

EFFECTIVENESS OF INTERNAL FINANCIAL CONTROLS ON OPERATIONS PERFORMANCE USING A CASE OF UNI-HANDLING INTERNATIONAL (PVT.) LIMITED, MUTARE

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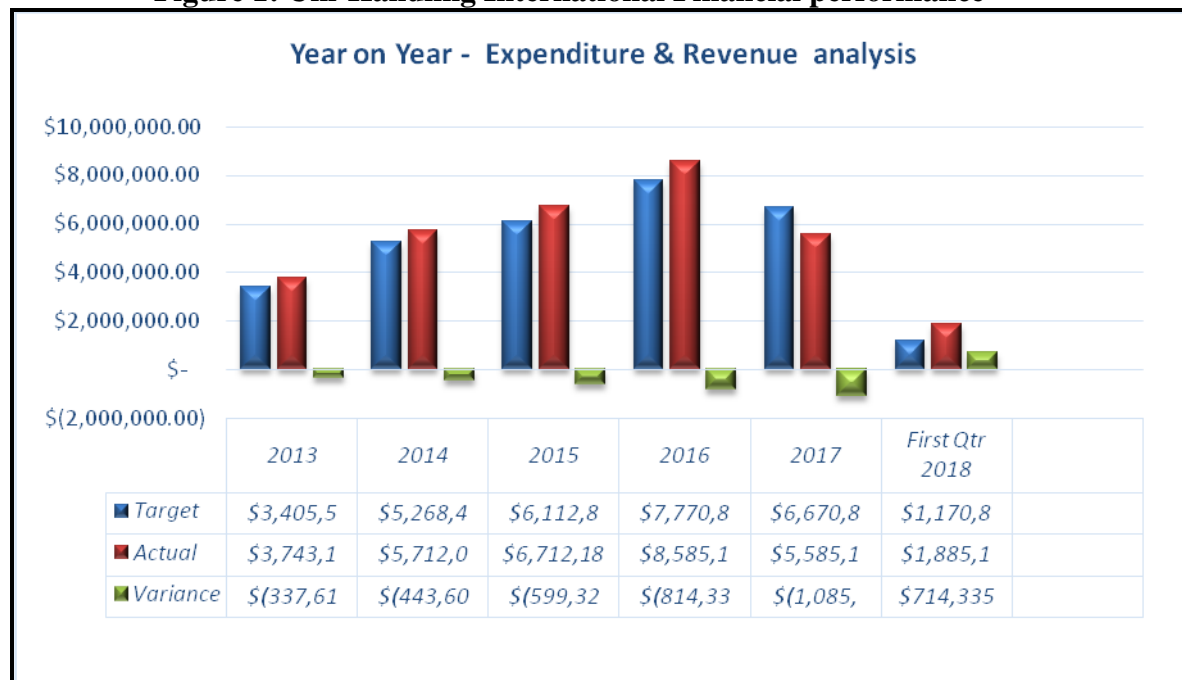
ABSTRACT

The Research investigates the internal financial control systems that help to boost operations performance at Uni-Handling International. Data collected was presented qualitatively and quantitatively using tables, and graphs and also descriptive presentations. The sample comprised clients (55), management (10), and Operational staff (30). In determining the sample size, the researcher used the census method. This approach is to use the entire population as the sample. The interviews and questionnaires were used as data collection tools. Based on the research findings of the study a number of conclusions were made on the evaluation of the effectiveness of internal financial controls at Uni-Handling International. The researcher managed to conclude positive relationship between internal controls and operational financial performance at Uni-Handling International. It is now very obvious that internal financial control is of tremendous importance to business organizations and such establishments can easily survive if the internal control technique is properly implemented in its routine operations. However, internal financial control is not a substitute for the individual performance of the entire staff. Obviously, it has some shortcomings, although those may be minimal. Ensure that every subordinate is carried along the formulation and implementation of the internal controls.

Keywords: Effectiveness, internal financial controls, performance.

