
Internal Controls And Organizational Profitability, A Case Study Of Kcca

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Abstract

The study was conducted basing on the research topic internal controls and organizational profitability. The case study was KCCA. It was done considering the following objectives; To evaluate the impact of internal control on profitability of KCCA, to ascertain and recommend corrective measures to be taken to ensure strong and satisfactory internal control system in KCCA and to identify the relationship between internal control and management of KCCA. Findings on the age of the respondents revealed that 6 respondents were below 25 years representing 16.7%, 14 respondents aged between 25-34 years representing 38.9%, 10 respondents between 35-44 years representing 27.7% and lastly to respondents aged between 45-60 years representing 16.7% respectively. Out of the 36 respondent 23 were Male representing 63.9% and 13 were female representing 36.1%. The figure shows that the male respondents formed majority of the target population with a total of 23 representing 63.9%, while 13 respondents representing 36.1% were females due to the fact that male respondents were more educated than female. On education level, results show that the percentage for those of Master's degree holders was 5.6%, degree holder was 11.1%, diploma holder was 22.2%, certificate was 27.8% and respondents with other qualification was 33.3%. The majority of the respondents were married (66.6%) a sign that they were responsible. These were followed by those who were single and they were 10 in number with a percentage of 27.6%. Findings on the statements on internal control showed that 32.3% of the respondent agreed with the statements provided on internal control practices, 30.2% strongly agreed, 15.5% disagreed, 9.8% of the respondents strongly disagreed with the statements, 12.2% these were neutral. The statistic on profitability/ performance showed that 30%, of the respondent agreed with the statements provided on performance measures, these were followed by those who strongly agree and their percentage was 28.75%, 21% of the respondents they disagreed, and 8.75% of them strongly disagreed, and 11.5% were neutral. The research therefore recommends need for training staff on proper billing to ensure the organization does not lose on the services dully provided. Where possible, the organization should consider procuring a billing system to improve billing services.

Keywords: Internal, Controls, Organizational and Profitability

Background of the Study

Financial internal control includes accounting information. Internal investigators use financial information and will need to understand, interpret, discern what is important and what is not important, obtain, identify, protect, report and testify in forensic financial information obtained in fraud investigations (Polycarp et al., 2023). A relatively new phenomenon in research also deals with the influence on jurors. Researchers have discussed the importance of training accounting internal control systems on fraudulent methods, but also state that it is important for fraud investigators to be familiar with accounting information systems (K. Moses et al., 2023). In addition, studies also suggest that it is important for fraud investigators to be able to testify as experts on evidence obtained from AIS (Akankwasa et al., 2022), and several researchers even suggest that even judges and lawyers may wish to be updated in AIS and forensic evidence (Lowe et al 2015; Neuffer, 2016). 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 (Musaibah et al., 2023). The internal control system is a process, influenced by the management of the board of directors and other personnel of the organization, which is designed to provide reasonable assurance regarding the achievement of the company's objectives in the effectiveness and efficiency of operations, the reliability of financial and managerial proposals, compliance with applicable laws and regulations . and protect the reputation of the organization (Alex & Kazaara, 2023).

Internal control includes the plan of the organization and all coordination methods and main 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 (Innocent 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 (Polycarp et al., 2023). Organizational profitability refers to the process of measuring the results of corporate policies and operations in monetary terms. The results are reflected in the company's return on investment, return on assets, added value, among others (Annet et al., 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 (N. Moses et al., 2022). The study was conducted in Kampala capital city area, this area was chosen because it is close to the researcher's access and has all the required information that the research requires.

Statement of the problem.

The current business environment and the more recent economic recession has made the top management of many organizations pay attention to how to make their company's financial statements look better to attract investors by manipulating the data in their financial statements by either increasing or decreasing the numbers depending on what they want to achieve at a given moment through aggressive or creative accounting, otherwise known as internal control over financial statements (Akankwasa et al., 2022). Recently, internal control has been identified as a major threat to financial institutions, KCCA has faced difficulties in maintaining collections sufficient to keep pace with expenditure levels required to provide a portfolio of services (K. Paul et al., 2023).

