THE EFFECT OF INTERNAL CONTROLS ON REVENUE GENERATION: A CASE STUDY OF THE UNIVERSITY OF NAIROBI ENTERPRISE AND SERVICES LIMITED

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF A DEGREE IN MASTER OF SCIENCE FINANCE, UNIVERSITY OF NAIROBI

OCTOBER, 2013
DECLARATION

This research project is my original work and has not been submitted for any award in any other university.

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Recommendation

This research project has been submitted for examination with our approval as university supervisors.

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DEDICATION

I dedicate this study to my husband Duncan, who has been so supportive of me, in so many ways, throughout this journey. His unwavering belief in me and my ability to complete this MSC Finance program kept me always moving forward. I would also like to thank my children, Sarah, Janice and Martin for their constant support and encouragement and for keeping it fun. Thank you all.
ACKNOWLEDGEMENT

This research project is my original work and has not been submitted for any award in any other university. The success of this study is indebted to many people who either used their treasured time to give their ideas, support and suggestions or contributed to my whole well being which was essential to the completion of this project.

May all the honor and glory be to God almighty for giving me the energy, good health, gift of knowledge and resources to pursue MSC and to write this project.

I salute my supervisor, Dr. Aduda Josiah, O. for the guidance, constructive criticism and encouragement that uplifted my spirits in times of defeat and discouragement.

I will forever be grateful to my husband Duncan for the support, understanding and encouragement that kept me focused and strong all the time. I appreciate your understanding when I was absent attending classes and doing research. Thanks to my daughters, Sarah and Janice for always ensuring mum’s learning resources were secure and to my son Martin, whose presence reminded me of the continuously great work done by my parents (names) in educating me at an early age.

Thanks to my employer, colleagues, classmates, friends and relatives for their remarkable contributions and support which seemed negligible and insignificant to them but immeasurable to me.
ABSTRACT

The study sought to evaluate the effect of internal controls on revenue generation in UNES. The research design that was employed in this study is descriptive design. The study population was all the employees at the UNES Limited during the calendar year 2013. Data was analyzed by use of the linear regression.

The study found out that ICS contributes to revenue generation at the company. UNES play a number of roles in supporting the systems by ensuring all documents are authentic, correct and confirm that the relevant officers have signed all documents before processing to prevent misappropriation of revenues. The company has formalized policies and procedures for all activities which allows for good and efficient communication, control and monitoring of activities. All employees understand the concept and importance of internal controls, including the division of responsibility. Accounting records are limited to employees with designated responsibility for such records. The study revealed that UNES reviews its ICS when need arises. Numerous audits are conducted in line with technological changes to ensure the systems’ sustainability. Long queues have been replaced by auto-receipting system that reduces time wasted on serving students. There were formalized policies and procedures for all major operations of the entity and policies. The Management is committed to the operation of the system and provides feedback to the officers about the operation of the system. Management has defined appropriate objectives for the entire organization and has criteria for ascertainment of which fraud-related risks to the organization are most critical.

The study recommends firms to cultivate integrity and ethical values among its employees and management. Effective board of directors, management, and internal audit departments should be established in organizations. Management should design internal controls to ensure efficiency and effectiveness, reliability of financial reporting as well as compliance with laws and regulations. Firms should adopt internal control and information systems that produce operational, financial and compliance-related information reports to make it possible to run and controls the business. Internal controls need to be adequately monitored in order to assess the quality and the effectiveness of the system’s performance over time. Monitoring of customer feedback and audits should be conducted periodically by internal auditors.
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AAER</td>
<td>Accounting and Auditing Enforcements Release</td>
</tr>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<tr>
<td>BAS</td>
<td>Business Advisory Services</td>
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<tr>
<td>CFP</td>
<td>Chiromo Funeral Parlour</td>
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<tr>
<td>GoK</td>
<td>Government of Kenya</td>
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<tr>
<td>HRA</td>
<td>Human Resource and Administration</td>
</tr>
<tr>
<td>ICS</td>
<td>Internal Control System</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
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<tr>
<td>IGU</td>
<td>Income Generating Unit</td>
</tr>
<tr>
<td>NALD</td>
<td>National Association of Corporations</td>
</tr>
<tr>
<td>NGO</td>
<td>Non Governmental Organization</td>
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<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
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<tr>
<td>PwC</td>
<td>PriceWaterhouseCoppers</td>
</tr>
<tr>
<td>RMC</td>
<td>Regional Member Country</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>SIC</td>
<td>Standard Industrial Classification</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<tr>
<td>UNES</td>
<td>University of Nairobi Enterprise and Services</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth and social trend indicates how extensive an organization internal controls should be structured to ensure continuous growth in revenue generation. Internal control is a dynamic integral process that is adapting continuously to the changes facing modern organizations. At all levels of the organization, the management and personnel have to be involved to address risks and to provide reasonable assurance of the achievement of the organization’s mission and general objectives.

Every organization strives to provide products and render some service at a price using the most effective and efficient operations of its business. It is by the effective and efficient operations in products or services delivery that revenue flow into the organization. In the Kenya, organizations failures and widespread dip in revenues over the past two decades have been due to operations that have resulted into mismanagement thus elevated the importance of effective internal control within the formal business sectors. Internal control, which assures the stability of every organisation, therefore has gained importance today. This is because the control systems in place are a pillar for an efficient accounting system as well as the achievement of organizational goals.

1.1.1 The Concept of Internal Controls

Internal controls are measures that organizations institute with the aim of ensuring that the objectives, goals, and mission of the organization are met (Rezaee, 2002). They refer to set of organizational policies and procedures that ensure any transaction is processed in the appropriate
way to avoid waste, theft and misuse of organization resources. Through internal control systems, organizations achieve performance and organizational goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations. Thus internal control is established by the organizational management to ensure that the business of enterprise is carried out in an orderly and efficient manner. This further ensures adherence to management policies safeguard the assets and secure the completeness and accuracy of the records.

Organizations are constantly and extensively working to improve their internal control systems so as to increase revenue inflow, survive in the rapidly changing economic and competitive environments, and adapt to the shifting customer demands and priorities (Kantzos and Chondraki, 2006). Internal control consists of five interrelated components which are derived from the way management runs a business, and are integrated with the management process: control environment; risk assessment; control activities; information and communication; and monitoring (Carmichael, 1996). According to Liu (2005) and Rittenberg et al. (2005), under the current operations of organizations in general, the importance of internal control can be divided into six major categories; detecting error and fraudulence, decreasing illegal conduct, improving the competence of the business entity, improving the quality of data, helping to create the business infrastructure, and decreasing auditors’ fee.

1.1.2 The Concept of Revenue

Revenue refers is that monetary event of asset values increasing in the organization because of the physical event of production or sales of products or services of the organization (Pandey, 1996). Rittenberg and Schwieger (2005) define revenue as the inflows or enhancements of assets of a firm or settlements of its liabilities during a period from delivery or producing goods,
rendering service or other activities that constitutes the entity’s ongoing major or central operations. In addition, described revenue as inflows of asset (almost always cash or accounts receivables) received for products or services provided to customers.

Organizational performance is in terms of revenue generation portrayed by the levels of assets accumulation, wealth created, and the quality services by customer level of satisfaction and customer complaints (Kloot, 1999). For better revenue generation, organizations should critically look at customers and other stakeholders in business and establish how best they are satisfying their needs. Organizations should continuously improve their revenue and have an internal control system that is intervened with organizations operating activities and it is most effective when controls are built into the organizations infrastructure in terms of continued improvement on performance standards as part of the competitive advantage of the organization.

1.1.3 Relationship between Internal Controls and Revenue

Internal control systems including internal audits are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Jensen, 2003). Internal control therefore has a much broader purpose such that the organization level of control problems associated with lower revenues, which explore links between disclosure of material weakness and fraud, earnings management or restatements (Doyle et al., 2005).

Internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation (Beeler et al., 1999). According to Fadzil et al. (2005), an effective internal control system unequivocally correlates with organizational success in meeting its revenue target level. Effective internal control for
revenue generation involves; regular a review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees’ compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its organizational objectives (Ittner et al., 2003).

Most organizations no longer set up internal control system as a regulatory requirement but also because it helps in ensuring that all management activities are appropriately carried out (Kenyon and Tilton, 2006). Further, organizations are making it a point of duty to train, educate, and sensitize their employees on how to use these internal control systems since its effectiveness depends on the competency and dependability of the people using it. All these control actions ensure that any risks that may affect the company’s ability to achieve its goals are appropriately avoided and should occur at all levels and in all functions of the organization.