1.0 INTRODUCTION

Internal control systems were construed to mean a process effected by the entity's board of directors, executive management, internal auditor and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories; reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Ray & Kurt, 2001). Available literature, however, still points out that in spite of elaborate systems of controlling organisations, financial performance has been elusive in most of these organisations (ACCA, 2010). There is a general consensus that internal control systems are used as management tools in financial management (Shah, 2003). The present study is an evaluation of the effectiveness of internal control systems in non-profit making organisations. The focal point of this study is Uni-Handling International. The company commenced operations during the year 2010. Uni-Handling International specialises in Customs Clearing, Freight Forwarding and Broking, and Cargo Transportation across Southern Africa and beyond. Its operations have been expanding significantly with estimated US\$1.5 million dollars annually. However, the company is gripped by a strong family culture and implementing some systems has often proved some bit of a challenges with a degree of management resistance. Furthermore, in the past five years there has been growing incidents of fraud cases, embezzlements as well as manipulations documents – some practices that have eroded some of the huge profits generated from the finance operations. Figure 1 below the financial performance of Uni-Handling International in the past 3 years.

Figure 1: Uni-Handling International Financial performance

Source: Uni-Handling International Financials ,2018

Faced with such circumstances the company that had been boasting of a fleet of 20 vehicles have only nine now that are fully functional and thus they have not been able to meet some of their customer needs. Faced with growing dissatisfaction some of the company clients have since left for other performing service providers for finance operations. This is coupled by financial scandals that have confronted the organisation in the past five years. These scandals emphasize the need to evaluate, scrutinize, and formulate systems of checks and balances to guide corporate executives in decision-making. These executives are legally and morally obliged to produce honest, reliable, accurate and informative corporate financial reports periodically (Hayes et al, 2005). The above background of action disparities threatening public confidence in the institution, liquidity, survival, return on Investment (ROI), Return on assets (ROA) and accountability are critical financial parameters that require realignment for critical sustenance of the business. These are some of the notable concerns that provoked the researcher to undertake a study on the effectiveness of internal financial controls on operations performance at Uni-Handling International.

The subject of internal financial controls has become a key feature of many boardrooms; in fact, this subject has been of growing relevance (Kimani, 2016). Apparently, the sound need for financial controls has been preceded by a number of sad developments at a global scale (Kpedor, 2012). According to Ejoh & Ejom (2014), during the 1980s, several high-profile audit failures led to the creation of the Committee of Sponsoring Organisations of the Tread Way Commission (COSO), organized for the purpose of redefining internal control and the criteria for determining the effectiveness of an internal control system. They studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies, independent auditors, educational institutions, the Securities Exchange Commission (SEC), and other regulators (COSO 1985).

According to Millichap & Taylor (2008), management has an indispensable role to the fundamental existence and effectiveness of any internal controls. The management role is to design and implement internal controls in various facets. According to Zakaria, (2014),

management role generally relates to the provision of leadership. This responsibility includes design and maintaining adequate internal control policies and to ensure accuracy and reliability of financial reporting, promotes efficiency, encourage policies and compliance of applicable rules and laws.

According to (Drury, 2000), the role of management in internal controls depends on sound judgement, ability to handle dynamic environments, ensuring that they are constantly evaluated whilst at the same time ensuring ethical values and integrity. Ngozi (1999) posit that Cost-benefit analysis is an internal control system that is very complex, tends to strangle people in red tape, so that the system impedes rather than promotes efficiency. Management must ensure that the cost of installing and operating a system is not more than the expected benefit

2.0 Materials and Methods

This research was a case study of Uni-Handling International. According to Tracy (2013), a target population is the total group of interest with the desired qualities for the research study. The target population for the study was mainly comprised of management (10), operational staff (30) and clients (55), the number of customers was drawn from firm's database. The sample comprised clients (55), management (10), and Operational staff (30). In determining the sample size, the researcher used the census method. This approach is to use the entire population as the sample. Although cost considerations make this impossible for large populations, census is attractive for small populations (e.g., 200 or less) (Saunders et al ,2015) A census eliminates sampling error and provides data on all the individuals in the population. In addition, some costs such as questionnaire design and developing the sampling frame are "fixed," that is, they will be the same for samples of 50 or 200.

Questionnaires are used to get the information and experience of those with information applicable to the problem at hand. They are in the form of questions written down by the researcher to the respondent in order to gather through those questions the information the researcher needs for the study at hand. For this study, the researcher used closed ended questions, where closed ended questions only required selection from the respondent (Creswell, 2012). To gather information, the researcher created a questionnaire for management and operational staff of Uni-Handling International.

