTS OF ANALYSIS / FINDINGS

4.1 Introduction

This chapter presents analysis of the data collected as well as the findings of the study. It starts with presentation of descriptive statistics analysis of the salient features of the sample. This is followed by the data analysis for testing and measuring each dependent variable from the associated independent variables. Findings of the results of the analysis are then interpreted to determine if they are statistically significant to explain the variability of dependent variables, fitness of the model and the estimated coefficients of the independent variables.

4.2 Data Presentation

4.2.1 Descriptive Statistics Analysis

Descriptive statistics give a general overview on the behaviour of the data. Using descriptive statistics, we derive the behaviour of several categorical in our study such as age of the respondents, their gender, levels of education, their respective positions in the organization as well as the number of years that the respondent has been in the particular organization. Through descriptive statistics, One can eventually test for the normality of the data used in the study.

4.2.2 4.1.2 General Descriptive Statistics

Table 4.1 below shows the general behaviour of the collected data. In total 21 respondents were contacted and the responses were obtained.

Generally, most of the respondents were females of the mean age band of 35-45 years. It was further revealed that most of them had at least an advanced diploma education though they seem to be either heads of departments or sections and on average have worked for at least six years.

Since the results indicated that the mean, median and mode of almost all the data sets are approximately equal, then the data support the theory that we have approximately normally distributed data.

Table 4.1: Descriptive Statistics

		Age of the respondent	Sex of the respondent	Highest education qualification	Position in the organization	Service years
N	Valid	21	21	21	21	21
	Missing	0	0	0	0	0
Mean		2.00	1.52	4.38	2.24	1.67
Median		2.00	2.00	4.00	2.00	2.00
Mode		2	2	3[a]	3	2
Std. Deviation		.707	.512	1.244	.831	.483
Variance		.500	.262	1.548	.690	.233
Minimum		1	1	2	1	1
Maximum		3	2	6	3	2

Source: Field Data, 2014

Age of Respondents

From Table 4.2 below, it was observed that there were equal number of respondents on the age band of 20-25 and 45-55, while on the age band of 35-45 we have 11

respondents (52%) of all the respondents. This supports the usual working theories as this age band constitutes the working class and those who have worked at least for some years in any organization.

Table 4.2: Age of Respondents

		Frequency	Valid Percent
Valid	20-35	5	23.8
	35-45	11	52.4
	45-55	5	23.8
	Total	21	100.0

Source: Field Data, 2014

Education level of Respondents

Table 4.4 below shows almost an equal distribution of education amongst the respondents, with an exception of respondents with advanced level education. We observe that for ordinary diploma, advanced diploma, bachelor degree and Master degree we have about 23% of respondents in each of these categories. These results indicate that we have respondents who are well educated to be able to provide the needed responses for the study.

Table 4.4: Educational level

		Frequency	Valid Percent
Valid	advanced secondary education	1	4.8
	ordinary diploma	5	23.8
	advanced diploma	5	23.8
	bachelor degree	5	23.8
	Master degree	5	23.8
	Total	21	100.0

Source: Field Data, 2014

Position of the Respondents in the Organization

To be able to have well articulated responses, sampled respondents in terms of their positions in the organization under study. In this case I surveyed 5 (23.8%) ordinary staff, 6(28.6%) heads of sections and 10 (47.6%) managers. The presence of majority mangers in the study is important since the study deals with internal control which is in their domain.

Table 4.5: Position of the respondent in the organization

		Frequency	Valid Percent
Valid	ordinary staff/employee	5	23.8
	head of department/section	6	28.6
	Manager	10	47.6
	Total	21	100.0

Source: Field Data, 2014

Years of Service of Respondents

I have analysed the number of years that the respondents have been working or serving in the organization. Results in table 4.6 shows that most of the respondents have worked for between 6 and 10 years (66.7%) which is a good indication that we have respondents with enough experience and expertise in their places of work.

Table 4.6: Years of Service of Respondents

		Frequency	Valid Percent
Valid	1-5 years	7	33.3
	6-10 years	14	66.7
	Total	21	100.0

Source: Field Data, 2014

4.3 Data Analysis and Interpretations

Multiple Regressions is an extension of simple linear regression. It is used when a researcher want to predict the value of a variable based on the value of two or more other variables. The variable we want to predict is called the dependent variable (or sometimes, the outcome, target or criterion variable). The variables we are using to predict the value of the dependent variable are called the independent variables (or sometimes, the predictor, explanatory or regressor variables).

Multiple regressions also allow us to determine the overall fit (variance explained) of the model and the relative contribution of each of the predictors to the total variance explained.

In this study I have four dependent variables, namely, **y1**= efficiency and effectiveness of business operations, **y2** = accuracy and timeliness in internal and external reporting **y3** = good governance, **y4** = compliance with country's laws, regulations and internal organizational policies and procedures and eight independent variables namely **x1** = type and nature of business operations, **x2** =risks associated with the operations of the business, **x3** =the objectives of the controls to address the specific risks, **x4** = design of the organizations structure, **x5** = ensuring adherence to good policies and procedures, **x6** = roles and responsibilities of the BoDs, **x7** = roles and responsibilities of management and **x8** =employees competence and ethics.

Data presentation, analysis and interpretation of results are organized according to the research objectives as given below.

