AFRICA UNIVERSITY

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INTERNAL CONTROLS AND ORGANIZATIONAL PERFORMANCE AT ZIMPAPERS PRIVATE LIMITED, ZIMBABWE

BY

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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER IN EXECUTIVE BUSINESS ADMINISTRATION IN THE COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

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Abstract

The main objective of the study was to examine the relationship between financial controls and Organizational performance for the Zimpapers Group. The study adopted a descriptive research design which used both primary and secondary data as well as both qualitative and quantitative methods. Primary data was collected using questionnaires and secondary data was obtained from newspapers, journals, magazines, internet and other published reports. The study was based on a sample of 120 respondents drawn from the strategic business units of the Zimpapers Group. The data was analysed through descriptive statistics which utilized frequency tables and summary measures. Data analysis was also done through SPSS and a correlation and regression analysis was performed on the study's variables. The study found out that the most adopted financial controls at Zimpapers are segregation of duties, internal audit, reconciliations, internal checks and the use of appropriate documentation. From the correlation matrix the study found out that firm performance and risk assessment positively and strongly correlate, return on equity was strongly positively correlated with the firms internal control activities and Control activities and risk assessment has the strongest positive relationship with net profit with a regression coefficient of 0.752 and 0.682 respectively. The study also found out that management override, costs, resistance, excessive, redundant and obsolete systems, lack of managerial commitment and weak internal audit and collusion are the major challenges to the successful application of the financial controls. The study concluded that Zimpapers have weak financial controls with segregation of duties, internal audit, reconciliations, internal checks and the use of appropriate documentation as the major financial controls in place. The study also concluded that a positive relationship exists between the control environment and organizational performance, risk assessment and organization performance, control activities has an impact to the return on investment and that information and communication significantly impact on the firms' revenue generation. The study concluded that firm performance and risk assessment are positively and strongly correlated while return on equity is strongly positively correlated with the firms internal control activities and risk assessment has the strongest positive relationship with net profit. The study also concluded that lack of management commitment to devote resources hinders the adoption and successful implementation internal controls.

Key Words: Financial Controls, Organisational Performance, Risk Assessment

Declaration

I declare that this dissertation is my original work except where sources have been cited and acknowledged. The work has never been submitted, nor will it ever be submitted to another university for the award of a degree.

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Dedication

To my lovely husband Edson Dube and my two kids Divine and Dyan Dube

List of acronyms and abbreviations

AU	Africa University
COSO	Committee of Sponsoring Organizations of the Treadway Commission
IFC	The International Financial Committee
PCAOB	Public Company Accounting Oversight Board
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on sales

Definition of key terms

Financial Controls - This refers to the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the organisation in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.

Organisational Performance- According to Mawanda (2008), performance is the ability of an enterprise to operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats.

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CHAPTER 1 INTRODUCTION

1.1 Introduction

This study examined the relationship between financial controls and organizational performance for the Zimpapers Group which is listed on the Zimbabwe Stock Exchange. This chapter presents the background to the study, statement to the problem, objectives of the study, research questions, research proposition, scope of the study and significance of the research.

1.2 Background to the Study

Internal financial controls are increasingly becoming a priority for every organization. Most public limited organizations are struggling to come up with better financial controls due to complexity of their structures and hierarchy. Some institutions have been robbed of multimillion dollars to an extent that they have called it a day and closed operations due to ignorance on issues concerning financial controls. In the past, major world accounting scandals were blamed on failure of internal controls (Krats, 2008). The effects of internal financial controls cannot be taken lightly. It is therefore obligatory for every organization to come up with an effective internal financial control to safeguard its resources.