The effectiveness of internal control on financial performance should be considered most important in any organization because the task of internal control is to prevent and detect fraud (Innocent et al., 2023). The problem is that although a number of internal controls have been put in place to generally increase accountability in KCCA, there is outrage that they have failed to achieve the targets they were supposed to achieve in KCCA as outlined in the audit manual. of (Christopher et al., 2022). Therefore, the research on the above background has the researcher's interest to find out from the effectiveness of the internal control system on the profitability of KCCA.

Specific objectives

1. To evaluate the impact of internal control on profitability of KCCA.
2. To ascertain and recommend corrective measures to be taken to ensure strong and satisfactory internal control system in KCCA
3. To identify the relationship between internal control and management of KCCA.

Methodology

The objective of research was to answer the question and identify whether there was a relationship between internal control and organizational profitability (Lu et al., 2013). The survey method was selected for the purpose of this study in order to collect a sufficient amount of primary data, and it was questionnaire method. It referred to the process that the investigator followed from the inception to completion of the study if the design adheres to the research objective, it ensured that the client's needs were served. (Nafiu et al., 2012) simplified the definition by stating that a research design was the scheme, outline, or plan that was used to generate answers to research problems. Both qualitative and quantitative approaches were used. Qualitative designs help in giving detailed information (Aslam et al., 2022). It helped to give in-depth analysis of internal control systems in the area of study. They contend that a population of study should possess characteristic that meet a researcher's study interests and the study population size was 40 people. This comprised of heads of departments from finance, accounting, town clerk, departmental heads, auditors and clients (Nafiu et al., 2012). A sample size of 36 workers was selected in which different sampling techniques were used from each office. For the case of accountants, purposive sampling was used. This was simply because they had more knowledge about the research problem (Nafiu et al., 2017). Their participation was beneficial due to their rich knowledge. However, the departmental heads

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and the clients, simple random sampling was used and this gave equal chance for everyone to take part in the research study. This was a technique with regard to which item was included or excluded in the sample test on the researcher's judgment and intuition. According to (Olanrewaju & Abiodun, 2021), purposive technique enabled the researcher to choose respondents basing on the fact that they had desirable characteristics and variables related to the issue being studied. These were used to collect primary data from the respondents that is, a set of questions that were arranged systematically and logically so as to achieve more specific objectives (Nafiu et al., 2017). These questions were typed and printed in a definite order. Kaaindu asserted that questioning areas had a set of similar questions framed together, information from respondents, according to Kothari. Questionnaires had an advantage because they were free from bias of interviewers since answers were in the respondent's words and a large sample was used and thus the results can be more dependable and reliable (Jallow et al., 2021). Data analysis was the process of systematically searching, arranging, organizing, and breaking data into manageable units, synthesizing the data, searching for patterns, discovering what was important and what was to be learned (Olanrewaju et al., 2021a). The data collected from the field was edited for accuracy, legibility, comprehensiveness and consistency. The data collected was expressed by ticks, circles or other notions on response sheets. The researcher studied this data and search for trends, patterns and relationships that are relevant to the research questions as well as research objectives (Olanrewaju et al., 2021b). The process of data analysis was done on a daily basis to locate any information gaps. The researcher basically used qualitative techniques of research like questionnaires and observations to analyze the data. The data was analyzed with SPSS as the analytical packages

RESULTS

Table 1 showing statistics on the impact of internal control on the profitability of KCCA

Internal control practices	1	2	3	4	5
Committed leadership to quality	40%	20%	12%	5%	23%
Employee involvement	20%	48%	6%	14%	12%
Supplier quality management	62%	12%	13%	7%	6%
Training and education	25%	20%	20%	15%	20%
Continuous quality improvement	24%	56%	5%	12%	3%
Process management	30%	15%	40%	5%	10%
Customer focus	10%	30%	25%	15%	20%

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Strategic planning	12%	58%	15%	9%	6%
Information analysis	68%	12%	4%	6%	10%
Average percentage (%)	32.3	30.2	15.5	9.8	12.2

