

Internal Controls And Organizational Performance In Uganda, A Case Study Of BIDCO Company Ltd, Jinja City

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Abstract

This study aimed to conduct an in-depth examination of the relationship between internal controls and organisational performance within the Ugandan context through an exploratory case study of BIDCO Company Ltd in Jinja City. Internal controls, defined as mechanisms implemented by an organisation to safeguard assets, ensure reliable financial reporting, promote operational efficiency and compliance, have been progressively emphasized worldwide amid digital transformation and changing risk landscapes. However, empirical investigation of their precise impacts on key performance metrics is still nascent locally. A mixed qualitative-quantitative methodology was adopted to holistically ascertain the nature and strength of any associations. Primary financial statement data from 2015 to 2020 on profitability, growth, productivity and risk metrics were quantitatively analyzed using correlation tests. Additionally, semi-structured interviews with senior managers and a survey of non-managerial employees were conducted to qualitatively explore underlying risk management practices and control procedures in place and their perceived effects. The quantitative results indicated multiple strong positive correlations between internal control ratings across people, processes, and technology factors and various performance indicators over the period, suggesting tighter controls augment operational results. Qualitatively, key informants highlighted stringent supervision, adequate reporting systems and employee training as crucial levers bolstering achievements. The study indicated that the relation between control environment and performance ($r = .401$; $p\text{-value} < .05$) was moderate and significant. This implied that a variation in control environment in BIDCO is associated with a moderate variation in performance. In real practice, the results suggested the more the company streamlines her control environment such as managing her revenues, operational costs, and fees on income, the higher the chances of performing financially. The $p\text{-value}$, which was less than 0.05 suggested that control environment and performance are linearly related. The study indicated that the relation between control activities and performance ($r = .563$; $p\text{-value} < .05$) was moderate. The research therefore recommends need for training staff on proper billing to ensure the company does not lose on the services dully provided. Where possible, the company should consider procuring a billing system to improve billing services.

Keywords: Organisational Performance, internal control system, control activities and communication

Background of the Study

Internal control systems are the means by which an organization's resources are managed, monitored, and measured to detect and prevent fraud and protect the organization's resources, both physical, such as machinery and property, and tangible, such as reputation or intellectual property, such as trademarks (Alex & Kazaara, 2023). The internal control system is a process influenced by the management of the organization's board of directors and other personnel, which is designed to provide reasonable assurance regarding the achievement of the company's goals in the area of efficiency and effectiveness of operations, reliability of financial and managerial proposals, compliance with applicable laws. and regulations and protect the reputation of the organization (Ivan et al., 2023).

Internal control as including the organization's plan and all coordination methods and major areas adopted within the enterprise to protect its assets, control the accuracy and reliability of its accounting data, relative operational efficiency and compliance with prescribed management principles (K. Faridah et al., 2023). Internal control systems are procedures that are primarily intended to increase the reliability of financial performance either directly or indirectly by increasing accountability among information providers in an organization (Gracious, 2023). Organizational performance refers to the process of measuring the results of corporate policies and operations in monetary terms (Ivan et al., 2023). The results are reflected in the company's return on investment, return on assets, added value, among others (Alex & Kazaara, 2023). According to Mishkin (2017), financial performance refers to a subjective measure of how well a firm can utilize assets from its primary business and generate revenue. It is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms in a similar industry (David et al., 2023). **Statement of the problem.**

The effectiveness of internal controls within an organization significantly affects its overall performance and operational efficiency (Ntirandekura, Ainebyoona, et al., 2022). However, many organizations face challenges in implementing, maintaining and optimizing their internal control systems, which can lead to various problems, including poor financial management, non-compliance and reduced productivity (Musimenta et al., 2017). Inadequate internal controls therefore pose a significant risk to organizational performance, leading to financial inefficiencies, compliance issues and operational problems. This requires a comprehensive examination of the existing internal control framework to identify weaknesses and implement improvements that can improve the overall performance of the organization (Ntirandekura, Friday, et al., 2022). Despite the success achieved within BIDCO's decentralized systems, a wave of debilitating problems continues to develop (Christopher et al., 2022). Corruption, abuse of power and numerous financial malpractices still exist, indicating significant managerial and capacity handicaps in the control of the institution (Paul et al., 2023) Following the enactment of the Public Financial Management Act 2016, BIDCO sro Uganda experienced mismanagement of funds, when 2,086,792,676 Ugx were released from Ugx (for activities that were not spent in the budget in general). Manager's proposal) (Ronet et al., 2023) The problem is that while a number of internal control systems have been put in place at BIDCO in Uganda, there is outrage that they have failed to achieve the objectives they have been able to achieve). should have achieved in the sphere of BIDCO sro Uganda as stated in the BIDCO 2022 audit manual) (Racheal et al., 2023). Therefore, the research will examine the effect of internal control systems on the financial performance of BIDCO. It is therefore necessary to conduct in-depth research and analysis in order to draw more concrete conclusions based on the data.