The general method to get qualitative data is interviews with participants or respondents and the main reason to interview is to gain full and detailed information of the experience under study (Polkinghorne 2005). This is a detailed explanation of the purpose of the study to the respondent and to ensure that the respondent fully understands what is required of him or her. Among the types of interviews available, the researcher used personal interviews. Structured questions prepared for each set of employees and clients were used for all chosen interviewees in order to obtain information that can be easily aggregated and easy to make comparisons.

The researcher made use of desk research, reviewing operational costs, sales and revenue figures as a way of gaining insight into the finance operations at M Transport. It was done also as part of complementing information collected through interviews and questionnaires, this is known as data triangulation. In order to improve on reliability and validity of information provided by respondents during data, the researcher desisted from overreliance on a single data collection instrument but rather used a multiple of them, ensuring that the weaknesses of questionnaires were complemented by interviews or documentary analysis.

For data to be useful, it has to be sorted in a systematic manner so that the relevant meaning can be obtained from it. In this research data collected was sorted and edited. The researcher analysed the frequency of responses to each question and calculated the percentages of responses in order to have meaning in the data collected. The stages that included information sorting, editing, coding and data entry and analysis were followed. Information for this study was analysed using appropriate applications such as spreadsheets and SPSS software and it was presented in the form of frequency tables, pie charts, histograms and other pictorial diagrams.

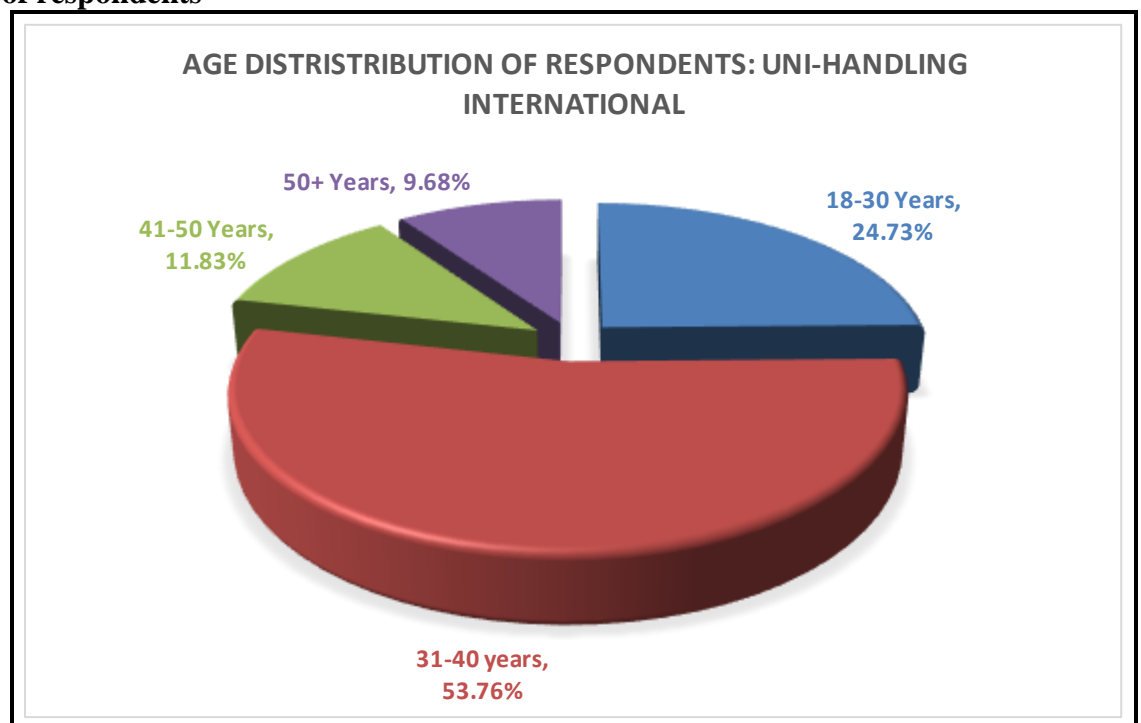
Data presentation is the use of statistical techniques which are used to clearly show the characteristics and features of a data set collected and also to highlight the patterns (Waters, 2011). Data presentation takes the forms of tables, graphs, pie charts and histograms. The researcher made use of tables, graphs, pie charts and descriptive text in the presentation of data.