The International Financial Committee (IFC, 2010), asserts that financial controls are a means through which an organization's resources are directed, monitored and measured. The Companies Act (2013) defines internal financial controls as rules and regulation adopted by an organization to ensure smooth flow of business operations, which includes but not limited to safeguarding of assets, complying with set company policies and prevention and detection of fraud and error. Organization performance refers to the ability of an organization to operate efficiently, profitable, survives, grow and react to the environmental opportunities and threats (Oxley, 2019). Due to varying environments in which businesses today operates, every organization has different financial controls that suits its nature and size. Financial controls are designed primarily for preventing, detecting and correcting errors that occur in an organization. It is a general belief that if financial controls are well executed, they will improve the performance of an organization. Financial controls play a very crucial role in risk assessment and management to achieve a sound organization performance. They facilitate effectiveness and efficiency of operation which subsequently help to ensure the reliability of internal and external financial reporting and assist in compliance with laws and regulations (Hayler, 2005). The aim of financial control is to promote the entity's ability to reach its objectives, providing reliable financial data, safeguarding assets and records, evaluating operational efficiency (Wakiriba, Ngahu & Wagoki, 2014).

The world has been hit by a wave of corporate financial scandals in the past and the trend has continued to now due to various reasons. Many scandals have been linked to failure of financial controls of the reporting entities and some of these scandals were not even discovered by internal audit. Enron is a good example in America where fraudulent accounting practices and earnings management were used to drive up the share price of the company. Many of the investors lost their money; employees lost their jobs and even employee's pensions evaporated after the collapse because the company's pension scheme had invested in its own shares (Kratz, 2008). Accounting fraud at WorldCom involved unethical practices like hiding of bad debts and understating costs to manipulate financial results. Earthwit (2010) listed other accounting scandals that include Bank of Credit and Commerce (United Kingdom), Subprime Mortgage (America), Lehman Brothers, Satyam Computers (India) and others. Surprisingly, the auditors had given a clean opinion on the financial statements of most of these bankrupt companies. The recent Global Financial Crises is also liked to the collapse of the control environment.

These scandals had been triggered by poor performing financial controls and investors lost billions of dollars (Oxley, 2019). The upsurge of these white collar crimes has been largely attributed to internal controls inadequacy and regulatory challenges. The growth of technology has also resulted in the sophistication of these white collar crimes and financial controls have been challenged by these technology changes. They were a wakeup call which has seen many entities demanding for qualified and well experienced personnel to handle financial control issues. Every organization now needs transparency and accountability to do away with fraud which is number one enemy for profitability. It is unanimously agreed worldwide that financial controls play a very crucial role in ensuring a functioning entity.

Zimbabwe Newspapers (Zimpapers) is a Zimbabwe Stock Exchange Listed media firm and commercial printer which is the publisher of daily newspapers The Herald, The Chronicle, B-Metro and H-Metro and two Sunday newspapers, The Sunday Mail and the Sunday News (www.zimpapers.co.zw). The company also publishes a provincial newspaper The Manica Post and has two newspapers in Shona and Ndebele namely the Kwayedza and Umthunywa. The company also owns radio stations, Star FM, Diamond FM, Nyami Nyami and Capitalk and also operates internet news websites (www.zimpapers.co.zw). As an organisation Zimpapers has in some instances failed to detect and prevent a material error of tax miscalculation before publishing its half year financial statements in 2014 (The Herald Zimbabwe, October 29, 2015). Besides the costs of republishing the financial statements, this has brought the company into disrepute. While there are many factors that affect organization performance of Zimpapers, financial controls may be playing an essential role. The company has faced some leakages, which has undoubtedly affected its performance.

Evolving from this backdrop, this study is carried with a view of identifying the financial controls at play at Zimpapers, assess their effectiveness and examine the relationship (if any) between financial controls and performance.