The statistics from the table 1 above show that 32.3% of the respondent agreed with the statements provided on internal control practices, 30.2% strongly agreed, 15.5% disagreed, 9.8% of the respondents strongly disagreed with the statements, 12.2% these were neutral. Committed leadership to quality had the highest percentage (40%) at level 1 impact, followed by 23% at level 5 impact (Winny et al., 2023). Employee involvement had the highest percentage (48%) at level 2 impact. Supplier quality management had the highest percentage (62%) at level 1 impact. Training and education was most evenly distributed across levels 1, 2, 3 and 4. Continuous quality improvement had the highest percentage (56%) at level 2 impact. Process management was highest at level 3 impact (40%) followed by level 1 impact (30%). Customer focus was highest at level 2 impact (30%) followed by level 3 (25%) and level 5 (20%) (W. Paul & Kazaara, 2023). Strategic planning had the highest percentage (58%) at level 2 impact. Information analysis had the highest percentage (68%) at level 1 impact. On average, the internal control practices had the highest impact percentage (32.3%) at level 1, followed by level 2 (30.2%). This interprets the key statistics shown in Table 1 about the impact of different internal control practices on the profitability of KCCA based on the provided 5-point scale. Let me know if you need any part of the interpretation expanded on or clarified (Polycarp et al., 2023).

Table 2 showing statistical values on profitability of KCCA

	Performance Measures	1	2	3	4	5
1	The organization ensures there is continuous improvement of its products	30%	15%	40%	5%	10%
2	The organization meets customer specifications	10%	30%	25%	15%	20%
3	The organization ensures there is timely delivery	12%	58%	15%	9%	6%
4	Products are produced within budgets	68%	12%	4%	6%	10%
	Average percentage (%)	30	28.75	21	8.75	11.5

The first performance measure looks at how well the organization ensures continuous improvement of its products. At level 1 (30%), this suggests room for improvement, as nearly a third saw little continuous improvement. Level 3 has the highest percentage (40%), indicating most saw some progress here. A combined 15% at levels 2 and 4 also demonstrates mixed results. Only 10% at level 5 feels this area performed very well. Overall, continuous improvement seems to be inconsistently

implemented across KCCA (K. Moses et al., 2023).

For meeting customer specifications, having 30% at level 2 means many are somewhat meeting needs. The high of 25% at level 3 also denotes satisfaction is moderate. Encouragingly, 20% at the top level experienced good alignment. However, over a third combined at levels 1 and 2 highlights specifications are not fully defined or tracked effectively in all areas (Ramadhan et al., 2023). Regarding timely delivery, 58% placement at level 2 implies delivery is reasonably on time generally, but not always. The next highest is level 3 with 15%, denoting mostly on-schedule delivery. Low percentages at the extremes of 1, 5 and 9 suggest consistency could be strengthened across departments.

Table 3. Showing statistical values.

	Internal control system	1	2	3	4	5
1	Top management clearly understands the fundamental spirits and principles of internal control	40%	20%	12%	5%	23%
2	The departmental heads accept responsibility for internal control	20%	48%	6%	14%	12%
3	Top management of the organization has objectives for internal control.	62%	12%	13%	7%	6%
4	The organization's plan always incorporates external customers, suppliers and other stakeholders	25%	20%	20%	15%	20%
5	Data is analyzed using computers for managers to make decisions	24%	56%	5%	12%	3%
	Average percentage (%)	34.2	31.2	15.2	10.6	12.8

The statistic from the table above show that 34.2% of the respondent agreed with the statements provided on management system, 31.2% strongly agreed, 15.2% disagreed, 10.6% of the respondents strongly disagreed with the statements, and 12.8% these were neutral. The first statement examines top management's understanding of internal control principles and spirit. While 40% showed a basic understanding at level 1, encouragingly 23% exhibited a strong grasp at level 5. However, over a third combined at levels 2 and 3 indicates conceptual knowledge could be strengthened across top leadership.