4.4 To establish how the Internal Control Practices Work to Enhance the Efficiency And Effectiveness (EE) of Business Operations,

4.4.1 Predictor Variables

Design of ICS suited for the type and nature of business operations to ensure EE (x1), EE of business operations is high because financial and economic risks are low (x2), Control objectives are clear and relevant in addressing business risks for increasing EE (x3), Design of the organisation structure is appropriate and suitable for ensuring EE (x4), Formulation of policies and procedures took into consideration all related issues for increasing EE (x5), Role s and responsibilities of the BoDs in ICS are not ill defined and implemented to ensure EE (x6). Roles and responsibilities of the Management on ICS are clear and implemented for increasing EE (x7), Employees' competence and ethics are high to increase EE. (x8).

4.4.2 Dependent Variable (y1):

Efficiency and effectiveness of business operations (EE)

I have carried out the MRA for the dependent variables with its associated predictor variables. Model, summary, ANOVA and Coefficients results are sown in the respective tables below.

Table 4.7 Model Summary[x]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.995	.911	.852	.168

Source: Field Data, 2014

4.4.3 Model Summary Results Interpretation

The R column represents the value of R, the multiple correlation coefficients.

R measures the quality of the prediction of the dependent variable; in this case, Efficiency and Effectiveness of business operations. A value of 0.955 in the data indicates a good level of prediction.

The R Square column represents the proportion of variance in the dependent variable that can be explained by the independent variables (technically, it is the proportion of variation accounted for by the regression model above and beyond the mean model). It is observed from the results the value of 0.911, that the independent variables explain 91.1% of the variability of Efficiency and Effectiveness of business operations.

Table 4.8 ANOVA[y1]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	3.471	8	.434	15.402	.000
Residual	.338	12	.028		
Total	3.810	20			

Source: Field Data, 2014

4.4.4 4.3.2 ANOVA Table Results Interpretation

The results in the **ANOVA** table tests whether the overall regression model is a good fit for the data. The table above shows that the independent variables statistically significantly predict the Efficiency and Effectiveness of business operations since at 5% level of significance, p=.000 < .05 (i.e., the regression model,

$y_1 = b_{01}+b_{11}x_{11}+b_{12}x_{12}+b_{13}x_{13}+b_{14}x_{14}+b_{15}x_{15}+b_{16}x_{16}+b_{17}x_{17}+b_{18}x_{18,}$ is a good fit of the data).

Table 4.9 Coefficients of Predictor Variables Measuring EE

Model	Unstandardised Coefficients		Standardised Coefficients	T	Sig.
	B	Std. Error			
Constant	3.890	.468		8.309	.000
1. Design of the ICS took into consideration and is suited to the nature and type of the business to ensure EE of business operations.	.064	.208	.145	.306	.764
2. EE of business operations is high because financial and economic risks associated with the operations of the business are low.	-.005	.092	-.012	-.059	.954
3. Control objectives are clear and relevant in addressing specific organizational risks for contributing to increasing efficiency and effectiveness.	.200	.168	.381	1.192	.256
4. Design of the organization structure is appropriate and suitable for eliminating conflicting roles in order to ensure efficiency and effectiveness of business operations.	.068	.103	.135	.658	.523
5. Formulation of policies and procedures took into consideration all other related issues for increasing efficiency and effectiveness of the business operations.	-.854	.138	-1.671	-6.189	.000
6. The roles and responsibilities of the Board in the internal control system are not ill defined and implemented to ensure efficiency and effectiveness in the business operations.	.746	.333	1.265	2.239	.045
7. Roles and duties of management in the ICS are clear and effectively implemented for increasing efficiency and effectiveness of business operations.	.041	.202	.103	.203	.843
8. Employees' competence and ethics are high for increasing efficiency and effectiveness of business operations.	-.269	.100	-.549	-2.704	.019

Source: Field Data, 2014

4.4.5 Coefficients Table Interpretation

The coefficients table is used to test for the statistical significance of each of the independent variables. Theoretically, this tests whether the unstandardised (or standardised) coefficients are equal to 0 (zero) in the population.

Decision rule is that, if p < .05, I conclude that the coefficients are statistically significantly different from 0 (zero). From the table of coefficients, I have observed that the following independent variables were statistically significant:

i) Formulation of policies and procedures (p=0.000 < 0.05)

ii) Roles and responsibilities of BoD in ICS (p=0.045 < 0.05)

iii) Competence of employees (p=0.019 < 0.05)

4.4.6 Predicting the level of Dependent Variable

To predict the level of Efficiency and Effectiveness of business operations, I have formulated the following model equation using the result of the analysis,

$$level\ of\ efficiency\ and\ effectiveness\ of\ business\ operations = 3.890 + 0.064x_1 - 0.005x_2 + 0.200x_3 + 0.068x_4 - 0.854x_5 + 0.746x_6 + 0.041x_7 - 0.269x_8$$

4.5 To Evaluate How Internal Control System of the Organization Ensures Accuracy and Timeliness of Internal and External Reporting (ATIER)

4.5.1 Predictor Variables:

Accounting system and communication flow is appropriate for type and nature of operations to ATIER (x1), ATIER is high due to appointment of specific employee responsible for measuring economic and financial risks (x2), Objectives of control to

address specific risks are well defined and SMART for providing reasonable guarantee on ATIER (x3), Clear level of reporting in the design of org. structure helps in reviewing and ensuring ATIER (x4), Policies and procedures formulated are relevant to ensure ATIER (x5), As part of their roles and res. members of the BoDs have committed enough time for reviewing policies and procedures to ensure ATIER (x6), As part of their roles and responsibilities. Management has clearly explained in the ICS what has to be done to ensure ATIER (x7), Level of employee competence and ethics are high to provide assurance on increasing ATIER (x8).