1.3 Statement of the Problem

There had been huge losses suffered by Zimpapers, as a result of theft from employees who connived and rob off the company of thousands of dollars and newspaper copies (The Guardian, September, 2016). Employees have failed to comply with organizational policies for the achievement of its objectives despite several financial controls put in place to monitor, control and safeguard Zimpapers resources. In one case reported in the Bulawayo 24 News, an employee accused of stealing $8921.24 from copy sales highlighted that the accounts accountability in Zimpapers was not up to date. Other recorded cases have shown that Zimpapers writes off hundreds of thousands of dollars every year from newspaper sales which agents entrusted to sell newspapers do not remit the proceeds and get away with the money (The Guardian, May 5, 2016). More importantly, the relationship between financial controls and organization financial performance had been subdued. Majority of previous empirical studies concentrated on corporate reporting which mainly focused on the corporate governance facets in relation to the firm performance and thereby negated the critical role of financial controls role on the overall organization performance. In an effort to delineate and understand the facet between financial controls and firm performance, this study seeks to examine the effect of financial controls on firm performance as the study had been propelled by lack of empirical studies within the Zimbabwean context on the relationship between the variables.

1.4 Research Objectives

The primary aim of the study is to examine the relationship between financial controls and firm performance of Zimpapers Group. The objectives of the study were to:

1.4.1 Establish the major internal controls in place at Zimpapers (Pvt) Ltd.

1.4.2 Determine the effectiveness of the existing internal controls in improving performance of Zimpapers (Pvt) Ltd.

1.4.3 Determine the relationship between internal controls and firm performance at Zimpapers (Pvt) Ltd.

1.4.4 Explore the challenges inhibiting the effective application of internal controls at Zimpapers (Pvt) Ltd.

1.5 Research questions

The thrust of the research is to examine the relationship of financial controls and firm performance. Evolving from this background, the research is premised upon the following research questions:

1.5.1 What are the major internal controls in place at Zimpapers Pvt Ltd?

1.5.2 How effective are the existing internal controls in enhancing performance of Zimpapers Pvt Ltd?

1.5.3 What is the relationship between internal controls and organizational performance at Zimpapers Pvt Ltd?

1.5.4 What are the challenges inhibiting the successful application of internal controls at Zimpapers Pvt Ltd?

1.6 Research Hypothesis

The hypothesis of the study is stated as follows:

H0-There is no positive relationship between internal controls and organizational performance.

H1-There is a significant positive relationship between internal controls and organisational performance.

1.7 Significance of the Study

This research study is intended to establish whether there exists a relationship between financial controls and financial performance of Zimpapers Pvt Ltd. The study will help Zimpapers management to devise better strategies of accounting controls that will improve performance. By unearthing how effective financial controls are on performance, this acts as an assessment tool for its management because effective financial controls act as a foundation of good management. It is also the researcher's belief that invaluable benefits to management and those charged with governance emerge on how to streamline the systems of financial controls thus ensuring improved financial performance and ultimately ensure attainment of the institutional objectives. Moreover, the research also helps the researcher in fulfilling her requirements for the completion of EMBA program. It confirms other researchers' findings and work as a pivot to future researchers in this research area.

1.8 Delimitations of the Study

The conceptual scope of this study lies on the effect of financial controls on the financial performance of Zimpapers Group. This study covered internal financial controls and their effectiveness on improving the performance of Zimpapers. Financial controls will only be limited to reconciliations, internal checks, proper documentation, auditing and approval of transactions and performance will be measured in terms of sales growth and profitability. Only financial controls that have a detective, preventative and corrective effect were considered.

1.9 Limitations of the Study

1.9.1 Data availability

Data accessibility is a challenge to most organisations in Zimbabwe. The researcher faced restrictions to access of information, as this was regarded a sensitive issue of internal controls. To avoid this lack of confidence the researcher produced a consent form from the University which proved to respondents that the researcher was purely for academic purposes only. The researcher faced challenges in setting up interviews with some key personnel from the organisations and some of the key targeted respondents and it was difficult to convince some of the targeted respondents that the research is purely an academic research as they felt divulging information might expose them. The researcher had to set the interviews at the time convenient to the respondents and close follow up on their availability was ensured. The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or their enterprises. Some even turned down the request to fill questionnaires. However, to circumvent this problem, the researcher approached respondents in a friendly manner and guaranteed participants about confidentiality.