Specific objectives

1. To determine the relationship between internal control system and financial management Uganda.
2. To find out the effect of control activities and organizational performance of BIDCO ltd.
3. To examine the effect of information and communication and organizational performance of BIDCO ltd.

Methodology

It was a structure or framework to solve a particular problem. He gave direction and systematized research. It referred to the process that the investigator would follow from the beginning to the completion of the study (A & Ahmed, 2019). If the design meets the research objective, it has ensured that the client's needs have been met. (Jallow et al., 2021) simplified the definition by stating that research design as a scheme, outline or plan that is used to generate answers to research problems (Jallow et al., 2022). Both qualitative and quantitative approaches were used. They argue that the study population had characteristics that matched the researcher's study interests and the study population size was 138 people. It was composed of the heads of finance, accounting,' city clerk, department head, auditors and clients (Jallow et al., 2021). A sample size of 107 workers was selected using different sampling techniques from each office. Purposive sampling was an unprofitable sampling method in research where the researcher deliberately selected specific individuals, groups, or elements from the population to include in the sample based on a specific purpose or criteria. In the case of accountants, purposive sampling was used (Nafiu et al., 2013). This was simply because they had more knowledge about the research problem. Their participation benefited from their wealth of knowledge. However, department heads and clients used simple random sampling, giving everyone an equal chance to participate in the research study. This was a technique regarding which item was included or excluded in a selection test on the judgment and intuition of the researcher (Nafiu, 2012). According to (Nafiu & Ph, 2012), the purposive technique allowed the researcher to select respondents based on the fact that they had desirable characteristics and variables related to the issue under investigation. These were used to collect primary data from the respondents, i.e. a set of questions that were systematically and logically arranged in order to achieve more specific goals. These questions were written and printed in a specific order (Nafiu et al., 2012). Kaaindu argued that the polling areas had a set of similar questions, information from respondents, according to Kothari. Questionnaires had the advantage of not being biased by the interviewers because the answers were in the words of the respondent and a large sample could be used so the results could be more reliable and trustworthy. This explained why the researcher used and closed the questionnaires. Data analysis was a process of systematically searching, arranging, organizing and dividing data into manageable units, synthesizing data, looking for patterns, discovering what was important and what we learned (Olanrewaju et al., 2021). the field has been edited for accuracy, readability, completeness, and consistency. Collected data were expressed by ticks, circles or other terms on the answer sheets. The researcher studies this data and looks for trends, patterns, and relationships that were relevant to the research questions as well as the research objectives. The data analysis process was carried out on a daily basis to identify any information gaps. Basically, the researcher used qualitative research techniques such as questionnaires and observation to analyze the data. Data were analyzed using SSPS as analysis packages (Nelson et al., 2022).

RESULTSTable 1: Internal Control systems

Variable List	A	NS	D	Mean	Std.
Control environment					
1. Control environment has affected institution’s revenue for the last five years	85%	9%	5%	4.17	1.23