4.5.2 Dependent Variable (y2):

Accuracy and Timeliness on Internal and External Reporting (ATIER). Using SPSS, Multiple Regression Analysis (MRA) was carried out on the above mentioned dependent variable and its associated independent variables. Results are shown in Model Summary, ANOVA and Regression tables below.

Table 4.10 Model Summary[x]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.961	.923	.871	.240

Source: Field Data, 2014

4.5.3 Model Summary Results Interpretation

The R column represents the value of R, the multiple correlation coefficients.

R measures the quality of the prediction of the dependent variable; in this case,

accuracy and timeliness on internal and external reporting. A value of 0.961 in the data indicates a good level of prediction.

The R Square column represents the proportion of variance in the dependent variable that can be explained by the independent variables (technically, it is the proportion of variation accounted for by the regression model above and beyond the mean model). From the results of analysis, the value of 0.923 is observed, that the independent variables explain 92.3% of the variability of Accuracy and Timeliness on Internal and External Reporting.

Table 4.11 ANOVA[y2]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	8.260	8	1.033	17.899	.000[a]
Residual	.692	12	.058		
Total	8.952	20			

Source: Field Data, 2014

4.5.4 ANOVA Table Results Interpretation

The results in the **ANOVA** table tests whether the overall regression model is a good fit for the data. The table above shows that the independent variables statistically significantly fit for predicting the Accuracy and Timeliness on Internal and External Reporting since at 5% level of significance, p=.000 < .05 (i.e., the regression model, $y_2 = b_{02}+b_{21}x_{21}+b_{22}x_{22}+b_{23}x_{23}+b_{24}x_{24}+b_{25}x_{25}+b_{26}x_{26}+b_{27}x_{27}+b_{28}x_{28,}$ is a good fit of the data).

Table 4.12 Coefficients of Predictor Variables Measuring ATIER

Model	Unstandardised Coefficients		Standardised Coefficients		
	B	Std. Error		t	Sig.
Constant	.103	1.129		-.091	.929
1. Accounting system and communication flow is appropriate for the type and nature of business operation to ensure accuracy and timeliness on internal and external reporting.	-.080	.210	-.099	-.381	.710
2. Accuracy and timeliness on internal and external reporting is high due to appointment of specific employee(s) responsible for measuring economic and financial impacts of business risks.	-1.488	.862	-2.568	-1.726	.110
3. Objectives of control to address specific risks are well defined and specific, measurable, accurate/aggressive, realistic and time bound (SMART) for providing reasonable guarantee on accuracy and timeliness of reporting.	-1.105	.312	-1.238	-3.542	.004
4. Clear levels of reporting in the design of the organization structure helps in reviewing of and ensuring accuracy and timeliness reporting.	.699	.169	.986	4.136	.001
5. Policies and procedures formulated are relevant to ensure accuracy and timeliness on internal and external reporting.	1.069	.368	1.238	2.909	.013
6. As part of their roles and responsibilities, members of the board have committed enough time for reviewing policies and procedures to ensure accuracy and timeliness on reporting.	1.586	.513	1.970	3.092	.009
7. As part of their roles and responsibilities, management has clearly explained in the internal control system what has to be done to ensure accuracy and timeliness on reporting.	-.043	.521	-.051	-.082	.936
8. Levels of employees' competence and ethics are high to provide assurance on increasing accuracy and timeliness on internal and external reporting.	.759	.213	.655	3.565	.004

Source: Field Data, 2014

4.5.5 Coefficients Table Interpretation

The coefficients table is used to test for the statistical significance of each of the independent variables. Theoretically, this tests whether the unstandardised (or standardized) coefficients are equal to 0 (zero) in the population.

If $p < .05$, I conclude that the coefficients are statistically significantly different from 0 (zero). From the table of coefficients, observed that the following independent variables were significant.

i) Objectives of control to address specific risks ($p=.004 < 0.05$).

ii) Design of the organization structure ($p=.001<.05$).

iii) Formulation of policies and procedures ($p= .013 < 0.05$).

iv) Roles and responsibilities of BoDs ($p=.009<.05$).

v) Levels of employees' competence and ethics ($p=.004<.05$).

4.4.4 Predicting the level of Dependent Variable:

To predict the level of Accuracy and Timeliness of Internal and External Reporting, I have formulated the following model equation:

Accuracy and Timeliness of Internal and External Reporting, =

$$y2= .103-.080x_1-1.488x_2-1.105x_3+0.699x_4+1.069x_5+1.586x_6-.043x_7+.759x_8$$

4.6 Establishing how ICS embraces Practices of Good Corporate Governance Principles (PGCGP)

4.6.1 Predictor Variables:

Type and nature of business operations made it clear and possible in PGCGP (x1),

Risks associated with business operations are low because of PGCGP (x2), Control objectives are clear and relevant in addressing specific risks facing the organisation for PGCGP (x3), Design of the org. structure is appropriate and suitable for PGCGP (x4), Formulation of policies and procedures took into consideration all related issues for PGCGP (x5), Roles and responsibilities of the BoDs in the ICS are not ill defined and implemented for ensuring of PGCGP (x6), Roles and responsibilities of the management in ICS are clear and effectively implemented for PGCGP (x7). Employees competence and ethics are high for supporting the management's efforts on PGCGP (x8).