1.9.2 Time and geographical location

Because of the time factor, the research focused only on functional units within Mutare Region, as was not possible to access all units of Zimpapers Group across the country.

1.10 Organization of the study

Chapter one of the research covers introduction, background information, research objectives, research questions, proposition, scope of the study and research limitations. Chapter two reviews literature which include theoretical review, empirical review, research gaps and the conceptual framework. Chapter three dealt with research methodology which explained the research design, target population, sampling design, and rationale for sample selection, data collection instruments, questionnaires, validity of the research instrument, reliability, data analysis and ethical considerations. Chapter four outlined the results, presentation of findings and discussion while chapter five shows the summary of the findings, conclusion and recommendation of the study.

CHAPTER 2 REVIEW OF RELATED LITERATURE

2.1 Introduction

This chapter provides a review of the relevant literature on the relationship between financial controls and organizational performance. It comprises of the theoretical and empirical literature reviews and also reveals various techniques of measuring financial controls and firm performance. This chapter also provides a conceptual framework and rounds up by the synthesis of the study gap.

2.2 Theoretical Framework

A number of theories have been propounded by various authors which are related to financial controls and performance management. This study reviews the agency and stewardship theories which the researcher found relevant to the present study.

2.2.1 The Agency Theory

As explained by Oliver (2011) the agency theory stipulates that there is an agency relationship between managers and shareholders because of their separation. The agency theory explains the financial control structure of an entity (Cheung, 2010). Cheung (2010) further argues that conflicts arise between the agents and the principal when setting up financial controls. Shareholders and management have different interests and Stone (2009) emphasized that the agent has to be monitored or incentivised to align interests with the principal. Frank (2009) highlighted that there is a principal agency relationship between the board and top management. Shareholders are after maximisation of their wealth which can reflect through an increase in share prices while managers are seen as opportunistic and their interests always conflict with those of shareholders. Wassernan (2006) argued that agents try to maximise their welfare at the expense of the shareholder's value by capitalising on the loopholes in their contracts. Ramachandran, Singh, Larroche and Pandey (2007) states that principals have high level needs as explained by Maslow but most agents do not have. As such, agents can design financial control systems in line with their low level needs. Wathne and Heide (2000) argue that shareholders must implement control mechanisms even if they are costly to reduce the agency problems.

The Agency theory prescribes that people are held accountable in their tasks and responsibilities (Bouheni, Ammi & Levy, 2016). The agency theory is a useful economic theory of accountability, which helps to explain the development of financial controls (Ekanayake, 2004). Financial controls serve as a fundamental purpose in promoting confidence and trust in financial information (Aledwan, 2015). Concerns about trust and the reliability of financial information helps to explain why financial controls are an important mechanism for stakeholders and the public to ensure that the directors and management are running the company in their interests (www.icaew.com).

2.2.2 The Stewardship Theory

The stewardship theory compliments the agency in understanding organisations' behaviours. The stewardship theory according to Corbetta and Salvato (2004), explains the co-existence of trust relationship between the agent and the principal due to convergence of their interests. (Karns, 2011) explains that the stewardship theory assumes that the manager is a steward of the business with behaviours and objectives consistent with those of the owners. The theory assumes that the firm's purpose is to contribute to humanity by "serving customers, employees and the community"

(Nzikako & Warue, 2018). The theory states that business exists to serve rather than to make profit and the firm must economically sustain itself for it to serve (Donaldson, 2015). Profit is viewed as necessary and a prime funding mechanism to the primary objective of meeting the service-oriented mission. Efficient use of resources is promoted by the stewardship theory. Davis, Schoorman and Donaldson (1997) posits that the stewardship theorists build structures that empower and facilitate management into believing that it is not necessary to develop control or monitoring mechanisms since management has the same intrinsic values as the owners.