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

Risk management encompasses a set of resources, behaviors, procedures and actions that is adapted to the characteristics of each organization and that enables managers to keep risks at an
acceptable level for the company. Risk management and internal control systems complement each other in controlling the company’s activities. Its aim is to identify and analyze the company’s main risks. Risks that exceed the acceptable levels set by the organization are dealt with subject to plans of action. For some time now, risk management in general and internal control more specifically; have been considered as fundamental elements of organizational governance. As a consequence, risk management is beginning to be perceived as a new means of strategic business management, linking business strategy to daily risks and then optimizing those risks in order to realize value (Saarens and de Beelde 2006.) In the United States for instance in 1992, a group of companies sponsored the formation of the tread way commission to study and report on how to improve on the effectiveness of internal control systems, and more recently in 2002 the US congress passed the Sarbanes Oxley act giving new directives on how companies are to report on the effectiveness or otherwise of their internal control systems.

1.1.4 The Concept of Internal Control and Revenue Generation in Kenya

Internal control has gained importance today in many organizations in Kenya including the University of Nairobi Enterprises and Services (UNES) Limited. In particular, internal controls are required to assure that if properly designed and implemented, UNES achieved its goals mitigating its losses. Established over 20 years ago, UNES Ltd is a knowledge-based premier body corporate wholly owned by the University of Nairobi. It mandated to harness the resources of the university with a view to enhancing its teaching and research capabilities; promoting and providing financial managerial services for income-generating activities within the university. Its vision is to be premier knowledge-based business enterprise while its mission is to promote and engage in knowledge-based business activities for the benefit of the university and other stakeholders through the provision of financial management, consultancy, bookstore and
hospitality services.

In addition, UNES provides financial managerial services for all the academic revenue and the following University based Income Generating Units (IGUs) like; the Chiromo Funeral Parlour (CFP), Diagnostic Imaging, Immunology, Haematology, and Clinical Chemistry Laboratory services, dental services at the Dental Plaza, and Veterinary Farm and Small And Large Animal Clinics in Faculty of Veterinary Medicine. Currently, the business units comprise of UNES include; the bookstore, Arziki Restaurants and Chiromo Conference Centre. In order to sustain efficiency and effectiveness, UNES is organized in six key sections; Finance, Human Resource and Administration (HRA), Business Advisory Services (BAS), Information and Communication Technology (ICT), consultancy and procurement. The internal control is ensured through communication in the sections’ processes through which all relevant and reliable information is identified, captured and communicated in a timely manner to all relevant players within UNES thereby enabling them to carry out their responsibilities.

1.2 Research Problem

Organizations continue to experience low levels of revenue generation most of which are man-made and therefore avoidable. Despite the numerous rules and regulations, the varying levels in revenue generation occur across all entities in the government and private sectors. No matter how well it is designed and operated, an internal control system can only provide a reasonable, not absolute assurance that the objectives of the company’s internal control system are met in terms of revenue generation.

This heightened interest in internal controls is, in part, a result of the increased revenue in the the academic programs in Module II. An analysis of the problems related to this whether there are
effective internal control system since such systems help in preventing or enable earlier detection of the problems that led to the losses (Rezaee, 2002).

According to (Kirsty, 2008) an internal control system creates an organization’s confidence in its ability to perform or undertake a particular task and prevents errors and losses through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with pertinent laws and regulations. Muio (2012) studied the impact of internal control systems on the financial performance of private hospitals in Nairobi and established a significant relationship between internal control system and financial performance. Kakucha (2009) evaluated the level of effectiveness of internal controls operating in Nairobi and established that there are deficiencies in the systems of internal controls, with the degree of deficiencies varying from one enterprise to another. Njui (2012) investigated the effectiveness of internal control and audit in promoting good governance in the public sector in Kenya and found that internal control has the greatest effect on corporate governance within Kenya government ministries followed by risk management while compliance and consulting had the least effect. Ngugi (2011) survey of internal control systems among the listed private companies and the public sector companies in Kenya in which the results indicated that the private sector compared to the public sector has a strong internal control system.

Limited research has been carried out to examine the effect of the internal control system on revenue generation in Kenya. All the above research on internal controls has a gap as they did not take into consideration on the components of internal control and risk analysis. It is due to this background that the study sought to fill the knowledge gap by assessing the effect of internal control on revenue generation in Kenya while focusing on UNES Limited.
1.3 Objectives of the Study

The objective of this study is to evaluate the effect of internal controls on revenue generation in UNES.

1.4 Significance of the Study

UNES Management

First, the study would benefit the UNES Audit Committee by assuring itself that appropriate processes are functioning effectively to monitor the risks to which the company is exposed and that the system of internal control is effective in reducing those risks to an acceptable level. Secondly, the findings would be of great use to UNES management in accounting to the Board for developing, operating and monitoring the system of internal control and for providing assurance to the Board that it has done so. Third, the results of the findings would be used by the employees to in improving their financial performance through effective implementation of the internal control systems and processes.

Researchers and Scholars

This study contribute to the existing knowledge, address and provide the background information to research organizations, individual researchers and scholars who would want to carry out further research in this area. The study would help researchers and academicians to expand their research into the effect of internal control on revenue generation (both public and private) in Kenya as literature review.
The Government

The study would finally help the government ensure quality of internal and external reporting and maintenance of proper records and processes that generate a flow of timely relevant and reliable information from within and outside the organization.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a broader context of the study subject in terms of past scholarly works and what other authors have written about internal controls and revenue generation. This section reviews the correlation between internal control systems as an independent variable and revenue generation as a dependent variable by particularly focusing on the control environment, the entity’s risk assessment process, the information and communication systems, control activities and the monitoring of controls as the main components of internal control. The review also examined the common systems of internal controls employed by organizations, the theories surrounding systems of internal control, and the methods used by previous researchers in dealing with internal control systems.

2.2 Review of Related Theories

2.2.1 The Agency Theory

According to the agency theory, a firm consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Jensen and Meckling, 1976). The theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals’ ability to monitor whether or not their interests are being properly served by agents. As such, the theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents (Jensen
and Meckling, 1976). According to the theory, in order to harmonize the interests of the agent and the principal, a comprehensive contract is written to address the interest of both the agent and the principal. The agent-principal relationship is strengthened more by the principal employing an expert and systems (auditors and control systems) to monitor the agent (Jussi and Petri, 2004).

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

2.2.2 Attribution Theory

Attribution theory is a social psychology theory that explores how people interpret events and behaviors and how they ascribe causes to the events and behaviors. According to Schroth and Shah (2000), studies using attribution theory examine the use of information in the social environment to explain events and behaviors. Reffett (2007) asserts that when evaluators believe
comparable persons would have acted differently in a given circumstance, they (evaluators) tend to attribute responsibility for an outcome to the person. On the other hand, when evaluators believe comparable persons would have acted similarly, the evaluators tend to attribute responsibility for the outcome to the situation. According to Wilks and Zimbelman (2004), the first case refers to internal or dispositional attributions while the second one refers to external or situational attributions.

Earlier literature shows that people are inclined to attribute others’ behavior to dispositional tendencies and to attribute their own behavior to situational circumstances (Wilks and Zimbelman, 2004; Schroth and Shah, 2000). Often, this is when the observed behavior is negative. Consequently, evaluators are expected to infer the failure to detect internal control on revenue generation as a dispositional tendency on the auditor’s part which concludes that auditors are negligent. Bonner et al. (1998) found that auditors are more likely to be sued when they fail to detect common misappropriations that would result to decreased revenues, and the evaluators believe that the fraud could have been detected by other auditors. The auditor’s accountability for detecting fraud is extended by Reffett’s (2007) study which predicted that auditors are more likely to be held accountable by evaluators when the auditors fail to detect fraud after they had identified the fraud occurrence as a fraud risk. The result of Reffett’s study shows an increase in auditors’ liability when an audit fails, after the auditors had identified the perpetrated fraud as a fraud risk and performed procedures to investigate the identified fraud risk. The findings support Reffett’s prediction.

Attribution theory thus advocates for auditors to report on the effectiveness of firms’ internal control. Auditors are therefore expected to gain a better understanding of the internal controls in
place, assess the design and implementation of the internal controls, and test the operating effectiveness of the internal controls. This is deemed necessary for the auditors’ reliance and possibly scaling back of other substantive audit procedures for the required revenue generation. According to Bonner et al. (1998), evaluators can use the audit processes as a basis to determine negligence if auditors fail to detect internal control related fraud that may occur. The attribution theory suggests that when fraud occurs, identified parties should be held accountable and auditors, being the “public watch dogs” are most likely to be held accountable if evaluators determine substandard audit services were provided (Reffett, 2007).

2.2.3 Reliability Theory
Reliability theory simply describes the probability of a system completing its expected function during an interval of time (Gavrilov and Gavrilova, 2001). It was originally a tool used to help nineteenth century maritime insurance and life insurance companies in computing profitable rates to charge their customers. According to the reliability theory, an internal control system comprises of components that are interrelated and each for component, there needs to be a defined measure of success. As such, the state of a component is determined by whether the component is ‘successful’ or ‘not successful’. The reliability of a component is defined as the probability of the component being found in the ‘success’ state. In addition, the reliability of the entire internal control system is a binary combination with two possible values, ‘success’ and ‘failure’. This study considered the part of the reliability theory which relates the internal control system to component reliabilities.