4.6.2 Dependent Variable (y3):

Practices of Good Corporate Governance Principles (PGCGP)

I have carried out the multiple regression analysis for the above mentioned dependent variable and its associated independent variables. Model output results, results for the ANOVA and Coefficients for predictor variables are shown below.

Table 4.13 Model Summary[x]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.810[a]	.655	.426	.614

Source: Field Data, 2014

4.6.3 Model Summary Results Interpretation

The R column represents the value of R, the multiple correlation coefficients.

R measures the quality of the prediction of the dependent variable; in this case, Practices of Good Corporate Governance Principles. A value of 0.810 in the data indicates a good level of prediction.

The R Square column represents the proportion of variance in the dependent variable that can be explained by the independent variables (technically, it is the proportion of variation accounted for by the regression model above and beyond the mean model). From table 4.13 we observe in the results the value of 0.655, that the independent variables explain 65.5% of the variability of Practices of Good Corporate Governance Principles.

Table 4.14 ANOVA^{y3}

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	8.614	8	1.077	2.853	.048
Residual	4.528	12	.3777		
Total	13.143	20			

Source: Field Data, 2014

4.6.4 ANOVA Table Results Interpretation

As it has already been explained, the results in the **ANOVA** table tests whether the overall regression model is a good fit for the data.

The table above shows that the independent variables statistically significantly fit the data for predicting practices of good corporate governance principles since at 5% level of significance, p = .048<.05. (i.e., the regression model,

$y_3 = b_{03}+b_{31}x_{31}+b_{32}x_{32}+b_{33}x_{33}+b_{34}x_{34}+b_{35}x_{35}+b_{36}x_{36}+b_{37}x_{37}+b_{38}x_{38,}$ *is a good fit of the* data).

Table 4.15 Coefficients of Predictor Variables Measuring PGCGP

Model	Unstandardised Coefficients		Standardised Coefficients		
	B	Std. Error		t	Sig.
Constant	5.205	4.869		1.069	.306
1. The type and nature of business operations made it easier and possible in practicing good corporate governance principles.	.771	.333	.746	2.314	.039
2. Risks associated with business operations are low because good governance principles are practiced.	-.644	.770	-.622	-.835	.042
3. Control objectives are clear and relevant in addressing specific organizational risks and for practices of good corporate governance principles.	-.534	.499	-.562	-1.070	.031
4. Design of the organization structure is appropriate and suitable for practicing good corporate governance principles.	.079	.166	.110	.479	.640
5. Formulation of policies and procedures took into consideration all other related issues for practicing good corporate governance principles.	.168	.210	.226	.799	.440
6. The roles and responsibilities of the Board in the ICS are not ill defined and implemented for ensuring good corporate governance practices.	-.407	.373	-.329	-1.091	.030
7. Roles and duties of management in the ICS are clear and effectively implemented for practicing good corporate governance principles.	.000	.726	.000	.000	.999
8. Employees' competence and ethics is high in support the management's efforts on practicing good corporate governance.	-.104	.351	-.108	-.295	.773

Source: Field Data, 2014

4.6.5 Coefficients Table Interpretation

The coefficients table is used to test for the statistical significance of each of the independent variables. Theoretically, this tests whether the unstandardised (or standardized) coefficients are equal to 0 (zero) in the population. If $p < .05$, I conclude that the coefficients are statistically significantly different from 0 (zero). From the table of coefficients, it is observed that the following independent variables were significant:

i) Type and nature of business operations ($p=.039<0.05$)

ii) Risks associated with business operations ($p=.042<0.05$)

iii) Control objectives in addressing risks facing the organisation ($p=.031<0.05$)

iv) Formulation of policies and procedures ($p=.440<0.05$)

v) Roles and responsibilities of the BoDs in the ICS ($p=.030<0.05$)

4.6.6 Predicting the level of Dependent Variable:

From the results of the analysis, the function below predicts the level of Practices of Good Corporate Governance Principles (PGCGP).

Level of Practices of Good Corporate Governance Principles (y3) =

$$y3=5.205+.771x_1-.644x_2-.534x_3+.079x4+.168x_5-.0407x_6+.000x7-.104x_8$$

4.7 Compliance with the Applicable Laws and Regulations and Internal Policies and Procedures (CALRIPP)

4.7.1 Predictor Variables

CALRIPP is high because of the type and nature of business operations (x1), Risks associated with business operations are low and this contributes to CALRIPP (x2).

Control objectives are clear and relevant in addressing specific org. risks for ensuring CALRIPP (x3), Design of the organisation structure took into consideration the need on CALRIPP (x4),, CALRIPP is attained because policies and procedures formulated took into consideration of all other related issues (x5), Roles and resp. of the BoDs in the ICS are not ill defined and implemented for ensuring CALRIPP (x6), CALRIPP is attained because management do not override the ICS and instead it is providing leadership and showing good examples (x7), Management has invested enough on employees' competence and ethics to ensure CALRIPP (x8).