3.0 Results and Discussion

Age of Respondents

Age of the respondents was considered as having a significant bearing on the responses given and therefore it was important to obtain such information from the respondents. The illustration below shows age distribution of the respondents.

Figure 2 Age of respondents



From information illustrated in Figure 2 above, the majority of respondents 53.76%, fell in the age category 31 to 40 years and a total of 24.73% were found in the age category of 18 to 30 years. Furthermore, 11.83% of the respondents were in the category of 41-50 years. Only 1.2% of the total respondents had reached 50 and above years. This shows that Uni-Handling International has managed to retain a young and productive workforce. Only a minority of 9.68% were found to be of the age well above 50 years, and of these 80% are office bearers.

Gender Composition

The study also managed to establish the gender distribution of the respondents. This was considered critical in the evaluation of the findings and data correlation.



Figure 3: Gender Composition

As illustrated in Figure 3 the study managed to establish that the majority of the respondents were male compared to female. The male respondents were 55.91% compared to 44.09% female respondents, showing an 11.83% variance. The less involvement of women is that most jobs in the operations are predominantly manual and technical which many women generally treat as difficult and shun. However, the gender disparity among respondents was considered minimal.

Length of service in the organisation

The main purpose for establishing the duration service of the respondents in the organisation was premised on the need to establish knowledge depth amongst the respondents at Uni-Handling International. In the end, the longer the respondents have served the organisation, the better informed they were in terms of the company's business practices as well as trends in operations performance. Responses are given in Figure 4 below:

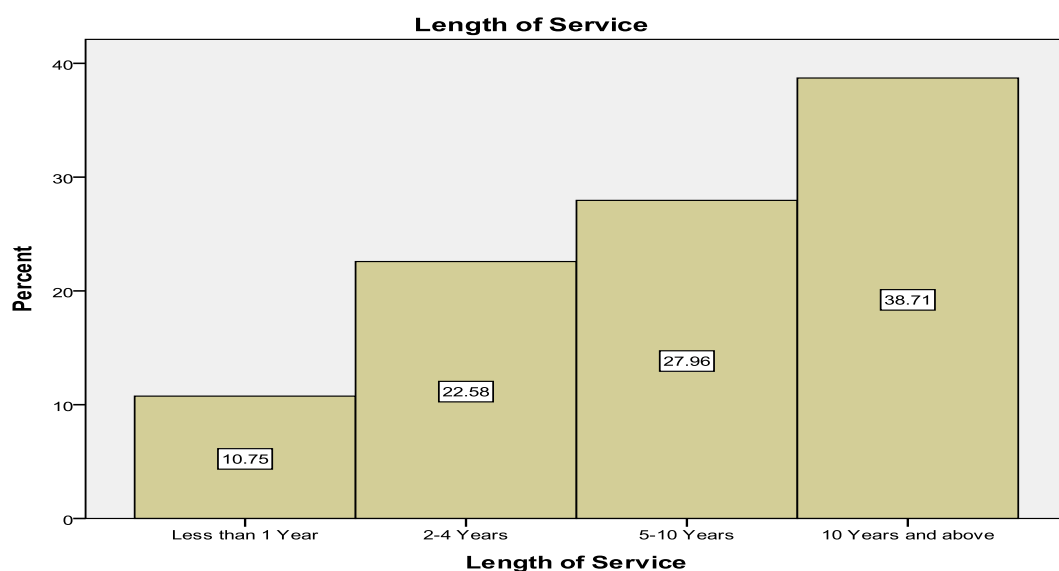


Figure 4: Length of Service of respondents

Figure 4 above shows that the majority of the respondents, 38.71% (Above 10 years) have stayed longer in the organization and were in a better position to give valid contributions, hence the authenticity of data collected. Only 10.75% were in the region of 1 year and below, apparently, there has been a freeze on employment at Uni-Handling International due to the current challenges facing its finance operations. The fact that most employees have longer services suggested that Uni-Handling International has good employee retention although notably this has been on a decline.