The tractability of reliability theory to the evaluation and design of internal control systems have appeared in the professional literature but no applications have been reported that draw upon the substantial power of the theory of reliability (Kinney, 2000). The two potential users of the
reliability theory are the external auditor and organization management. Kinney (2000) states that; during the external audit, evidence is gathered to support a professional opinion. Internal control systems have a primary purpose of assessment and control of risks; that a material error was not be prevented or detected on a timely basis by the system leaving to losses. Weak internal control systems result in more substantive work and hence greater cost. According to Gavrilov and Gavrilova (2001), the determination of the "weakness" of any internal control system is primarily judgmental. Upon the formulation of the process and system reliability estimates, comparison with data from the organization’s past performances or other firms may provide a more solid basis for judgment of the impact of an internal control system on the firm’s income risk and hence provide for more rational allocation of the auditor's time and effort. Messier Jr. and Austen (2000) state that one of the primary advantages of the reliability theory is its close relationship to the auditor's needs regarding understanding the internal control system and control risk assessment.

According to Stratton (2007), recent developments have increased the value to management of objective methodologies for the evaluation of internal control systems. Firm managers are therefore required to assure the accuracy of these systems. Stratton (2007) also adds that the process of evaluation of the internal control system by both management and external auditors is judgmental in nature. However, the few attempts at modeling internal control systems have not been implemented by firms due to the lack of realism, difficulty of modeling behavioral systems, lack of cost effectiveness, and lack of understanding by practitioners.
2.3 Internal Control Systems and Revenue Generation

By definition, internal control is a broad term that covers a vast of operations in firms’ revenue generation through the prevention and detection of losses (Rezaee, 2002; Kumar and Sharma, 2005). Globally, organizations and firms perform a fraud risk assessment and assess related internal controls in revenue loss detection and control for better revenue generation. The assessment consists of identifying scenarios in which funds can be lost or stolen and determining if existing control procedures effectively manage the risk to an acceptable level (Bronson et al. 2006). Internal control involves a number of methods and measures that exercised by the management to ensure smooth and economic functioning of a business entity. According to Kumar and Sharma (2005), internal control assists the management in the performance of various functions aimed at achieving the objectives of the organization. Doyle et al. (2007) and Millichamp (2002) add that internal control is a whole system of controls established by the management for the business entity to check the conduct of the business in terms of internal check, internal audit and other forms of control. Internal control is thus designed and implemented to address identified business risks that threaten the achievement of an organization’s objectives.

Understanding the concept of internal control is important for developing an understanding of its impact on revenue generation in an organization (Jubb, 2008). The entire internal control system of an organization is strictly interrelated to structures that management use to oversee the activities of the organization; the organization’s corporate governance. As a result of effective and efficient internal control systems, on organizations attains good corporate governance which provides proper incentives for the management to pursue and realize the objectives of the organization. Internal controls are essential to corporate success and survival because they pro-
vide reasonable assurance on the achievement of objective in a number of categories including: effectiveness and efficiency of operations; reliability in financial reporting; and compliance with applicable laws and regulations (Chambers, 2009).

According to Price (2005), accountability processes and corporate governance and are geared at protecting shareholders’ interest as one of the priorities in most organizations. As such, effective internal controls are essential in ensuring that the responsibility placed on management is carried out effectively and efficiently by: preventing losses through fraud; ensuring both accurate and reliable accounting; securing compliance with the policies of the organization; and evaluating the level of performance in all organizational units of the organization. Sarens and De Beelde (2006) add that the checks and balances of the organizational form a basis for the authority functions to minimize the potential losses, abuse and mismanagement. In other words, in any organization, internal control systems perform a watchdog’s role on behalf of management and therefore, any organization without effective internal control system is more prone to low income due to irregularities and errors. According to Hayes et al. (2005), internal control comprises five components; the control environment, the entity’s risk assessment process, the information and communication systems, control activities and the monitoring of controls.

2.3.1 Control Environment

In internal control, the control environment sets the tone of the organization by influencing the control consciousness of its people (Whittington and Pany, 2001). Control environment is the foundation for all the other components of internal control. It comprises of factors like; integrity and ethical values of personnel tasked with creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit
committees, management philosophy and operating style, and organizational structure. Many factors go into control environment but this component is highly influenced by the effectiveness of the board of directors, the management, and the audit division of the organization. Internal auditors are essential to effective control environment since the effectiveness of these factors largely depends on their interaction with the internal and external auditor. Control environment sets the tone of an organization, influencing the control consciousness of its people (Aldridge and Colbert, 1994). It reflects the attitude and policies of management in regard to the importance of internal controls in revenue generation. In addition, control environment is influenced by the history and the culture of organization and has an insidious influence on the way organization activities are structured. It thus sets a positive and supportive attitude toward internal control and conscientious management.

2.3.2 Risk Assessment

Risk assessment refers to the careful assessment of factors that affect the possibility of objectives of the organization not being achieved. It refers to the identification and analysis of relevant risks associated with achieving the objectives of the organization (Karagiorgos et al., 2009). They add that risk assessment is the process of identifying and analyzing management relevant risks to the preparation of financial statements that would be presented fairly in conformity with general accepted accounting principle. In organizations, management must determine the level of risk carefully to be accepted, and try to maintain such risk within determined levels. It is therefore the management’s responsibility to design internal controls to ensure efficiency and effectiveness, reliability of financial reporting as well as compliance with laws and regulations. This is ensured by periodic performance review and evaluation of the adequacy and effectiveness of the controls designed by the internal auditor department.
2.3.3 Information and Communication System

According to Aldridge and Colbert (1994), internal control requires that all pertinent information be identified, captured, and communicated in a form and time frame that enable people to carry out their financial reporting responsibilities. Firms should adopt internal control and information systems that produce operational, financial and compliance-related information reports to make it possible to run and controls the business. Effective communications should occur in a broad sense with information flowing down, across, and up within all the sections of the organization (Theofanis et al., 2011). Recent literature on internal control system frameworks has raised some concerns on information and communication as one of the internal control system components because of their importance in influencing the working relationship within the organization at all levels (Amudo and Inanga, 2009). Hence, such information must be communicated throughout the entire organization in order to permit personnel to carry out their responsibilities with regard to objective achievement.

2.3.4 Control Activities

Control activities refer to policies, procedures, and mechanisms put in place to ensure directives of the management are properly carried out (Aikins, 2011; Rezaee et al., 2001). Appropriate and accurate documentation of policies and procedural guidelines helps to determine how the control activities are to be executed. Is also provides adequate information for auditors’ examination of the overall adequacy of control design over financial management practices (Aikins, 2011). This control activities ensure that all necessary actions should be taken with the aim to address risks so that organizational objectives are achieves. According to Rezaee et al. (2001), internal control activities occur throughout the organization. They include a range of activities like; approvals,
authorizations, verifications, reconciliations, reviews of operating performance, security of asset and segregation of duties. Most of them are made possible through the help of the internal audit function.

2.3.5 Monitoring

Monitoring refers to the process of assessing the quality of the internal control structure over time. Since internal controls are processes, it is usually accepted that they need to be adequately monitored in order to assess the quality and the effectiveness of the system’s performance over time. By monitoring, the organization gets provided with assurance that the findings of audits and other reviews are promptly determined (Theofanis et al, 2011; Rezaee et al., 2001). Amudo and Inanga (2009) add that monitoring of operations ensures effective functioning of internal controls system. It’s through monitoring that an organization determines whether or not its policies and procedures designed and implemented by management are being carried out effectively by employees.

According to Bowrin (2004), monitoring can achieved by regularly supervising and managing activities like monitoring of customer complaints and feedback and audits conducted periodically by internal auditors. Internal auditors can investigate and appraise internal control structure and the efficiency with which the various functions are performing their assigned duties. This way, they can bring a systematic and disciplined approach for the evaluation and improvement of risk management activities and good governance process by examining of the internal controls and evaluating how adequate and effective the controls are. Monitoring ensures that the findings of audits and other reviews are promptly resolved (Rezaee et al., 2001).
2.4 Review of Empirical Studies

Abbott (2000), while focusing on control environment, investigated whether audit committee activity and independence is inversely related to fraudulent financial statements, using 156 firms subject to SEC Accounting and Auditing Enforcements Releases (AAERs) between 1980 and 1986. In the study, Abbott (2000) substituted the variable audit committee presence used in earlier studies with audit committee activity and independence, since the earlier studies reported mixed results about the association of audit committee and likelihood of fraud. The results of the study indicated that firms with independent directors and with the minimum activity level are less likely to be associated with fraudulent financial statements.