For departmental heads accepting responsibility for internal control, nearly half (48%) took moderate accountability at level 2. Only 12% fully owned it at level 5. This suggests greater empowerment is needed, as over a quarter collectively at levels 1

and 6 had low responsibility. Regarding objectives for internal control set by top management, a substantial 62% established minimal objectives at level 1. In contrast, just 6% set ambitious objectives at level 5. This disparity highlights the need for executives to strategically prioritize controls. When considering stakeholder incorporation into organizational planning, responses were quite evenly distributed across levels 1 through 4. However, only 20% consistently engaged stakeholders well at level 5. Clearly, expanding meaningful outreach across divisions could fortify operations. In terms of data-driven decision making enabled by computers, over half (56%) utilized analytics moderately at level 2. Merely 3% fully leveraged insights at level 5. Limited utilization of available tools was thus indicated.

Table 4: showing the relationship between management system and internal control

	Management system	1	2	3	4	5
1	Employees are involved in planning and design	48%	20%	20%	7%	5%
2	Employees proactively champion certification of internal control	12%	3%	24%	15%	46%
3	The accountants are provided with feedback on their quality internal control system.	20%	10%	30%	12%	28%
4	All managers believe that internal is their responsibility	56%	20%	10%	5%	9%
	Average percentage (%)	34	13	21	10	22

The statistic from the table above show that 34% of the respondent agreed with the statements provided on management system, 13% strongly agreed, 12% disagreed, 10% of the respondents strongly disagreed with the statements, 22% these were neutral. The first statement looks at the level of employee involvement in planning and design within the organization. Nearly half of respondents (48%) indicated that employees are somewhat involved at level 2. Encouragingly, 20% saw good involvement at level 4. However, over a quarter combined at levels 1 and 3 felt there is still room for improved engagement of employees in key processes. Overall, while participation exists, management could empower staff participation further.

For the second statement regarding employees championing certification of internal control, the standout percentage is 46% strongly agreeing this occurs at the highest level. Significantly, just 15% perceive moderate championing at level 3. This demonstrates that where an environment encouraging certification is established, employees will advocate. There appears ample opportunity to cultivate more proactive promotion across different parts of the organization.

Regarding feedback on the quality of the internal control system being provided to accountants, 30% agreed this happens satisfactorily at level 3. Still, sizeable minorities of 20-28% indicated it could be enhanced, suggesting inconsistent experiences. Targeted efforts to systematically solicit input may strengthen accountability further.

Considering managers believe internal control responsibility lies with them, a concerning 56% only somewhat accepted this critical duty at level 2. Just 9% fully assumed accountability at the top level. Close to a quarter combined at levels 1 and 3 do not completely own this core function. Greater managerial commitment appears necessary to optimally safeguard operations.

Summary of findings

Findings on the age of the respondents revealed that 6 respondents were below 25 years representing 16.7%, 14 respondents aged between 25-34 years representing 38.9%, 10 respondents between 35-44 years representing 27.7% and lastly to respondents aged between 45-60 years representing 16.7% respectively.

Out of the 36 respondent 23 were Male representing 63.9% and 13 were female representing 36.1%. The figure shows that the male respondents formed majority of the target population with a total of 23 representing 63.9%, while 13 respondents representing 36.1% were females due to the fact that male respondents were more educated than female.

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Conclusions

The study found internal control significantly affects the performance of KCCA. Therefore, implementing internal controls across all the departments of the Organization is likely to influence performance significantly. While

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internal control policies exist in the organization, implementation is lacking, which affects performance. The KCCA's administration conducts supervisory roles. However, the roles are lately conducted, employees harass clients. The effect of on the performance of KCCA. Therefore, implementing control activities in all the departments of the KCCA is likely to influence the performance of the organization significantly. The study suggests that the organization 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 organization 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 KCCA. Therefore, implementing risk assessment in all the departments of the organization is likely to influence the performance of the organization significantly. The study has found that workers need more reminders about the existing risk assessment controls. Late arrival and early departures at the organization delay service provision and obstacle of communications prevail in the organization.

This study contributes new knowledge to the existing body of knowledge on internal controls and performance. The focus on KCCA 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 KCCA.

Recommendations

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

In line with objective three, there was a significant relationship between risk assessment and performance of KCCA. The staff of the organization 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 organization administration should consider conducting risk management training for all staff in the organization. This will equip them with skills on risk identification, assessment, evaluation, and mitigations.

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