Knowledge of internal financial controls by respondents at Uni-Handling International

The rationale behind this question was to establish knowledge prevalence of the internal financial controls at Uni-Handling International and its relevance on operational performance. The question also helped to determine whether the respondents had knowledge on the important role of internal controls on operational performance. Responses are presented in Table 1 below:

Table 1: Knowledge of Internal Financial Controls at Uni-Handling International

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	15	16.13	16.1	16.1
No	69	74.19	74.2	90.3
Undecided	9	9.67	9.7	100.0
Total	93	100.0	100.0	

From the information obtained in Table 1, the majority of the respondents, 74.19% showed no understanding of the internal financial controls; While 9.67% were not sure. Only 16.13% demonstrated understanding of the internal financial controls and these were mainly from the management. The above findings are seemingly in contra-flow with the understanding that, the successful implementation of internal controls rests primarily on the knowledge and skills of employees (Millichamp & Taylor, 2008; Drury, 2000).

The degree of employee participation and involvement in internal control issues

The main objective of this question was to determine the extent of employee participation and involvement in internal financial control issues at Uni-Handling International.

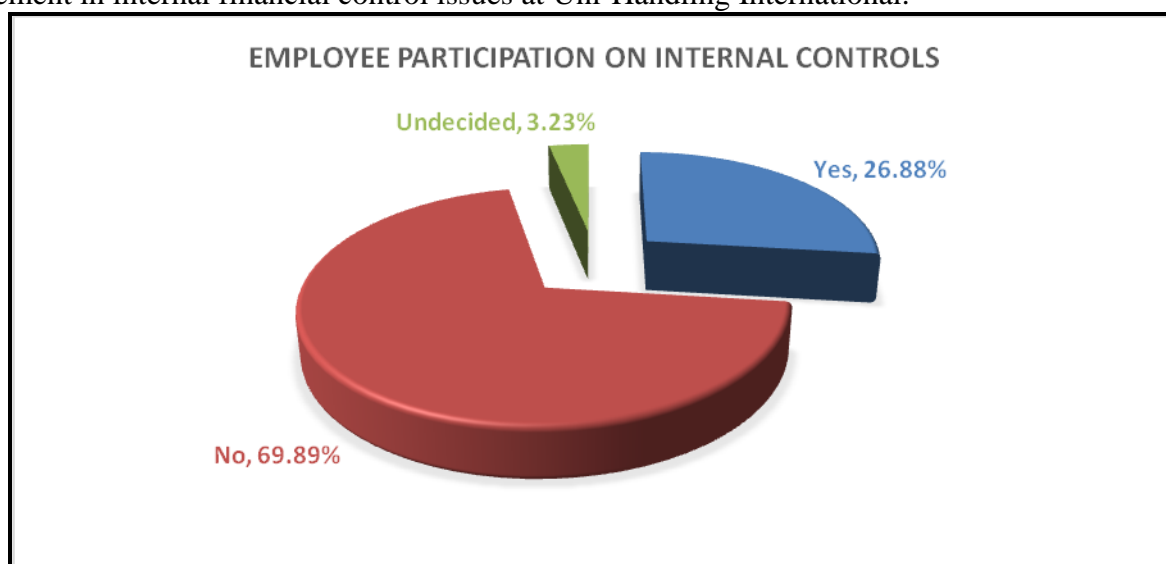


Figure 5; The degree of employee participation in the internal financial controls

From the information obtained in Figure 5, the majority of the respondents constituting 69.89% indicated that they were often left out in the formulation stages and thus they seldom participated in internal financial controls despite the need by the management for the employees to meet specific targets. On the other hand, 26.88% confirmed participation in the formulation and implementation of internal financial controls in their respective departments though the issue of consistency has been problematic. Only 3.23% remained neutral. The above findings find support in Lucey (2003) and Drury (2007) who both acknowledged that employee participation in internal controls like budgeting forms a critical success factor to the financial performance.

Relationship between internal financial control systems and operations performance.

The objective of the question was to establish the casual relationships between internal financial controls and finance performance at Uni-Handling International.