4.7.2 Dependent Variable (y4)

Compliance with the Applicable Laws and Regulations and Internal Policies and Procedures (CALRIPP)

I have carried out the multiple regression analysis for the above mentioned dependent variable and its associated independent variables. Results are shown in the respective Model Summary table, ANOVA table and the coefficient table.

Table 4.16 Model Summary[x]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.852[a]	.725	.542	.577

Source: Field Data, 2014

4.7.3 Model Summary Results Interpretation

The R column represents the value of R, the multiple correlation coefficients.

R measures the quality of the prediction of the dependent variable; in this case, Compliance with Applicable Laws and Regulations and Internal Policies and Procedures. A value of 0.852 in the data indicates a good level of prediction.

The R Square column represents the proportion of variance in the dependent variable that can be explained by the independent variables (technically, it is the proportion of variation accounted for by the regression model above and beyond the mean model). It is observed from the results the value of 0.725, that the independent variables explain 72.5% of the variability of the Compliance with Applicable Laws and Regulations and Internal Policies and Procedures (CALRIPP).

Table 4.17 ANOVA[y4]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	10.571	8	1.321	3.964	.016
Residual	4.000	12	.333		
Total	14.571	20			

Source: Field Data, 2014

4.7.4 ANOVA Table Results Interpretation

The results in the **ANOVA** table tests whether the overall regression model is a good fit for the data. The table above shows that at 5% level of significance, p = .016<.05 (i.e., the regression model,

$y_4 = b_{04}+b_{41}x_{41}+b_{42}x_{42}+b_{43}x_{43}+b_{44}x_{44}+b_{45}x_{45}+b_{46}x_{46}+b_{47}x_{47}+b_{48}x_{48,}$ is a good fit of the data).

Table 4.18 Coefficients of Predictor Variables Measuring CALRIPP

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error			
Constant	1.778	4.658		.382	.709
1. Compliance with the applicable laws and regulations and internal policies and procedures is high because of the type and nature of the business operations.	-3.944	2.720	-3.360	-1.450	.173
2. Risks associated with business operations are low and this contributes to compliance with applicable laws and regulations and internal policies and procedures.	3.778	2.165	3.318	1.745	.017
3. Control objectives are clear and relevant in addressing specific organizational risks for ensuring compliance with the applicable laws and regulations and internal policies and procedures.	-3.111	1.818	-3.111	-1.711	.013
4. The design of the organization structure took into consideration the need on compliance with the applicable laws and regulations and internal policies and procedures.	-1.444	1.469	-1.505	-.983	.345
5. Compliance with the applicable laws and regulations and internal policies and procedures is attained because policies and procedures formulated took	.278	.503	.237	.553	.041

into consideration all other related issues.					
6. The roles and responsibilities of the board in the ICS are not ill defined and implemented, member mix in the board is well balanced to provide expertise and directions for ensuring compliance with the applicable laws and regulations and internal policies and procedures.	3.333	2.815	3.267	1.184	.259
7. Compliance with the applicable laws and regulations and internal policies and procedures is attained because management do not overrides the internal control system, instead, management is providing leadership and showing good examples.	-.111	.503	-.100	-.221	.829
8. Management has invested enough on employees' competence and ethics to ensure compliance with the applicable laws and regulations and internal policies and procedures.	1.444	1.198	1.820	1.205	.251

Source: Field Data, 2014

4.7.5 Coefficients Table Interpretation

The coefficients table is used to test for the statistical significance of each of the independent variables. Theoretically, this tests whether the unstandardised (or standardized) coefficients are equal to 0 (zero) in the population. If $p < .05$, I conclude that the coefficients are statistically significantly different from 0 (zero).

From the table of coefficients, it is observed that the following independent variables were statistically significant.

i) Risks associated with business operations (p=.017<.05).

ii) Control objectives in addressing specific organizational risks (p=.013<.05)..

iii) Formulation of policies and procedures (p=.041<.05).

4.7.6 Predicting the Level of Dependent Variable

To predict the level of compliance with laws and regulations and internal policies and procedures of the organization, I have formulated the following model equation:

Level of compliance with laws and regulations and internal policies and procedures of the organization, ($y_{4)}$ =

$1.778-3.944x_1+3.778x_2-3.111x_3-1.444x_4+0.278x5+3.333x_6-0.111x_7+1.444x_8$

CHAPTER FIVE

5.0 DISCUSSION OF THE FINDINDS

5.1 Introduction

This chapter covers discussion of the findings made in the order of the research objectives.

5.2 Efficiency and Effectiveness of Business Operations

ICS of the organization is not suited for increasing efficiency and effectiveness. Delegation of powers and authority is not clearly defined, decision making process is centralised to few individuals, policies and procedures are not well known to all employees in the organization and review of policies and procedures is not done regularly to remove non value adding activities and bureaucratic procedures that hinder attainment of efficiency and effectiveness in business operations.

Results of the data presented indicated that the three independent variables (formulation of good policies and procedures by taking into consideration all related issues, definition and implementation of roles and responsibilities of BoDs in ICS and level of employee's competence and ethics) are more influential to the organization's system of internal control for increasing efficiency and effectiveness of business operations.