Savcuk (2007) emphasised that it is important to understand the conceptual framework when analysing the efficiency of financial controls. Knechel (2007) identified components of financial control systems as the control environment, risk assessment, control activities, monitoring and information and communication. This is also in line with the components identified by COSO (2013). Furthermore, Candvera (2006) also opined that the success of financial control systems is associated with the above components. However, Harvey and Brown (1998) mentioned control environment, control procedures and accounting systems as major components of financial controls.

The stewardship theory is mainly concerned with the identification of situations in which the interests of the principal and the steward are aligned (Badara, 2017). Ebimowei and Binaebi (2013) noted that financial controls exist as a result of stewardship concept and stewardship accounting (Badara, 2017). Adoption of stewardship approaches an organisation brings a number of changes, because stewardship theory serves as accountability mechanisms for ensuring good monitoring, good audit and financial controls in order to assist in objective achievement (Badara, 2017). Good steward lead to effectiveness of financial controls, by way of improving the state enterprises' administration.

2.2.3 The Concept of Financial Controls

In the field of Accounting, various authors have come up with various definitions of financial controls. Nwanko (2006), as cited in Ngwarai (2015) defined financial controls as the whole system of controls, financial and otherwise which are established by management when carrying out the organisation's activities to ensure an adherence to good practices of management, efficient and orderly manners of conducting the business, safeguarding of the assets and ensuring that there is completeness and records accuracy. Visser (2011) defines financial controls as a system of controls established by senior management, in order to perform the activities of a government institution.

Millichamp (2002) as noted in Basu (2010) defined a financial control system as a whole system of controls, financial and otherwise, established by management in order to carry on business of safeguard the assets and secure as far as possible the completeness an accuracy of records while Hevesi (2005) posited that the system of financial control involves integration of plans, activities, policies and people to achieve the organisation's mission.

According to COSO (2013), a financial control system is 'an initiated process put in place by the management of an institution to provide assurance that is reasonable with regard to the attainment of the set objectives which is related to compliance, operations and reporting'. Papadatou (2005) added that financial control systems involve methods and procedures for insurance of capital, detection and avoidance of error and fraud and effective preparation of financial reports while Anthony (2004) opined that the financial control process is affected by the organisation's structure, authority, people and information systems which were put in place for the organisation to achieve its objectives.

According to Cahill (2006) it was observed that a financial control system includes checks and balances to ensure that objectives of the entity are met. Furthermore, Garrison and Noreen (2000) alluded that financial controls involve management actions to increase the chances of attaining objectives set by management and ensuring that all organisational parts function as per the policy of the entity. On the same note Visser (2011, p.84) opined that "it is a system of controls established by senior management in order to perform the activities of a government department."

However, Eric (2015) emphasized that the key responsibility of management is to make sure that the entity is accountable to different stakeholders. Major stakeholders include providers of finance who are worried about the return for their investments. Others include government and members of the public. Lakis and Giriūnas (2012, p.149) further defined a financial control as "…part of the enterprise management system that ensures the implementation of the enterprise's goals, its effective economic-commercial performance, observance of accounting principles and an effective control of work risks, which enables to minimize the number of intentional and unintentional mistakes, and to avoid frauds in the process of enterprise performance, made by its authority or employees." The main emphasis of this definition is about inspection, observation, maintenance and regulation. This can be illustrated in Figure 2.1 below:

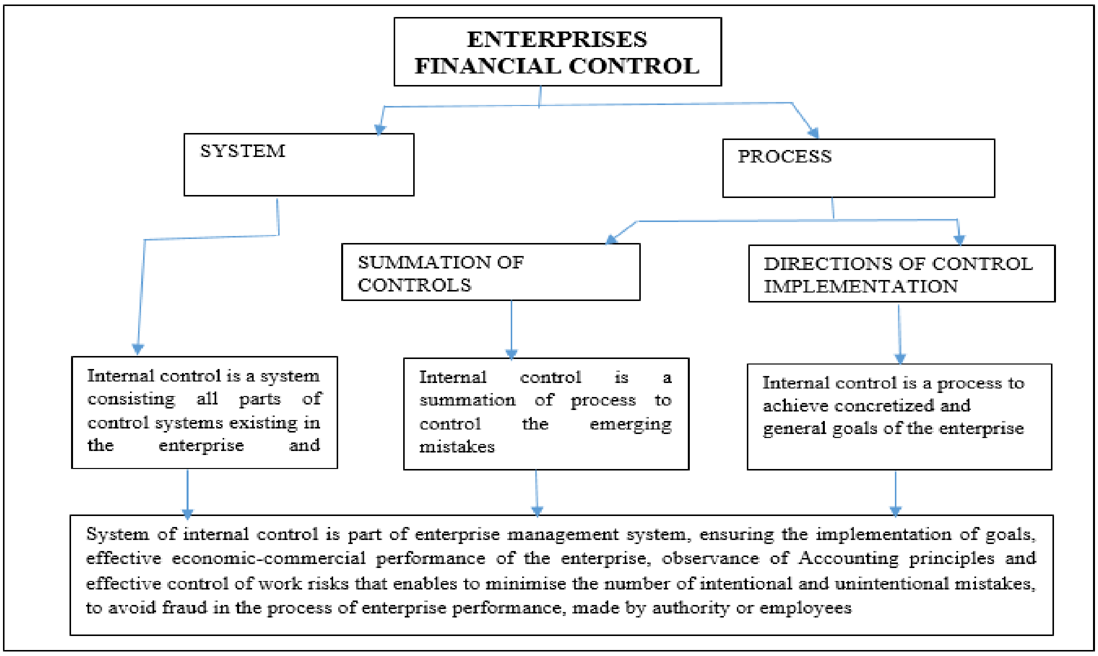


Figure 2.1 Structural scheme of an enterprise's financial controls

Source: Lakis and Giriūnas (2012, p.148)

From the above definitions key fundamental issues of financial controls include management policies, procedures, assets and reporting. It is evident that the main objective is to ensure that the resources of the entity are used efficiently, effectively and economically to achieve its mission. Financial controls are an aid to detecting value added and profitability as argued by Godwin (2004). The main objective of financial controls which can be derived from various authors' definitions is to ensure that resources of the entity are used economically, efficiently and effectively. It therefore means that there should be a proper financial control framework to attain different objectives of financial controls. For the purpose of this study, the research will adopt a definition of financial controls by Isdore (2006).

2.2.4 History of financial controls

The last twenty years has seen a paradigm shift of financial controls from accounting and finance oriented to a wider picture of governance and business operations. Gupta (2013) cited that traditionally, minimizing errors and safeguarding property from unscrupulous tax collectors was the major aim of early financial control systems. Traditionally, financial controls have been a term confined to accounting and was limited to auditing for assurance on financial reporting reliability. According to Heier *et al*. (2005), the period between 1905 and 2014 saw financial controls emerging as a reactive evolution and modification of definitions applications and interpretation in financial controls were brought by major changes in economic events. From a global perspective, economic crime scandals such as the Enron and WorldCom resulted in the enactment and introduction of the Sarbanes-Oxley Act (SOX) in 2002 by the American parliament. The Sarbanes-Oxley Act Section 404 mandates management to report, after rigorous assessment when presenting periodic financial reports, the effectiveness of financial controls. Tight regulation and mandatory financial control disclosures also came as a result of these economic scandals. A more holistic approach to financial controls with emphasis on effectiveness, efficiency and compliance was developed to link up with corporate governance.