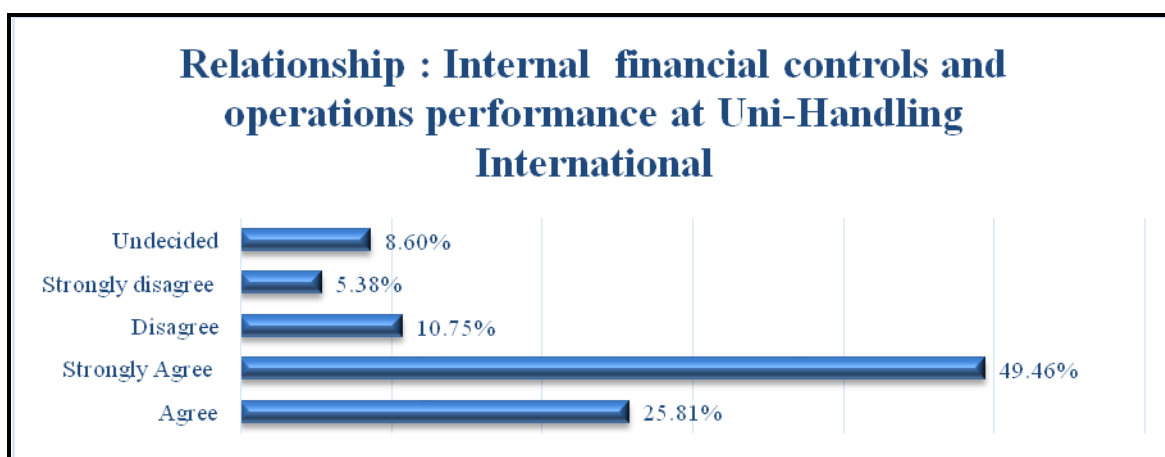


Figure 6: Relationship between internal financial controls and operations performance

From the information obtained in Figure 6 above; respondents constituting 5.37% strongly disagreed, arguing that there was no relationship between internal financial controls and operations performance, 10.75% disagreed and 8.60% were not sure. The majority of the respondents, 25.81% were in agreement while 49.46% strongly agreed. Based on such findings, Huselid (2005) did a comprehensive evaluation of the links between systems of high performance work practices and firm's financial performance. This was affirmed by Scarlett (2008) on the significance of budgetary control on productivity of firms and Preetabh (2010) on budgets as a tool for profit maximisation, through effective coordination of different functions.

The relationship between internal financial control and key performance financial indicators at Uni-Handling International

The main purpose of this question was to establish the link between internal financial controls and the financial indicators at Uni-Handling International. Therefore, the respondents were given an opportunity to express their views on role of internal financial controls on financial growth at Uni-Handling International. Table 2 below showing the impact of internal financial controls on firm's financial growth.

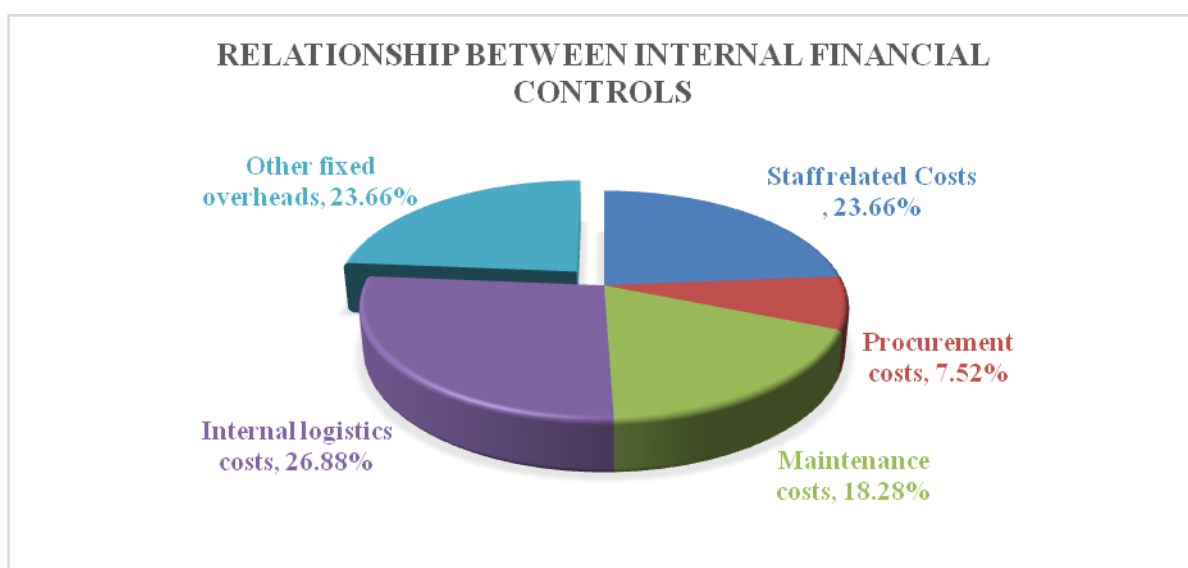
Table 2 Relationship between internal financial controls and financial growth