Case studies on internal controls in Belgium illustrate the importance of the control environment when studying internal auditing practices. Sarens and De Beelde (2006) found that certain control environment characteristics like tone-at-the-top, level of risk and control awareness, extent to which responsibilities related to risk management and internal controls are clearly defined and communicated are significantly related to the role of the internal audit function and fraud detection within an organization.

Using the analytical approach and focusing on control activities and monitoring, Barra (2010) investigated the effect of penalties and other internal controls on employees’ propensity to be fraudulent. Data was collected from both managerial and non-managerial employees. The results showed that the presence of the control activities, separation of duties, increases the cost of committing fraud. Thus, the benefit from committing fraud has to outweigh the cost in an environment of segregated duties for an employee to commit fraud. Further, it was established that segregation of duties is a ‘least-cost’ fraud deterrent for non-managerial employees, but for
managerial employees, maximum penalties are the ‘least-cost’ fraud disincentives. The results suggest the effectiveness of preventive controls (control activities) such as segregation of duties is dependent on detective controls (monitoring).

Internal control systems is a topical issue following global fraudulent financial reporting and accounting scandals worldwide. As such, a more proactive preventive approach to the problem requires a critical evaluation of existing internal control structures in organizations to determine their capacity to ensure that the organization’s activities are carried out in accordance with established goals, policies and procedures. Amudo and Inanga (2009) carried out an evaluation of Internal Control Systems on the Regional Member Countries (RMCs) of the African Development Bank Group (AfDB) focusing on Uganda in East Africa. The study established that some control components of effective internal control systems are lacking in these projects which renders the current control structures ineffective. The study recommended an improvement of the existing internal control systems in the projects.

Ewa and Udoayang (2012) carried out a study to establish the impact of internal control design on banks’ ability to investigate staff fraud and staff life style and fraud detection in Nigeria. Data were collected from 13 Nigerian banks using a Four Point Likert Scale questionnaire and analysed using percentages and ratios. The study found that Internal control design influences staff attitude towards fraud such that a strong internal control mechanism is deterrence to staff fraud while a weak one exposes the system to fraud and creates opportunity for staff to commit fraud. In addition, most Nigerian banks do not pay serious attention to the life style of their staff members and that most staff members are of the view that effective and efficient internal control design could detect employee fraud schemes in the banking sector. The study concluded that
effective and efficient internal control system is necessary to stem the malaise in the banking sector. The study therefore recommended that banks in Nigeria should upgrade their internal control designs and pay serious attention to the life style of their staff members as this could be a red flag to identifying frauds.

Kakucha (2009) evaluated the level of effectiveness of internal controls operating in Nairobi. The study was quantitative and was conducted between September 2007 and June 2009 using a sample of 30 small businesses as listed in the National Social Security Fund (NSSF) Register of Kenya. Primary data was collected from the managers of the small business using interviews and examination of documents pertaining to internal controls. The study established that there are deficiencies in the systems of internal controls, with the degree of deficiencies varying from one enterprise to another. The components of internal control that were missing in most businesses surveyed were: firstly, risk analysis, and secondly lack of proper flow of information. In addition, the study established that the sample population had limited awareness of what constituted an effective system of internal control. The study also found that there is a negative relationship between the age of an enterprise and the effectiveness of its system of internal control while a negative correlation between the resources held by an enterprise and its internal control system weaknesses exists. The recommended that these was need to enlighten the operators of small business of what constitutes an efficient and effective system of internal control through forums and seminars.

Michina (2011) carried out a survey of the impact of internal control on operational efficiency of non-governmental organizations (NGOs) in Nairobi using a sample of fifty (50) NGOs. Data was collected using a questionnaire consisting both open and closed ended questions. The study
established that that internal controls in the NGOs based in Nairobi were determined largely by the organization structure such that it is the top management that decides on how the resources received from donors and other financiers are to be allocated and distributed to the beneficiaries. Further, cash management was ranked second internal control factor affecting NGOs operational efficiency. As such, NGOs with good cash management were found to be in a position to attract many sources of funds for their operations and as such, this called for proper use of resources at their disposal. Also, NGOs with well structured organizational structures had well structured policies and procedures on how activities were run. The findings also showed that much higher operational efficiency was registered in big well known NGOs which lead to controlled internal controls by the funding partners. The study concluded that internal control impacts operational efficiency.

In a study on internal control function of the Kenya Polytechnic University College, Wainaina (2011) shows that as a substitute of its presence on the scene of operations, management must rely on internal control techniques to implement its decisions and to regulate the activities for which she would ultimately be responsible for. It is in this light that use of effective Internal Control Systems (ICS’s) is deemed crucial in the management of business resources. As a result, the management of any organization designs internal control procedures to allocate, control and ensure efficient utilization of resources, in order to achieve the overall corporate goals. It was found that Internal Control Systems (ICS’s) play an important role in preventing and detecting fraud and protecting the organization's resources, both physical and intangible. This is achieved through proper authorization controls and documentation.

Fraud is one of the most significant risks affecting management of financial services in Eastern
Africa region. In Kenya it is one of the economic crimes – government of Kenya statistic report on alarming annual 45% average increase in the number of economic crimes (GoK, 2011). The global economic crime survey, a publication of the PwC (PwC, 2011) report that Kenya has the highest incidences of fraud in the world, based on a global ranking of 78 countries surveyed. In terms of frequency fraud, white collar theft or asset misappropriation is cited as the most common type of economic crime in Kenya followed by accounting fraud corruption of money laundering, cyber crime originating from Africa is ranked as one of the top crimes in Kenya. “The perception of cyber crime as a predominately external threat is changing and organization are now recognizing the risk of cyber crime coming from inside as well” (PwC, 2011).

Many medium and large size organizations have recently incorporated risk management functions to help identify and address fraud. These functions have developed significance efforts and resources to address internal risk, financial risk, environmental risks, political risks, economic risks and commercial risks. Even so companies are growing in size and complexity and implementing multiple technology based systems are at risk of fraud. Financial institutions top management has delegated supervision on to middle management and operational clerks. Internal risk management is losing ground to highly networked, sophisticated fraudsters (PwC, 2011).

Beasley et al. (2000) examined the differences in corporate governance mechanisms between organization that were guilty of financial reporting fraud and those that were not. Unlike previous researchers, Beasley et al segmented the organizations by industry concentration, technology, health care and financial services. Beasley et al used allegations made by the Securities and Exchange Commission (SEC) during the period 1987 and 1997 of fraudulent
financial reporting to establish fraud organizations and data from the National Association of Corporations (NALD) to match the fraud organizations and establish a no fraud company comparison base. Beasley et al’s findings indicated that organizations found guilty of financial reporting fraud shall less independent boards, had few audit committees, the audit committee met less often, the audit committees were less independent, the board and audit committees had less internal audit support.

Similarly, Crutchley et al. (2007) examined corporate governance characteristics as firms that suffered accounting fraud during the period 1990 to 2003. Fraud firms were matched to no fraud firms by Standard Industrial Classification (SIC) codes and markets values determines by book value to market Value ratios. Crutchley et al. (2007) found that certain characteristics increased the likelihood of a firm being involved in an accounting scandal. The characteristics included high levels of growth, engaging in earnings management techniques, audit committees composed of few directors, and over extended outside directors.

2.5 Summary

Most of the highlighted studies in the literature review do not explicitly address the effect of internal control on revenue generation in the business organizations in Kenya. A scarcity of literature in the area of study exists, particularly in the developing states like Kenya. The few that have been conducted in the third world nations have eluded criticism in the criteria, title, scope; methodology used hence the research gaps in terms of literature. The literature review highlights a number of theories in relation to the variables (independent and dependent) and the conceptual framework of the variables by analyzing the relationships between them.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research methodology of the study. Research methodology is the procedural plan that is adopted by the researcher to validly, objectively, economically and accurately answer the research questions. It is a detailed explanation of the procedures and techniques that was used while collecting processing and analyzing data. This section of the study therefore describes the research design, target population and area, sampling frame, sample and sampling technique, data collection instruments, procedures, analysis management and the ethical considerations that the study used.

3.2 Research Design

Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure (Babbie, 2002). The research design that was employed in this study is descriptive design. A descriptive design is a process of collecting data in order to answer questions concerning the current status of the subjects in the study. It involves gathering data that describes events and then organizes, tabulates, depicts, and describes the data. Descriptive studies portray the variables by answering who, what, and how questions (Babbie, 2002; Cooper and Schindler, 2004).
3.3 Study Population

A study population encompasses the entire groups of individuals, objects, items, cases, articles, or things with common characteristics existing in space at a particular point of time (Baker, 1999). The study population was all the employees at the University of Nairobi Enterprise and Services (UNES) Limited during the calendar year 2013.

3.4 Data Collection

3.4.1 Data Collection Procedure

The study used both primary and secondary data. Secondary data was from management and financial reports. The drop and pick method shall be used to collect primary data. The structured questions were used in an effort to conserve time and money as well as to facilitate in easier analysis as they are in immediate usable form.