This finding is similar with that of Amudo and Inanga (2009) in their study on 'Evaluation of internal control system in Uganda.' They also found that the outset of

structure and framework of the ICS of the African Development bank (AfDB) was inadequate to address effectiveness and efficiency. Some control components of effective ICS were lacking, rendering the control structure of AfDB ineffective. Risks assessment component was missing, (i.e. it was not categorically and directly designed and embedded with the rests of the activities and not spelt out in the control structure). This finding, ineffectiveness / inefficiency, is the same to (Malley 2009). Malley found that there were inefficiency in business operations and low level of education among employees at LSG SKY CHEFS in Dar es Salaam.

5.3 Accuracy and Timeliness On Internal And External Reporting

IC practices of the organization are not helping enough to increase accuracy and timeliness on internal and external reporting. There is no internal audit section/department in the organization and structure on the level of reporting and for reviewing and approval of the report is not defined. Corrections and adjustments in the accounting information can be done without prior approval of senior staff.

Results of analysis indicated that five independent variables are more influential for providing reasonable assurance that the ICS of the organization can increase accuracy and timeliness on internal and external reporting. These variables are; objectives of control to address specific economic and financial risks has to be well defined and SMART, clarity of the level of reporting in the design of the organization structures and reviewing of the reports, relevance of the policies and procedures in the ICS, time committed by the BoDs on reviewing policies and procedures, level of competence and ethical behaviours of employees.

This finding is not similar but is relevant as in the study of Malley (2009) on 'Why there is ineffective internal control in an organization.' at LSG SKY CHEFS. Malley (2009) found that there were improper accounting records, no strong safeguard of organization records, and there were inefficiency and low level of education among employees.

This finding is also similar in Mvugalo (2009) on the study 'Effectiveness of internal control system over expenditure,' at TIA found that there were lack of separation of duties in some of the departments, shortage of working equipments, such as computers limit TIA from having effective IC system on capturing of information for ensuring accuracy and timeliness on internal and external reporting. There was also lack of understanding on how to communicate financial reporting roles and responsibilities on significant matters, lack of sufficient understanding of control activities to assess risk of material misstatement at certain level.

5.4 Good Governance Practices

In the aspect, ICS of the organizations is not designed to ensure practices of good governance, though top management made some efforts to streamline communication system, show transparency and involvement (inclusion) of key stakeholders. Accountability is missing in the organization. Policies and procedures of the organisation do not say how to ensure practices of good governance has to be ensured. No such committees for the board (risk committee, audit committee, remuneration committee). Results of the data presented indicate that; type and nature of business operations, risks associated with business operations, clarity of and

relevance of objectives of control to address specific risks, and roles and responsibilities of the board have higher impact on ensuring practices of good corporate governance in the organisation.

This finding, low practice in good corporate governance principles is not the same with those from the empirical literature reviewed. From the reviewed empirical literature, none of the researcher has directly addressed the issue on where or not the organizations embraces practices of good corporate governance.

Their findings were mainly focusing on financial controls (as the control activities). They left out unexplained such issues as delegation of authority, roles and responsibilities of the BoDs and management on creating good control environment, monitoring and reviewing of ICS, tone of the BoDs and management on enforcement of ICS of the organization, (accountability).

5.5 Compliance with the Applicable Laws and Regulations and Internal Policies and Procedures

In this aspect, the ICS of the organizations does not directly contribute to increasing compliance. Requirements of the different laws and regulations were not clearly defined in the finance manual or procurement manual (policies and procedures) and not communicated properly in the organisation. Results of the data presented shows that risks associated with business operations, objectives of control to address specific and formulation of policies and procedures are the variables mostly influencing the contribution to ensuring compliance with the applicable laws and regulations and internal policies and procedures.

This finding of low compliance with the applicable laws and regulations and internal policies and procedures, is similar with Amudo and Inanga (2009). In their study on "Evaluation of internal control system in Uganda.' they found also non compliance with the established policies and procedures were common.

In conclusion, determining the effectiveness of ICS of the organizations needs not only to consider the policies and procedures. Rather, organizations have to consider all other issues for designing sound ICS that can also be enforced in its implementation. These issues are i) type and nature of operations, ii) risks associated with business operations, iii) objectives of controls to address specific risks, vi) design of the organization structure, v) formulation of policies and procedures, vi) clarity of the roles and responsibilities of the BoDs (reviewing of ICS through its risk committee, audit committee and appointment of external auditors) vii) clarity of the roles of the management.

All these issues have to be considered seriously while also balancing the economic and social responsibilities of the organization (i.e. practices of good governance principles).

CHAPTER SIX

6.0 CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter gives summary of the study, major conclusions derived from the study as well as the general and specific recommendations for future studies basing on important issues emerged from the study.

6.2 Summary of the Study

A research on internal control system and practices of good governance was done whereby 21 respondents participated. The general objective was to assess applicability of ICS and good corporate governance practices. Specific objectives were to establish how the IC practices work to enhance the efficiency and effectiveness of business operations, to evaluate how ICS of the organization ensures accuracy and timeliness of internal and external reporting, to establish the relationship between IC practices and good corporate governance and to assess the degree to which the practices of ICS assist to enhance compliance with the country's laws and regulations, internal policies and procedures of the organization.

Literature was extensively reviewed. The research design used was a case study. Mixed data collection methods were used including interviews, observations and documentary analysis. Data collection instruments used were questionnaires, documentary analysis schedules, interview schedules and observations schedules.