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Liquidity	27	29.03	29.0	29.0
Financial gearing	23	24.7	24.7	53.8
Profitability	22	23.7	23.7	77.4
Efficiency	21	22.6	22.6	100.0
Total	93	100.0	100.0	

The information presented in table 2 shows the relationship between financial controls and financial growth in Uni-Handling International operations. The majority of the respondents (29.03%) pointed that implementation of sound internal financial controls in finance operations results in high liquidity. A total of 23 respondents (24.7%), cited financial gearing of the business while 22 (23.7%) considered high profitability with 21 (22.6%) on firm's operations efficiency. The results generally suggest that there is a close relationship between the firm's financial growth and internal financial controls. The above results have been supported by Drury, (2010), that firms have to put in place policies and procedures that secure the flow of funds. Millichamp, (2000), portends that audit practice and investment in ICT tools is essential in maintaining the financial health of the company. According to Gubbins, (2004) finance companies need to leverage on financial metrics to ensure effective operations performance. Emmet, (2006), argues that finance manager has critical role in putting measures that achieves both operations performance and financial growth.

Relationship between internal financial controls and the cost profile

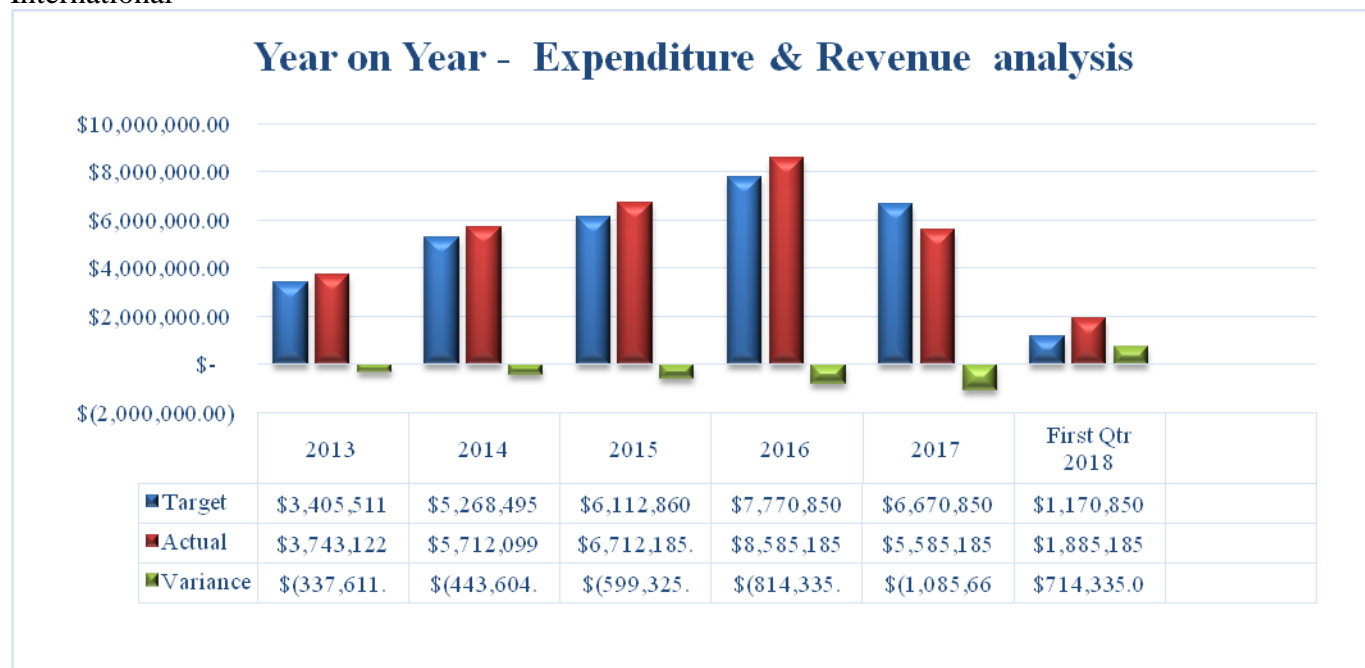
The purpose of this question was to get an insight on the relationship between the internal financial controls and the firm's cost profile at Uni-Handling International. The responses are given in Figure 7 below:

**Figure 7 Internal financial controls and Cost profile**

Information in figure 7 above shows the cost structure of Uni-Handling International, the responses obtained shows that of the main costs, internal finance is a major cost centre (26.88%) followed by staff related costs and other fixed costs all with (23.66%). Other notable costs elements by respondents were on maintenance costs (18.28%). Only 7.52% felt procurement costs was an important cost centre and thus was also an ideal candidate for internal financial control reforms.