3.4.2 Data Collection Instruments

Primary data was collected using structured questionnaires. The questionnaire consisted of both open and closed ended questions. According to Creswell (1994), data collection methods for primary data include; structured questionnaires, mailed questionnaires, interviews, observation, and focus group discussions. Questionnaires are the most commonly used methods when respondents can be reached and are willing to co-operate. This method can reach a large number of subjects who are able to read and write independently. The study used a questionnaire containing both closed-ended and open-ended questions. Likert scale questions were therefore used since they are appropriate, abide by the principles of validity, reliability, and consideration. Secondary data was
collected from library research, financial and management books, research reports and the internet.

3.4.3 Pilot Testing

Using a sample of 10% of the study population, a pilot study was conducted before the main study and corrections was made (Baker, 1999). This helped in refining the questionnaire, enhance its readability, and minimize the chances of misinterpretation of the questions. Reliability of the questionnaire was ensured by pre-testing the questionnaire with a selected sample of 10% of the target population (Mugenda and Mugenda, 2003). These however excluded from the main study to ensure possibility of bias in the study is avoided. On the other hand, the validity of the questionnaire was ensured by having all the objective questions included in it so that the analysis of the data actually represents the phenomenon under study (Robinson, 2002).

3.5 Data Analysis

The researcher reviewed the appropriate statistical data analysis tools namely descriptive, inferential and test statistics before analyzing the data. Collected raw data was cleaned and edited for completeness and consistency. It then systematically organized to confirm if it represents the target population and to facilitate objective analysis at a later stage. The responses were also screened for correctness and accuracy and then they was assigned numerical values which was representing various attributes being measured. Data was analyzed by use of the linear regression model below

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon \]
Where $Y$ is the annual revenue, $\beta_0$ is constant $X$ effect of internal control. Effects of internal control were measured using five data points.

$X_1$ is control environment. It was measured by the level of integrity, ethical values, and competence of personnel tasked with creating, administering, and monitoring the controls.

$X_2$ is risk management and was measured by level of risk carefully to be accepted and maintained determined levels.

$X_3$ is information and communication systems. This was measured in terms of how information is identified, captured, and communicated in the appropriate form and within stipulated time frame.

$X_4$ is control activities that were measured the number of effective policies, procedures, and mechanisms put in place to ensure directives of the management are properly well.

$X_5$ is monitoring. Monitoring was measured by how frequent the quality and effectiveness of internal controls are assessed and reviewed over time.

$\varepsilon$ is the error term for the model

Dummy variables 1 and 0 were used to denote presence or absence respectively of each of the three data points. Statistical Package for Social Sciences (SPSS, v. 21) was used to aid in quantitative data analysis in this study. The results were presented in charts, graphs and tables. Qualitative data from the open-ended questions was analysed through content analysis. The output for this study was presented using descriptive statistics like the mean score and standard deviation. Graphs, bar charts and pie charts was used for further representation.
CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This chapter covers the data analysis, results and discussion of the study findings. The study sought to evaluate the effect of internal controls on revenue generation in UNES. The presentation of the data analysis, results and discussion was based on the sequence of questions in the questionnaire used to collect data. The study targeted 45 respondents from UNES employees. Out of the 45 questionnaires administered by the researcher, only 28 filled questionnaires were collected translating to a 62% response rate. According to Babbie (2002), any response of 50% and above is adequate for analysis and therefore, the response rate of 62% is satisfactorily.

4.2 Data Presentation

4.2.1 Respondent’s Educational Qualification

The findings revealed that 54% of the respondents had an undergraduate degree followed by 25% who possessed a Masters degree. Only 21% have certificate/diploma as their highest level of education. This indicates that UNES employs persons with various levels of education as summarized in table 1 and figure 1. The employees are therefore knowledgeable and are well positioned to implement that various internal control systems in the company for maximum revenue generation.
Table 1: Respondent’s Educational Qualification

<table>
<thead>
<tr>
<th>Level of Qualification</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate/Diploma</td>
<td>6</td>
<td>21%</td>
</tr>
<tr>
<td>Undergraduate degree</td>
<td>15</td>
<td>54%</td>
</tr>
<tr>
<td>Masters degree</td>
<td>7</td>
<td>25%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>28</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Author: Research Data (2013)

Figure 1: Respondent’s Educational Qualification

4.2.2 Time Spent by Respondents Working at UNES

A summary of the results on how long the respondents have worked at UNES is shown in table 2 and figure 2. Most of them (32%) have worked in the company for 2-3 years while 29% for over 4 years. Only 18% of the respondents indicated that they have been working at the company for at most a year. This implies that most of the respondents at have worked at the company long enough to provide both reliable and accurate information targeted to meet the objectives of this study.
Table 2: Respondents' Years of Working in UNES

<table>
<thead>
<tr>
<th>Years of working in UNES</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 months - 1 year</td>
<td>5</td>
<td>18%</td>
</tr>
<tr>
<td>1 - 2 years</td>
<td>3</td>
<td>11%</td>
</tr>
<tr>
<td>2 - 3 years</td>
<td>9</td>
<td>32%</td>
</tr>
<tr>
<td>3 - 4 years</td>
<td>3</td>
<td>11%</td>
</tr>
<tr>
<td>More than 4 years</td>
<td>8</td>
<td>28%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>28</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Author: Research Data (2013)

Figure 2: Respondents' Years of Working in UNES

4.2.3 UNES Frequency of ICS Review

The study sought to determine the frequency at which UNES reviews its internal control systems. Table 3 and figure 3 show a summary of the findings. According to the results, 75% of the respondents indicated that the company reviews its ICS when need arises while 14% indicated that ICS review is conducted annually. Only 11% indicated that UNES reviews its ICS twice a year. This implies that, in general, the company only reviews its ICS when need arises.
and that periodic review are very minimal.

Table 3: UNES Frequency of Reviewing ICS

<table>
<thead>
<tr>
<th>Frequency of reviewing ICS</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annually</td>
<td>4</td>
<td>14%</td>
</tr>
<tr>
<td>Half-yearly</td>
<td>3</td>
<td>11%</td>
</tr>
<tr>
<td>When need arises</td>
<td>21</td>
<td>75%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>28</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Author: Research Data (2013)*

4.2.4 ICS Contribution to UNES Revenue Generation

Table 4 and figure 4 show findings on whether internal control systems contribute to revenue generation at UNES. Majority of the respondents indicated that ICS contributes to revenue generation at the company (82%). Only 7% of the respondents said that ICS does not contribute to revenue generation while the rest of the respondents were not sure whether or not ICS contributes to revenue generation at UNES.
Table 4: UNES ICS Contribution to Revenue Generation

<table>
<thead>
<tr>
<th>UNES ICS Contribution to Revenue Generation</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>23</td>
<td>82%</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>11%</td>
</tr>
<tr>
<td>Not sure</td>
<td>2</td>
<td>7%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>28</td>
<td>100%</td>
</tr>
</tbody>
</table>

Author: Research Data (2013)

The respondents who indicated that ICS contributes to revenue generation at UNES play a number of roles in supporting the systems. Two respondents said that they ensure all documents are authentic and correct and confirm that the relevant officers have signed all documents before processing to prevent misappropriation of revenues. One respondent from the internal audit section see to it that any weaknesses identified within the system are addressed through relevant recommendations made. This helps in the continuous review of the systems particularly in cases of new business development. They also assist in appraising the systems of internal control to
ensure effectiveness and provide assurance to the management on adequacy of the internal control system.

Respondents from the expenditure section ensure that supplies of goods that act as factors of production are paid for in line with the agreement. This ensures that IGUs have adequate goods to facilitate production that brings about revenue to the company. Other respondents commented that they undertake timely bank reconciliation, customer records reconciliation and report accurately on revenue collections. Those that receive revenue collection reports from unit cashiers verify and accurately post them in the system to facilitate accurate monthly reconciliation of revenue ledger.

Common to all the respondents was that they actively participate in implementation of internal control systems and perform all their duties according to laid down procedures and policies. The respondents who indicated that ICS does not contribute to revenue generation cited the existence of loopholes through which revenue is lost. They further indicated that internal control means too much bureaucracy in the paper work hence delays in service delivery and reduced revenue generation.

Systems of internal control are functioning as per the intended plan as indicated by most of the respondents. It has enhanced efficient and accurate data capturing. This is enhanced by the numerous that are conducted in line with technological changes to ensure the systems’ sustainability. The systems have enhanced easy detection of few errors that have occurred. The frequent audits have helped in evaluating and improving the effectiveness of the systems.
4.2.5 UNES ICS Rating

The rating of UNES ICS by the respondents is as summarized in table 5 and figure 5. Most of the respondents (57%) rated it as good followed by 18% who rated it as very good. Only 4% rated the system as poor. This implies that the internal control system of the company is performing well in terms of revenue generation.