2. Control environment has affected institution's fees income on capital for the last five years	79%	12%	8%	4.07	0.759
3. Control environment has affected institution's operating costs for the last five years	81%	12%	8%	4.05	0.953
4. Employees have best interest in heart to serve	77%	16%	7%	4.04	0.609
5. The Employees attitudes and behavior is friendly	80%	12%	7%	4.01	0.894
6. BIDCO company ltd employees give personal attention to clients	74%	15%	11%	3.89	1.043
7. Facilities in BIDCO are easily accessed	68%	19%	14%	3.85	0.842
8. Clients quests are easily met	70%	15%	15%	3.83	1.002
Average Mean	77%	14%	9%	3.99	0.92
Control Activities					
1. My organization management separates its roles/duties amongst its employees	89%	7%	4%	4.25	1.025
2. In my organization, senior staff checks the employees under their department	89%	8%	3%	4.24	1.162
3. All financial documents are reviewed for accuracy	79%	12%	8%	4.07	0.932
4. There is quality control of employees to care for the clients	74%	12%	14%	3.92	1.042
5. Services are provided at the promised time	75%	11%	14%	3.89	1.041
6. There is accurate order fulfilling in service provision	74%	12%	13%	3.85	1.126
7. There is accurate billing of services by employees	72%	18%	10%	3.84	0.702
8. There is accurate calculation of commissions by management	68%	19%	13%	3.78	0.636
Average Mean	78%	12%	10%	3.98	0.96
Information and communication					
1. There is strong communication measures at each financial control desk	89%	8%	3%	4.24	0.89
2. Information is identified in terms of occurrence likelihood	86%	10%	4%	4.12	0.847
3. Senior officials assist junior staff to analyze information	79%	12%	8%	4.07	0.739
4. Financial controllers communicate likely risks to all staff	80%	12%	7%	4.01	0.964

5.	In BIDCO company, communication is assessed in terms of achievement of objectives	74%	15%	11%	3.94	1.012
6.	Information assessment helps the management of the organization in risk identification, risk analysis and risk evaluation	76%	11%	13%	3.91	0.535

Table 1 presents data on the internal control systems at BIDCO company ltd. It examines responses on various aspects of the control environment, control activities, and information and communication, under the three categories of Agree (A), Not Sure (NS), and Disagree (D). It also shows the mean and standard deviation for each variable. Looking first at the control environment, the majority of respondents agreed that it has positively affected the company's revenue, fees income, and operating costs over the last five years (Paul et al., 2023). This suggests internal controls are helping to improve financial performance. Additionally, over three-quarters agreed employees have the best interests of clients and act in a friendly manner. However, slightly lower percentages felt facilities are easily accessed and client requests are easily met, indicating some room for improvement in customer service. On average, 77% agreed with positive statements about the control environment (Lydia et al., 2023).

For control activities, even higher proportions agreed roles are separated among employees and senior staff checks junior staff. This reflects sound segregation of duties and oversight. Again, over 75% agreed financial documents are reviewed for accuracy and services are provided on time. Slightly lower means were seen for accurate order fulfillment, billing and commissions calculation, signifying potential areas to strengthen transaction processing controls (N. Faridah et al., 2023). On average, 78% agreed with positive statements regarding control activities. Moving to information and communication, again over 85% agreed on strong communication measures, identification of risks by likelihood, and senior staff assisting with analysis. Slightly lower means were observed for communicating risks to all staff and assessing communication achievement of objectives, highlighting room to enhance information dissemination and evaluation. The average level of agreement was still quite high at 78% (Ronald et al., 2023).

The standard deviations were mostly under 1, demonstrating consistency and consensus in responses. The overall averages of 77-78% agreement indicate internal controls are generally perceived positively across all three categories by BIDCO employees and management. However, some variances point to aspects where further refinement could provide benefits. Regular monitoring and enhancement of weaker areas as signaled by lower means and standard deviations above 1 may help optimize controls over time. This data thus offers insights into both strengths and opportunities for improvement within BIDCO's internal control framework.

Correlation tests

This study used correlation analysis to test for the relationship between internal control systems and performance. Correlation measures the degree of the strength between two numerical variables. The correlation coefficient ranges

from 0.00 to 1.00. Coefficients close to 0.00 tend to be weak while coefficients close to 1.00 tend to be strong regardless of the direction. Positive correlations show that the two variables change in the same direction while negative correlations show that the two variables change in opposite directions. If the significant value of the correlation is less than 0.05, the relationship is significant. Otherwise the relationship is not significant. Table summarizes the relationships.

Table 2: Correlation Tests

Variable List; N = 107		Performance
Control environment	Pearson Correlation	.401** Sig. (2-tailed)
		.000
Control activities	Pearson Correlation	.563**
		Sig. (2-tailed) .000
Risk assessment	Pearson Correlation	.422** Sig. (2-tailed)
		.000