Data analysis was done based on research objectives using MRA techniques. Results of the analysis indicated that the regression models were statistically significant in predicting the dependent variables and the overall model fits the data well.

6.3 Conclusion

Managers are responsible for establishing an effective control environment in their organizations. When a company attempts to establish and implement ICS or improve the effectiveness of its ICS, it is crucial for it to take into consideration all aspects affecting establishment, implementation and monitoring of sound ICS. Considerations and more emphasis have to be put on independent variables that statistically have more significance and those variables that commonly appear to be statistically significantly. (formulation of policies and procedures, objectives of control, roles of the BoDs, risks management, competence and ethical behaviours of employees).

This should be taken seriously by the management as a strategic approach for safeguarding organizations resources and attaining the overall goals and objectives while practicing good governance principles (economic and social responsibilities). Key players in the ICS (BoDs, External Auditors, Managers, Internal Auditors, Employees) have to ensure sound ICS is in place. Key players in governance (shareholders, BoDs and the management) have to measure that good corporate governance principles are practiced in the organization.

6.4 Recommendations

6.4.1 Recommendations on Improvement Internal Control System

General recommendations on improving the efficiency of ICS are that organizations have to develop or adapt ICS that is suitable to the type and nature of the business operations. Control activities should be clear and relevant to reflect risks associated with the business operations and the organization structure has to reflect and support the desire to have sound and efficient ICS. Specific recommendations for improving the structure and system of IC are given below in accordance with the objectives.

6.4.1.1 Efficiency and Effectiveness of Business Operations

In order the ICS of the organization to assist in improving efficiency and effectiveness of business operations, it is recommended that control objectives on addressing specific organization risks have to be SMART. Organization has to ensure that internal policies and procedures are clear and relevant in safeguarding its resources, and remove all non value adding control activities. Excessive controls that are neither important nor adding value to the organizations will never improve efficiency and effectiveness of business operations.

6.4.1.2 Accuracy and Timeliness of Internal and External Reporting

Recommendations put forward for ensuring accuracy and timeliness of internal and external reporting includes the design of the accounting system and communication flow in the organization. ICS has to ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside

the organization. Accounting system of the organization has to take into consideration the different reporting requirements in the organization.

Accounting system has to able to capture and process such information for reports needed by the different stake holders (information needed by the existing shareholders, future potential investors, financial service organisations, government / regulatory agencies and information needed by the board for assisting in overseeing, approving and reviewing actions of the management and also information needed by the management for assisting in planning and controlling of activities carried out in the organisation).

Communication flow from internal and external sources has to smooth, shared by all interested parties and controlled to remove distortions and misrepresentations in the ICT. To improve accuracy and timeliness of internal and external reporting, it recommended that organisation has to develop a list of all the internal and external reports needed. Reporting templates have to be designed, communicated and reviewed on regular bases (contents and format) for the different needs and users of the reports. Organisation has to indicate clearly the dead line for all the internal and external reports needed.

6.4.1.3 Practices of Good Corporate Governance Principles

It is recommended that organization has to increase transparency and accountability and inclusion of key stakeholders. Organization has to formulate and keep active board committees (such as audit committee, risk committee, remuneration committee for senior staff) as well as formulating different management committees for running

the organization. Recommendation is also put forward that the organization has to make good balance between achieving its economic and social responsibilities. Management has to design efficient communication flow to inform the different stakeholders in performance of the organization, establish performance measurement system (PMS) on the efficiency of ICS.

6.4.1.4 Compliance with the Applicable Laws, Regulations, Internal Policies and Procedures

Recommendations put forward for ensuring compliance includes; organisation has to identify all the laws and regulations applicable for the type and nature of business operations, such as applicable laws and regulations on registration, de-registration on the existence of the organisation, environmental protection laws, organisational safety and health (OSHA), deductions and timely remittances of PAYE, withholding taxes, social funds (such as NSSF, PPF), submissions of returns (such as corporate tax returns, exemptions reports / returns) and other industrial laws and regulations.

Management has to communicate and explaining to all employees on the key issues in the internal policies and procedures, their relevance and importance to the organization. Board (through appointment and engagement of external auditors) and management (through recruitment and appointment of internal auditors) have to conduct regular reviews for identifying weaknesses in the ICS. The BoDs and Management have to ensure that they work on the findings of the reviews in ICS and recommendations of the internal and external auditors and update the policies and procedures, remove weaknesses and incorporate missing control elements. Non

adherence to applicable and regulations as well as adhering to outdated policies and procedures have negative impact to the organization.

It is also recommended that the management has to establish system of identifying training and development needs of employees. This can be done by carrying out periodically job satisfactions survey and do job enrichment and job enlargement. Train organisation's workforce builds competence and develops ethical behaviours.

6.4.2 Recommendations for Further Research

This study was conducted in Dar Es Salaam region using single organization case study due to limitation in funding for accessing many organizations (larger sample units) and lager sample size of the respondents.

Recommendation is made for students and researchers interested to carry out further research in this area or related areas to include large sample sizes. This will justify the need for making generalizations and drawing inferences to the population on the establishment and implementation of sound ICS and practices of good governance principles for increasing efficiency and effectiveness of business operations, increasing accuracy and timeliness of internal and external reporting and ensuring compliance with the applicable laws and regulations and internal policies and procedures.