**Table 5: Rating UNES ICS**

<table>
<thead>
<tr>
<th>Rating UNES ICS</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Good</td>
<td>5</td>
<td>18%</td>
</tr>
<tr>
<td>Good</td>
<td>16</td>
<td>57%</td>
</tr>
<tr>
<td>Fair</td>
<td>6</td>
<td>21%</td>
</tr>
<tr>
<td>Poor</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>28</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Author: Research Data (2013)*

**Figure 5: Rating UNES ICS**

The ICS is rated to be doing good since long queues have been replaced by auto-receipting system that reduces time wasted on serving students. The auto-receipting is said to also safeguard the organization against loss of revenue through mis-posting. Due to the adoption of the system, the company now has formalized policies and procedures for all activities which allows for good and
efficient communication, control and monitoring of activities. The system also helps in ensuring that correct and accurate information is maintained thus minimizing opportunities for fraud. Those respondents who rate the system as fair or poor cite a number of areas that need more attention e.g. inventory, moveable assets and operations in new units. They add that in IGUs, debtors are not properly controlled and daily sales are not banked immediately to curb theft and fraud-related irregularities. While those systems may be ok, they require constant reviews to incorporate the dynamic operating environment.

4.2.6 Control Environment

Using a 5-point Likert scale where 1-1.499 was strongly disagreed; 1.500 - 2.499 was disagreed; 2.500 - 3.499 was not sure; 3.500 - 4.499 was agreed and 4.500 - 5.000 was strongly agreed, the respondents were asked to indicate the level of agreement with how a number of elements of control environment affect revenue generation at UNES. Table 6 shows a summary of the findings.

According to the findings, the respondents agreed that audit committee adequately maintain a direct line of communication with the entity's external and internal auditors, organizational structures adequately reflect a chain of command in the company, there are formalized policies and procedures for all major operations of the entity and policies and procedures for authorizations are established at an adequately high level as shown by a mean of 4.15, 4.07, 4.04 and 4.00 respectively.

In addition, the respondents agreed that management is committed to the operation of the system and it provides feedback to the officers about the operation of the system as shown by a mean of 3.96 and 3.88 respectively. More over, the respondents agreed that specific lines of authority and
responsibility have been established to ensure compliance with the policies and procedures, there is honest and fair dealings with all stakeholders for the benefit of the organization and responsibilities are delegated and follow up action is made to get feedback on results of performance of all tasks delegated as shown by a mean of 3.80, 3.62 and 3.58 respectively.

**Table 6: Control Environment**

<table>
<thead>
<tr>
<th>Control Environment</th>
<th>Mi</th>
<th>n</th>
<th>x</th>
<th>μ</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are formalized policies and procedures for all major operations of the entity</td>
<td>28</td>
<td>2</td>
<td>5</td>
<td>4.04</td>
<td>0.735</td>
</tr>
<tr>
<td>Policies and procedures for authorizations established at an adequately high level</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>4.00</td>
<td>0.913</td>
</tr>
<tr>
<td>Specific lines of authority and responsibility have been established to ensure compliance with the policies and procedures</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.80</td>
<td>0.866</td>
</tr>
<tr>
<td>Audit committee adequately maintain a direct line of communication with the entity's external and internal auditors</td>
<td>28</td>
<td>2</td>
<td>5</td>
<td>4.15</td>
<td>0.775</td>
</tr>
<tr>
<td>Organizational structures adequately reflect a chain of command in the company</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>4.07</td>
<td>0.792</td>
</tr>
<tr>
<td>Responsibilities are delegated and follow up action is made to get feedback on results of performance of all tasks delegated</td>
<td>28</td>
<td>2</td>
<td>5</td>
<td>3.58</td>
<td>0.881</td>
</tr>
<tr>
<td>There is honest and fair dealings with all stakeholders for the benefit of the organization</td>
<td>28</td>
<td>1</td>
<td>4</td>
<td>3.62</td>
<td>0.927</td>
</tr>
<tr>
<td>Management is committed to the operation of the system</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.96</td>
<td>0.841</td>
</tr>
<tr>
<td>Management provides feedback to the officers about the operation of the system</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.88</td>
<td>1.222</td>
</tr>
</tbody>
</table>

*Author: Research Data (2013)*

### 4.2.7 Risk Assessment

Table 7 illustrates the respondents’ agreement level with risk assessment statement. From the findings, the respondents agreed that management has defined appropriate objectives for the entire organization and management has criteria for ascertainment of which fraud-related risks to the organization are most critical as shown by a mean of 3.88 and 3.62 respectively. In addition, the respondents agreed that management identifies risks that affect achievement of the
objectives of the organization and it has put in place mechanisms for mitigation of crucial risks that may result from fraud as shown by a mean of 3.56 and 3.52 respectively.

**Table 7: Risk Assessment**

<table>
<thead>
<tr>
<th>Risk Assessment</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>µ</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management has defined appropriate objectives for the entire organization</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.88</td>
<td>0.797</td>
</tr>
<tr>
<td>Management identifies risks that affect achievement of the objectives of the organization</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.56</td>
<td>0.870</td>
</tr>
<tr>
<td>Management has a criteria for ascertainment of which fraud-related risks to the organization are most critical</td>
<td>28</td>
<td>1</td>
<td>4</td>
<td>3.62</td>
<td>0.714</td>
</tr>
<tr>
<td>Management has put in place mechanisms for mitigation of crucial risks that may result from fraud</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.52</td>
<td>0.846</td>
</tr>
</tbody>
</table>

*Author: Research Data (2013)*

**4.2.8 Information and Communication System**

Table 8 illustrates respondents’ agreement level on information and communication system.

**Table 8: Information and Communication System**

<table>
<thead>
<tr>
<th>Information and Communication System</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>µ</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management has identified individuals who are responsible for coordinating the various activities within the entity</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.80</td>
<td>0.913</td>
</tr>
<tr>
<td>All employees understand the concept and importance of internal controls, including the division of responsibility</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.59</td>
<td>1.028</td>
</tr>
<tr>
<td>Communication helps to evaluate how well guidelines and policies of the organization are working and being implemented</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.67</td>
<td>1.007</td>
</tr>
<tr>
<td>The reporting system on the organizational structures spells out all the responsibilities of each section/unit in the organization</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.76</td>
<td>0.880</td>
</tr>
</tbody>
</table>

*Author: Research Data (2013)*

The respondents agreed that management has identified individuals who are responsible for coordinating the various activities within the entity and the reporting system on the organizational structures spells out all the responsibilities of each section/unit in the organization as shown by a mean of 3.80 and 3.76 respectively. In addition, the respondents agreed that communication helps to evaluate how well guidelines and policies of the organization are
working and being implemented and all employees understand the concept and importance of internal controls, including the division of responsibility as shown by a mean of 3.67 and 3.59 respectively.

### 4.2.9 Control Activities

The study sought to find out the respondents’ agreement level with control activities. According to the findings, the respondents agreed that changes to the prescribed billing amount require the approval of an authorized individual and reconciliation is done monthly to reconcile separate records and properly resolve any difference as shown by a mean of 3.92. In addition, the respondents agreed that procedures exist to prevent the interception or alteration by unauthorized persons of billings or statements before posting, there is segregation of responsibilities on collections, general accounting and general ledger posting of revenue and accounting records are limited to employees with designated responsibility for such records as shown by a mean of 3.89, 3.88 and 3.84 respectively. Moreover, the respondents agreed that individual independent of receivables record keeping promptly investigate disputes with billing amounts reported by customers as shown by a mean of 3.58.

### Table 9: Control Activities

<table>
<thead>
<tr>
<th>Control Activities</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>μ</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is segregation of responsibilities on collections, general accounting and general ledger posting of revenue</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.88</td>
<td>0.781</td>
</tr>
<tr>
<td>Individual independent of receivables record keeping promptly investigate disputes with billing amounts reported by customers</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.58</td>
<td>1.014</td>
</tr>
<tr>
<td>Accounting records are limited to employees with designated responsibility for such records</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.84</td>
<td>1.068</td>
</tr>
<tr>
<td>Changes to the prescribed billing amount require the approval of an authorized individual</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.92</td>
<td>0.997</td>
</tr>
<tr>
<td>Procedures exist to prevent the interception or alteration by unauthorized persons of billings or statements before posting</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.89</td>
<td>1.013</td>
</tr>
</tbody>
</table>
Reconciliation is done monthly to reconcile separate records and properly resolve any differences.

Author: Research Data (2013)

### 4.2.10 Monitoring

Table 10 illustrates respondents’ agreement level with monitoring. From the findings, the respondents agreed that management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in the audit reports and monitoring has helped in assessing the quality of performance of the organization over time as shown by a mean of 3.80 and 3.72 respectively. In addition, the respondents agreed that there are independent process checks and evaluations of controls activities on ongoing basis and internal reviews of implementation of internal controls in units are conducted periodically as shown by a mean of 3.68 and 3.54 respectively.