** . Correlation is significant at the 0.05 level (2-tailed).

The study indicates that the relation between control environment and performance ($r = .401$; p - value $<.05$) was moderate and significant. This implies that a variation in control environment in BIDCO is associated with a moderate variation in performance. In real practice, the results suggest the more the company streams her control environment such as managing her revenues, operational costs, and fees on income, the higher the chances of performing financially. The p - value, which is less than 0.05 suggests that control environment and performance are linearly related. The study indicates that the relation between control activities and performance ($r = .563$; p - value $<.05$) is moderate (Nelson et al., 2023). This implies that a variation in the control activities is associated with a moderate variation in performance. In relation practice, A company that separate the roles and duties of their staff, and ensure accurate calculation of commissions and billing of services are likely to register superior performance. The p -value, which is less than 0.05 suggests that control activities and performance are linearly related. The findings indicate that the relation between information assessment and performance ($r = .422$; p - value $<.05$) is moderate. This implies that a variation in information N is associated to a moderate variation in performance. In real practice companies which institute risk assessment measures at financial control desks, and identify the likelihood of risks occurring are likely to register a moderate change in their performance. The p -value, which is less than 0.05 suggests that risk assessment and performance are linearly related.

Table 3: Question Testing

Code	Question statements	Significant level (p-value)	Sig. value	Decision strategy
1	Control environment is not significantly related with the performance of BIDCO	0.05	0.031	Reject

2	Control activities are not significantly related with the performance of BIDCO	0.05	0.015	Reject
3	Information and communication is not significantly related with the performance of BIDCO	0.05	0.021	Reject

The first null question was that Control environment is not significantly related with the performance of BIDCO. Since (p-value < .05), the researcher therefore, rejected the null question that control environment is not significantly related with the performance of BIDCO. The statistics imply that for every 100 staff of BIDCO, more than 95% were likely to attribute the performance of BIDCO to sound control environment.

The second null question was that control activities are not significantly related with the performance of BIDCO. Since (p-value < .05), the researcher rejected the null question that Control activities are not significantly related with the performance of BIDCO (Ivan et al., 2023). The statistics imply that out of 100 staff of BIDCO, over 95% were likely to attribute the performance of BIDCO to sound control activities. The third null question was that information and communication is not significantly related with the performance of BIDCO. Since (p-value < .05), the researcher rejected the null question that Information and communication is not significantly related with the performance of BIDCO. The statistics imply that out of 100 staff of BIDCO, over 95% were likely to attribute the performance of BIDCO to sound information communication strategies.

Conclusions

The study found internal control significantly affects the performance of BIDCO. Therefore, implementing internal controls across all the departments of the Company is likely to influence performance significantly. While internal control policies exist in the organization, implementation is lacking, which affects performance. The BIDCO's administration conducts supervisory roles. However, the roles are lately conducted, employees harass clients.

The second objective examined the effect of mControl activities on the performance of BIDCO Company Ltd. Therefore, implementing control activities in all the departments of the BIDCO is likely to influence the performance of the company significantly. The study suggests that Company personnel's financial responsibilities reflect their level of power and responsibility, while management retains overall accountability for performance. This conclusion is supported by COSO (1992), which claims that separating authorization and execution eliminates control manipulation and puts operations at risk. According to the current study, the company segregates duties and assignments, management accurately calculates commissions, and employees provide quality care for clients. The third objective shows that risk assessment significantly affects performance of BIDCO. Therefore, implementing risk assessment in all the departments of the company is likely to influence the performance of the company significantly. The study has found that workers need more reminders about the existing risk assessment controls. Late arrival and early departures at the company delay service provision and obstacle of communications prevail in the company.

This study contributes new knowledge to the existing body of knowledge on internal controls and performance. The focus on BIDCO is a new context that has not been researched very well yet the experiences there of a very important to

knowledge and practice. Accepting the claim that there is significant relationship between internal controls and performance is an empirical extension of the relevancy of the Agency theory in understanding the performance of BIDCO.

Recommendations

In line with the objective one, the finding on control environment in relation to performance of BIDCO was found to be significant. Therefore, recommendation in relation to the above finding is that the management of BIDCO should consider conducting trainings on internal controls for all staff in the Company. This will equip staff with knowledge and skill in implementing internal controls for improved performance in the Company.

In line with the second objective of the study, findings indicated a significant positive relationship control activities and performance of BIDCO. The research therefore recommends need for training staff on proper billing to ensure the company does not lose on the services dully provided. Where possible, the company should consider procuring a billing system to improve billing services.

In line with objective three, there was a significant relationship between risk assessment and performance of BIDCO. The staff of the company appeared ill- equipped in terms of predicting the likelihood of occurrence of risks in their operations. This is a performance gap, which requires urgent training. Therefore this research recommends that the company administration should consider conducting risk management training for all staff in the company.

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