2.2.5 Sarbanes–Oxley Act and Financial Controls

The Sarbanes – Oxley Act Section 404 stipulates that the chief corporate officer should assess the adequacy of controls in financial reporting during the accounting period being reported. Moreover, an organisation should engage external auditors to independently assess management assertions in the financial reports. The Public Company Accounting Oversight Board (PCAOB) developed standards on auditing to create effective controls. The Auditing Standard No. 2 provides guidance to

PCAOB on Section 404. In Zimbabwe, the office of the auditor general audits state entities' annual financial statements. Management is bound to report issues concerning financial controls in their reports. A study by Jahmani and Dowling (2008) commends that as a result of the SOX Act improvements emerged in areas of financial reporting reliability, corporate governance and liquidity and also reduced financial fraud.

2.2.6 Organisational Performance

Mawanda (2008) states that performance as the ability to operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats. Sebbowa (2009) also provides the same definition of financial performance and Gerrit and Abdolmohammadi (2010) posits that organizational performance encompasses accumulated end results of all the organization's work processes and activities. Asiligwa (2017) however mentions that financial performance measures can be financial or non-financial and measures of financial performance by Mawanda (2008) include Return on Equity (ROE), Return on Assets (ROA) and return on sales (ROS).

According to Richard (2009), organisational performance includes three areas of firm outcomes which are financial performance, product market performance and shareholder return. Financial performance can be best improved by eliminating the level of irregularities and fraud through the organisation's financial controls system improvements. Shareholders need an assurance that their invested resources are being utilised in an efficient and effective manner, at the least cost and at the same time providing the right service (Asiligwa, 2017).

Donald and Delno (2009) postulates that appropriate financial performance measures are measures which allow an organization to focus on achieving their objectives primarily strategic objectives. Brennan and Soloman (2008) on the other hand opines that either a subjective or objective criteria is used to measure performance. For the purpose of this study, the researcher will focus more on financial performance which is measured using profits, return on assets and return on equity.

2.3 Objectives of Financial controls

The overall purpose of financial control is to help an organization achieve its mission, but DiNapoli (2007) asserts that the major objectives of financial controls are to ensure an orderly and efficient running/conduct of business, safeguarding of assets, preventing and deterring fraud, ensuring completeness and accuracy of accounting record for generation of financial information and to ensure timely preparation of financial information.

COSO (2007) further provides the objectives of financial controls as outlined below:

- Ensuring compliance with laws and regulations. Non-compliance results in costs like penalties. Maintaining standards through financial controls brings for good quality.
- Ensuring effective implementation of management directives and instructions. Management instructions and directives stipulate the employer's expectations from staff members. Instructions need to be clearly communicated to all staff levels.

- To facilitate proper functioning of business processes and safeguarding of assets. Management need to be alert and proactive to safeguard assets against possible risks like theft.
- To promote reliable financial information. COSO (2007) further alluded that faithfully recorded information enhances reliability. According to the International Accounting Standards Board's Conceptual Framework reliability is a very important qualitative characteristic of useful financial information. Financial control systems quality can be improved through segregation of duties, proper description of functions and following Generally Accepted Accounting Principles (GAAP) when reporting financial information.

The Turnbull report of 1999 provides that the purpose of internal financial controls is that of facilitating the smooth operation of business through safeguarding of assets and identifying liabilities for the purpose of managing them. This implies improved and well applied financial control processes by considering what was originally planned and actual outcome and subsequently suggesting ways of closing the gap. Therefore, financial controls integrate four elements which are objective setting, actual performance measurement, comparison of actual results with set objectives and taking corrective action if there are major deviation.

Ensuring conformity with other internal policies and applicable laws is another objective of financial controls. Internal policies include obtaining at least three quotations for every item to be purchased and adhering to a credit rating policy. Adhering to stated credit rating policy assists in that the organization does not extend credit to potential defaulters which might end up being an expense to the organization. For example, if there is no thorough credit vetting system, this will affect organization performance in terms of profitability as bad debts have a direct effect on profit. This will also ensure that company resources are used as planned and that there are deviations from set goals.

Financial controls ensure completeness and accuracy of financial reports, preventing and detecting fraud and material error as well as safeguarding of assets. Assets include cash and receivables. The use of reconciliations as a financial control measure helps to ensure that all transactions have been correctly captured. This forms the basis for reliable financial reporting.