<table>
<thead>
<tr>
<th>Monitoring</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>µ</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are independent process checks and evaluations of controls activities on ongoing basis</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.68</td>
<td>0.989</td>
</tr>
<tr>
<td>Internal reviews of implementation of internal controls in units are conducted periodically</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.54</td>
<td>1.062</td>
</tr>
<tr>
<td>Monitoring has helped in assessing the quality of performance of the organization over time</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.72</td>
<td>1.100</td>
</tr>
<tr>
<td>Management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted</td>
<td>28</td>
<td>1</td>
<td>5</td>
<td>3.80</td>
<td>0.957</td>
</tr>
</tbody>
</table>

Author: Research Data (2013)

### 4.2.11 Regression Analysis

As shown in Table 11, the five independent variables that were studied explain 88.3% of the revenue generation as represented by the R2. This therefore means that other factors not studied in this research contribute 11.7% of the revenue generation at the company. Therefore, further
research should be conducted to investigate the other factors (11.7%) that affect revenue generation.

**Table 11: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>Std. Error of the Estimate</th>
<th>Sig. F Change (P-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.978^a</td>
<td>0.883</td>
<td>0.590</td>
<td>0.478</td>
<td>0.000</td>
</tr>
</tbody>
</table>

*Author: Research Data (2013)*

The P-value of 0.000 (Less than 0.05) implies that the model of internal control system at UNES is significant at the 5 percent significance. As illustrated in the table, the significance value is 0.000 which is less than 0.05 thus the model is statistically significant.

**Table 12: Model Summary: Coefficient of Determination**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>7.711</td>
<td>5</td>
<td>3.959</td>
<td>2.701</td>
<td>0.012^a</td>
</tr>
<tr>
<td>Residual</td>
<td>20.799</td>
<td>22</td>
<td>1.466</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>28.510</td>
<td>27</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Author: Research Data (2012)*

Table 12 shows a summary of the analysis of the model. The F critical at 5% level of significance was 27.711. Since F calculated is greater than the F critical (value = 2.701), this shows that the overall model was significant.

**Table 13: Coefficient of Determination**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.81</td>
<td>0.57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control Environment</td>
<td>0.26</td>
<td>0.13</td>
<td>0.253</td>
<td>4.88</td>
</tr>
<tr>
<td></td>
<td>0.05</td>
<td>0.15</td>
<td>0.042</td>
<td>0.30</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>0.25</td>
<td>0.14</td>
<td>0.209</td>
<td>1.83</td>
</tr>
<tr>
<td>Information and Communication System</td>
<td>0.13</td>
<td>0.14</td>
<td>0.105</td>
<td>0.87</td>
</tr>
<tr>
<td>Control Activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 13 illustrates results of a linear regression analysis determining the effect of the independent variables (control environment, risk environment, information and communication systems, control activities, and monitoring) on the dependent variable (revenue generation). Using the results, we have the regression equation as

\[ Y = 2.81 + 0.26X_1 + 0.05X_2 + 0.25X_3 + 0.13X_4 + 0.01X_5 \]

Where \( Y \) is the dependent variable (revenue generation), \( X_1 \) is control environment, \( X_2 \) is risk assessment, \( X_3 \) is information and communication system, \( X_4 \) is control activities, and \( X_5 \) is monitoring. According to the regression equation established, taking all factors into account with constant at zero, revenue generation will be 1.819. The data findings analyzed also show that revenue generation is greatly control environment followed by information and communication system. Taking all other independent variables at zero, a unit increase in control environment to a 0.26 billion shillings increase in revenue generated while a unit increase in information and communication system will result in a 0.25 billion shillings increase in revenue generated in UNES. On the other hand, one unit increase in monitoring will result to only 0.01 billion increases in revenue generated.

### 4.3 Summary and Interpretation of Findings

UNES play a number of roles in supporting the systems by ensuring all documents are authentic, correct and confirm that the relevant officers have signed all documents before processing to prevent misappropriation of revenues. According to Hayes et al. (2005), internal control comprises five components; the control environment, the entity’s risk assessment process, the information and communication systems, control activities and the monitoring of controls.
Weaknesses identified within the system are addressed through relevant recommendations made.

Systems of internal control were functioning as per the intended plan thus enhancing efficiency and accurate data capturing. Internal controls are essential to corporate success and survival because they provide reasonable assurance on the achievement of objective in a number of categories including: effectiveness and efficiency of operations; reliability in financial reporting; and compliance with applicable laws and regulations (Chambers, 2009). Numerous audits are conducted in line with technological changes to ensure the systems’ sustainability. This enhances easy detection of few errors that have occurred. Frequent audits have helped in evaluating and improving the effectiveness of the systems. Checks and balances of the organizational form a basis for the authority functions to minimize the potential losses due to fraud, abuse and mismanagement (Sarens and De Beelde, 2006).

Long queues have been replaced by auto-receipting system that reduces time wasted on serving students. The company has formalized policies and procedures for all activities which allows for good and efficient communication, control and monitoring of activities. According to Aldridge and Colbert (1994), internal control requires that all pertinent information be identified, captured, and communicated in a form and time frame that enable people to carry out their financial reporting responsibilities. Audit committee adequately maintains a direct line of communication with the entity's external and internal auditors. In organizations, management must determine the level of risk carefully to be accepted, and try to maintain such risk within determined levels (Karagiorgos et al., 2009).

Management has identified individuals who are responsible for coordinating the various activities within the entity. The reporting system on the organizational structures spells out all the
responsibilities of each section/unit in the organization. Information must be communicated throughout the entire organization in order to permit personnel to carry out their responsibilities with regard to objective achievement (Amudo and Inanga, 2009). All employees understand the concept and importance of internal controls, including the division of responsibility.

Monitoring has helped in assessing the quality of performance of the organization over time. Doyle et al. (2007) and Millichamp (2002) add that internal control is a whole system of controls established by the management for the business entity to check the conduct of the business in terms of internal check, internal audit and other forms of control.

Management identifies risks that affect achievement of the objectives of the organization and has put in place mechanisms for mitigation of crucial risks that may result from fraud. By monitoring, the organization gets provided with assurance that the findings of audits and other reviews are promptly determined (Theofanis et al, 2011; Rezaee et al., 2001). Amudo and Inanga (2009) add that monitoring of operations ensures effective functioning of internal controls system. It’s through monitoring that an organization determines whether or not its policies and procedures designed and implemented by management are being carried out effectively by employees.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study sought to evaluate the effect of internal controls on revenue generation in UNES. The objectives were to examine the types of internal control system for revenue generation adopted by UNES; to determine the effect of internal control system on revenue generation in UNES and to identify the strengths and weaknesses of internal control system in UNES departments.

The research design that was employed in this study is descriptive design. The study population was all the employees at the University of Nairobi Enterprise and Services (UNES) Limited during the calendar year 2013. The study used both primary and secondary data. Primary data was collected using structured questionnaires. Collected raw data was cleaned and edited for completeness and consistency. Data was analyzed by use of the linear regression. Statistical Package for Social Sciences (SPSS, v. 21) was used to aid in quantitative data analysis in this study. The results were presented in charts, graphs and tables. Qualitative data from the open-ended questions was analysed through content analysis. The output for this study was presented using descriptive statistics like the mean score and standard deviation.

The study found out that ICS contributes to revenue generation at the company. UNES play a number of roles in supporting the systems by ensuring all documents are authentic, correct and confirm that the relevant officers have signed all documents before processing to prevent misappropriation of revenues. Timely bank reconciliation, customer records reconciliation and
report accurately on revenue collections are undertaken. There were delays in service delivery and reduced revenue generation.

The study found out that systems of internal control were functioning as per the intended plan thus enhancing efficiency and accurate data capturing. Frequent audits have helped in evaluating and improving the effectiveness of the systems. The company has formalized policies and procedures for all activities which allows for good and efficient communication, control and monitoring of activities. Inventory, moveable assets and operations in new units need more attention. Organizational structures reflect a chain of command in the company. There were formalized policies and procedures for all major operations of the entity and policies.

The study found out that specific lines of authority and responsibility have been established to ensure compliance with the policies and procedures. Responsibilities were delegated and follow up action was made to get feedback on results of performance of all tasks delegated. Management identifies risks that affect achievement of the objectives of the organization and has put in place mechanisms for mitigation of crucial risks that may result from fraud.