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APPENDIXES

QUESTIONAIRE

SECTION A: Background information

Please tick those apply in the in the appropriate place provided

1. Age: 20-35 years ( )

30-45 years ( )

45-55 years ( )

Above 55 years ( )

2. Sex: Male ( ) Female ( )

1. Highest level of education qualification:

Ordinary Secondary Education ( )

Advanced Secondary Education ( )

Ordinary Diploma ( )

Advanced Diploma ( )

Bachelor Degree ( )

Master Degree ( )

2. Position in the organisation:

Ordinary staff / employee ( )

Head/Department / section ( )

Manager ( )

Director ( )

3. Number of years of employment in this organization

1-5 years ( ) 6-10 years ( ) Above10 years ( )

4. Name of the organization……..

SECTION B

1. Efficiency and effectiveness of business operations are high.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

2. Accuracy and timeliness on internal and external reporting are high.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

3. The organisation embraces and practices good governance principles.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

4. Compliance with applicable laws and regulations and internal policies and procedures are high.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

SECTION C

Eficiency and Effectiveness Of Business Opertaions

1. The design of the ICS took into consideration and is suited to the nature and type of the business to ensure efficiency and effectiveness in the organization.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

2. Efficiency and effectiveness of business operations is high because financial and economic risks associated with the operations of the business are low.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

3. Control objectives are clear and relevant in addressing specific organizational risks for contributing to increasing efficiency and effectiveness.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

4. Design of the organization structure is appropriate and suitable for eliminating conflicting roles in order to ensure efficiency and effectiveness of business operations.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

5. Formulation of policies and procedures took into consideration all other related issues for increasing efficiency and effectiveness of the business operations.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

6. The roles and responsibilities of the Board in the internal control system are not ill defined and implemented to ensure efficiency and effectiveness in the business operations.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

7. Roles and duties of management in the ICS are clear and effectively implemented for increasing efficiency and effectiveness of business operations.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

8 Employees' competence and ethics are high for increasing efficiency and effectiveness of business operations.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

SECTION D

Accuracy And Timeliness On Internal and External Reporting

1. Accounting system and communication flow is appropriate for the type and nature of business operation to ensure accuracy and timeliness on internal and external reporting.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

2. Accuracy and timeliness on internal and external reporting is high due to appointment of specific employee(s) responsible for measuring economic and financial impacts of business risks.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

3. Objectives of control to address specific risks are well defined and specific, measurable, accurate/aggressive, realistic and time bound (SMART) for providing reasonable guarantee on accuracy and timeliness of reporting.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

4. Clear levels of reporting in the design of the organization structure helps in reviewing of and ensuring accuracy and timeliness reporting.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

5. Policies and procedures formulated are relevant to ensure accuracy and timeliness on internal and external reporting.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

6. As part of their roles and responsibilities, members of the board have committed enough time for reviewing policies and procedures to ensure accuracy and timeliness on reporting.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

7. As part of their roles and responsibilities, management has clearly explained in the internal control system what has to be done to ensure accuracy and timeliness on reporting.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

8. Levels of employees' competence and ethics are high to provide assurance on increasing accuracy and timeliness on internal and external reporting.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

SECTION E

Pratices Of Good Governance Princples

1. The type and nature of business operations made it easier and possible in practicing good corporate governance principles.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

2. Risks associated with business operations are low because good governance principles are practiced.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

3. Control objectives are clear and relevant in addressing specific organizational risks and for practices of good corporate governance principles.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

4. Design of the organization structure is appropriate and suitable for practicing good corporate governance principles.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

5. Formulation of policies and procedures took into consideration all other related issues for practicing good corporate governance principles.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

6. The roles and responsibilities of the Board in the ICS are not ill defined and implemented for ensuring good corporate governance practices.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

7. Roles and duties of management in the ICS are clear and effectively implemented for practicing good corporate governance principles.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

8. Employees' competence and ethics is high in support the management's efforts on practicing good corporate governance.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

SECTION F

Compliance with Applicable Laws, Regulations and Internal Policies and Procedures

1. Compliance with the applicable laws and regulations and internal policies and procedures is high because of the type and nature of the business operations.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

2. Risks associated with business operations are low and this contributes to compliance with applicable laws and regulations and internal policies and procedures.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

3. Control objectives are clear and relevant in addressing specific organizational risks for ensuring compliance with the applicable laws and regulations and internal policies and procedures.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

4. The design of the organization structure took into consideration the need on compliance with the applicable laws and regulations and internal policies and procedures.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

5. Compliance with the applicable laws and regulations and internal policies and procedures is attained because policies and procedures formulated took into consideration all other related issues.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

6. The roles and responsibilities of the board in the ICS are not ill defined and implemented, member mix in the board is well balanced to provide expertise and

directions for ensuring compliance with the applicable laws and regulations and internal policies and procedures.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

7. Compliance with the applicable laws and regulations and internal policies and procedures is attained because management do not overrides the internal control system, instead, management is providing leadership and showing good examples.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree

8. Management has invested enough on employees' competence and ethics to ensure compliance with the applicable laws and regulations and internal policies and procedures.

( ) Strongly Agree

( ) Agree

( ) Neutral

( ) Disagree

( ) Strongly Disagree