Expenditure and revenue analysis at Uni-Handling International

In order to gain an insight in the company financial performance, apart from interviews, the researcher managed to extract expenditure and revenue volumes in the period 2013 to 2017, useful to the researcher. The total expenditure figures illustrated below helped in determining compliance to internal financial controls within the various departments at Uni-Handling International



Source: Uni-Handling International Financials, 2019

From information obtained Figure 8 above the existence of significant budget overruns in Uni-Handling International operations for instance an increase of the budget variance of 31.39% was realised in the period 2013 and 2014. The budget variance further increased significantly to 35.10% in 2015 and 35.87% in 2016. The budget variances remained significantly high at Uni-Handling International among other deviances.

From the information obtained in Table 2, the majority of the respondents, 74.19% showed no understanding of the internal financial controls; While 9.67% were not sure. Only 16.13% demonstrated understanding of the internal financial controls and these were mainly from the management. The above findings are seemingly in contra-flow with the understanding that, the successful implementation of internal controls rests primarily on the knowledge and skills of employees (Millichamp & Taylor, 2008; Drury, 2000).

Employee participation in internal financial control systems at Uni-Handling International

From the information obtained in Figure 5, the majority of the respondents constituting 69.89% indicated that they were often left out in the formulation stages and thus they seldom participated in internal financial controls despite the need by the management for the

employees to meet specific targets. On the other hand, 26.88% confirmed participation in the formulation and implementation of internal financial controls in their respective departments though the issue of consistency has been problematic. Only 3.23% remained neutral. The above findings find support in Lucey (2003) and Drury (2007) who both acknowledged that employee participation in internal controls like budgeting forms a critical success factor to the financial performance.

Relationship between internal financial controls and operations performance

From the information obtained in Figure 4.5 above; Respondents constituting 5.37% strongly disagreed, arguing that there was no relationship between internal financial controls and operations performance, 10.75% disagreed and 8.60% were not sure. The majority of the respondents, 25.81% were in agreement while 49.46% strongly agreed. Based on such findings, Huselid (2005) did a comprehensive evaluation of the links between systems of high performance work practices and firm's financial performance. This was affirmed by Scarlett (2008) on the significance of budgetary control on productivity of firms and Preetabh (2010) on budgets as a tool for profit maximisation, through effective coordination of different functions.

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4.0 CONCLUSIONS

The collected data was statistically analysed to form a basis upon which some findings could be drawn up. Based on the research findings of the study a number of conclusions were made on the evaluation of the effectiveness of internal financial controls at Uni-Handling International. The researcher managed to conclude positive relationship between internal controls and operational financial performance at Uni-Handling International.

The staff related costs are being mainly driven by hefty allowances advanced towards management at the expense of the lower level employees. Management laxity on some policy issues has been identified to be the major contributor to deficiencies in the internal financial

controls at Uni-Handling International. The costing methods are often distorted by management override, making it difficult to effectively track the performance of the organisation.

5.0 RECOMMENDATIONS

It is now very obvious that internal financial control is of tremendous importance to business organizations and such establishments can easily survive if the internal control technique is properly implemented in its routine operations. However, internal financial control is not a substitute for the individual performance of the entire staff. Obviously, it has some shortcomings, although those may be minimal. Therefore, the process of implementing internal financial control in business organizations should:

- Ensure that every subordinate is carried along the formulation and implementation of the internal controls.
- Ensure that the internal controls are tailored to the organization for easy monitoring and control.
- Attempt to revise standards when circumstances change to such dimension as to warrant adjustments in operating procedures
- Ensure that the internal control system is not too mechanical to allow positive creativity.
- Ensure that those who have responsibilities for preparing the internal control policies and guides do not abuse the privilege.

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