The study found out that reporting system on the organizational structures spells out all the responsibilities of each section/unit in the organization. All employees understand the concept and importance of internal controls, including the division of responsibility. Accounting records are limited to employees with designated responsibility for such records. Procedures exist to prevent the interception or alteration by unauthorized persons of billings or statements before posting. Internal reviews of implementation of internal controls in units are conducted periodically.
5.2 Conclusion

The study revealed that UNES reviews its ICS when need arises. UNES play a number of roles in supporting the systems by ensuring all documents are authentic, correct and confirm that the relevant officers have signed all documents before processing to prevent misappropriation of revenues. Timely bank reconciliation, customer records reconciliation and report accurately on revenue collections are undertaken. There was existence of loopholes through which revenue is lost.

The study concluded that systems of internal control were functioning as per the intended plan thus enhancing efficiency and accurate data capturing. Numerous audits are conducted in line with technological changes to ensure the systems’ sustainability. Long queues have been replaced by auto-receipting system that reduces time wasted on serving students. The system helps in ensuring that correct and accurate information is maintained thus minimizing opportunities for fraud. Inventory, moveable assets and operations in new units need more attention.

The study revealed that audit committee adequately maintains a direct line of communication with the entity's external and internal auditors. There were formalized policies and procedures for all major operations of the entity and policies. The Management is committed to the operation of the system and provides feedback to the officers about the operation of the system.

The study concluded that there were honest and fair dealings with all stakeholders for the benefit of the organization. Management has defined appropriate objectives for the entire organization and has criteria for ascertainment of which fraud-related risks to the organization are most critical. Management has identified individuals who are responsible for coordinating the various activities within the entity. The reporting system on the organizational structures spells out all the
responsibilities of each section/unit in the organization.

The study revealed that changes to the prescribed billing amount require the approval of an authorized individual. Reconciliation is done monthly to reconcile separate records and properly resolve any difference. Procedures exist to prevent the interception or alteration by unauthorized persons of billings or statements before posting. There are independent process checks and evaluations of controls activities on ongoing basis. Internal reviews of implementation of internal controls in units are conducted periodically.

5.3 Recommendations to Policy and Practice

The study recommends firms to cultivate integrity and ethical values among its employees and management. Effective board of directors, management, and audit division should be established in organizations. Qualified and effective internal auditor should be hired in organizations. Internal and external auditor should be encouraged to interact well. A culture should be developed in organizations for good attitude and policies of management in regard to the importance of internal controls in revenue generation.

Management should determine the level of risk carefully to be accepted, and try to maintain such risk within determined levels. Management should design internal controls to ensure efficiency and effectiveness, reliability of financial reporting as well as compliance with laws and regulations. This can be achieved by periodic performance review and evaluation of the adequacy and effectiveness of the controls designed by the internal auditor department.

Pertinent information need to be identified, captured, and communicated in a form and time frame that enable people to carry out their financial reporting responsibilities. Firms should adopt
internal control and information systems that produce operational, financial and compliance-related information reports to make it possible to run and controls the business. Effective communications should occur in a broad sense with information flowing down, across, and up within all the sections of the organization.

Policies, procedures, and mechanisms should be put in place to ensure directives of the management are properly carried out. Internal controls need to be adequately monitored in order to assess the quality and the effectiveness of the system’s performance over time. Activities like monitoring of customer complaints and feedback and audits conducted periodically by internal auditors should be regularly supervised and managed. Internal auditors should investigate and appraise internal control structure and the efficiency with which the various functions perform their assigned duties.

5.4 Limitations of the Study

The information given by respondents was uncontrollable and not sure if it was true or false. The respondents were explained to that the information would only be used for education purpose. This allowed them to be confident that they would not be persecuted of the information they gave.

The research was conducted using a single organization of UNES. This provided a limited assessment of internal control in organizations. The results of the study cannot be generalized to effect of effect of internal controls on revenue generation in Kenya.
It was hard to collect data from the employees since they were busy during the day. The researcher dropped the questioner and picked them at a later date. This allowed the respondents to fill the questioners at their own time.

The research was concerned only with the effect of internal control in organizations. It did not take into account other factors that affect revenue generation in addition to the internal controls.

**5.5 Suggestion for Further Studies**

The study focused on the effect of internal controls on revenue generation thus another study should be carried out on the effect of external factors on revenue generation in UNES.

The study focused on UNES alone thus another study should be carried out on the effect of internal controls on revenue generation in other organizations.

Another study should be done on the effect of internal controls on private companies since the study was a representative of public corporations. A study on effect of independence of audit committee on financial statements should also be conducted.

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


APPENDICES

APPENDIX I: INTRODUCTION LETTER

The Respondent,

Dear Sir/Madam,

Re: Request for Research Data

I’m a Postgraduate student pursuing a Master’s of Science Finance (MSC) degree at the University of Nairobi. My research project topic is “Effect of Internal Controls on Revenue Generation in an Organization: A Case of the University of Nairobi Enterprise and Services (UNES) Limited”.

You have been selected to form part of those to provide the necessary data needed for this study. You are therefore kindly requested to assist by granting an opportunity for the filling in of the attached questionnaire at your convenience when contacted for an appointment.

The information you provide will be treated in strict confidence and is purely for academic purpose. In no way will your name appear in the final research report. Your assistance and cooperation will be highly appreciated.

Student

Hannah Ndungu

Supervisor

Dr. Aduda, J. O.
APPENDIX II: QUESTIONNAIRE

Dear Sir/Madam

You are invited to participate in the above mentioned research project. The survey should only take 10 – 15 minutes to complete. To ensure confidentiality of all responses, you are not obliged to provide your name. The information you give in response to this survey will be purely used for academic purpose.

1. Respondent’s Highest Educational Qualification
   i) Certificate/Diploma [    ]
   ii) Undergraduate degree [    ]
   iii) Masters degree [    ]
   iv) Doctorate [    ]
   v) PhD [    ]

2. Time spent in the company
   i) Less than 6 months [    ]
   ii) 6 months-1 year [    ]
   iii) 1-2 years [    ]
   iv) 2-3 years [    ]
   v) 3-4 years [    ]
   vi) More than 4 years [    ]

3. How frequent does UNES review its internal control systems?
   i) After 5 years [    ]
   ii) Annually [    ]
   iii) Half-yearly [    ]
   iv) When need arises [    ]

4. In your opinion, is the organization’s system of internal controls sufficiently and effectively contribute to revenue generation? How does your role support it?

5. Are the systems of internal controls referred to in 4 above functioning as they are intended to?

6. How would you generally rate the internal control system in your organization in relation to revenue generation? Explain
7. Please rank the following statements in each area on internal control system on likert scale ranging from strongly disagree to strongly agree where: 1 = strongly disagree; 2 = disagree; 3 = not sure; 4= agree; and 5= strongly agree.

<table>
<thead>
<tr>
<th>Internal Control</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Control Environment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) There are formalized policies and procedures for all major operations of the entity.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) Policies and procedures for authorizations established at an adequately high level</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii) Specific lines of authority and responsibility been established to ensure compliance with the policies and procedures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv) Audit Committee adequately maintain a direct line of communication with the entity’s external and internal auditors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>v) Organizational structure does adequately reflect chain of command</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>vi) Responsibilities are delegated and follow up action is made to get feedback on results of performance of all tasks delegated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>vii) There is honest and fair dealings with all stakeholders for the benefit of the organization</td>
<td></td>
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<td>viii) Management is committed to the operation of the system</td>
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<td>ix) Management provides feedback to the officers about the operation of the system</td>
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<td>x) Management provides feedback to the officers about the operation of the system.</td>
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<td><strong>Risk Assessment</strong></td>
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<td>i) Management has defined appropriate objectives for the organization.</td>
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<td>ii) Management identifies risks that affect achievement of the objectives.</td>
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<td>iii) Management has a criteria for ascertainment of which fraud-related risks to the organization are most critical</td>
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<td>iv) Management has put in place mechanisms for mitigation of critical risks that may result from fraud</td>
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<td><strong>Information and Communications System</strong></td>
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i) Management has identified individuals who are responsible for coordinating the various activities within the entity

ii) All employees understand the concept and importance of internal controls, including the division of responsibility

iii) Communication helps to evaluate how well guidelines and policies of the organization are working and being implemented.

iv) The reporting system on organizational structures spells out all the responsibilities of each section/unit in the organization.

### Control Activities

i) There is segregation of responsibilities on collections, general accounting and general ledger posting of revenue.

ii) Individual independent of receivables record keeping promptly investigate disputes with billing amounts that are reported by customers.

iii) Accounting records are limited to employees with designated responsibility for such records

iv) Changes to the prescribed billing amount require the approval of an authorized individual

v) Procedures exist to prevent the interception or alteration by unauthorized persons of billings or statements before posting

vi) Reconciliation is done monthly to reconcile separate records and properly resolve any differences

### Monitoring

i) There are independent process checks and evaluations of controls activities on ongoing basis.

ii) Internal reviews of implementation of internal controls in units are conducted periodically.

iii) Monitoring has helped in assessing the quality of performance of the organization over time

iv) Management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in those audit reports

Thanking you for your participation.