If internal financial control can ensure all the above objectives are met, it will provide a reasonable assurance that financial records of an organization are true and fare thereby instilling confidence to stakeholders.

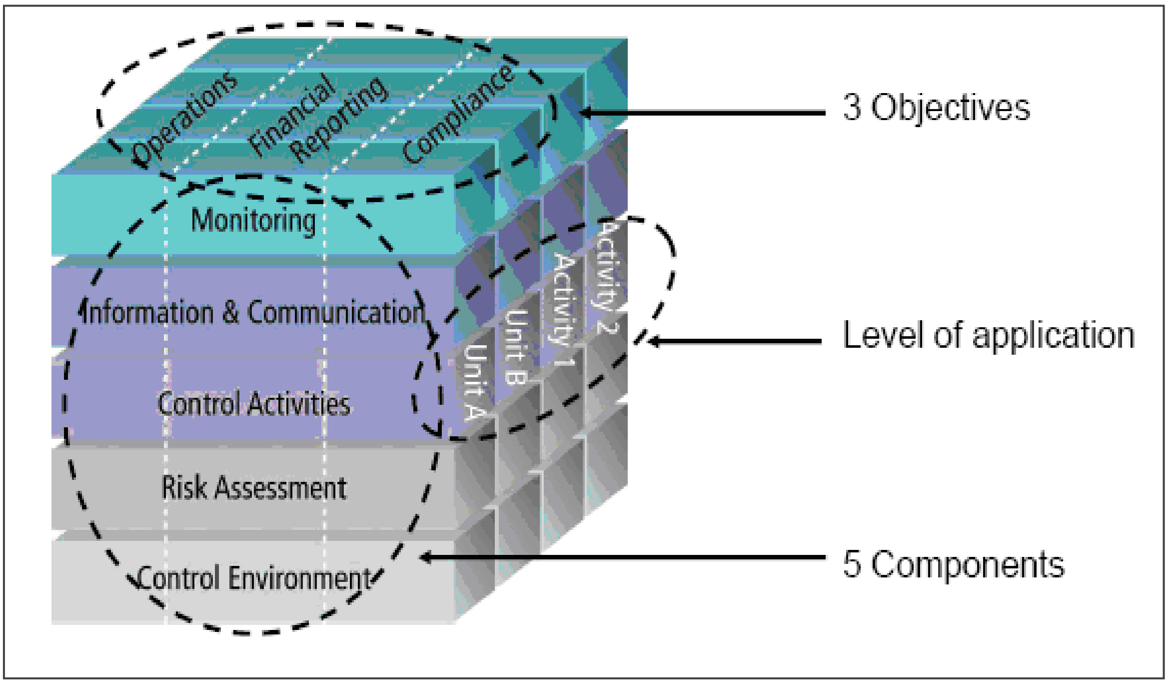


Figure 2.2: The COSO Financial control   Source: COSO (2019, p.5)

COSO (2006) identified components of financial controls as the control environment, the entity's risk assessment process, information and communication system, control activities and monitoring. The research done by Gamage (2013) in Sri Lanka about the effectiveness of financial controls used by government owned commercial banks in that country also emphasised the importance of the above components of financial controls.

2.3.1 Control Environment.

According to Beneish *et al*. (2008), the control environment is the tone of an organisation and the way it operates. In financial control implementation senior management establishes the way forward and it is the tone at the top of the organisation set by the board of directors and senior management that influences financial controls. Kgabo (2013) defines control environment as the policies and procedures that should be followed when implementing financial controls in an organisation. It creates a framework within which the financial control systems of the organisation functions (COSO, 2013). COSO (2013) also emphasised that the control environment consists of policies and procedures for implementation of financial controls and it defines the framework within which a financial control system functions. The Auditing Standards of Sri Lanka (2013) alluded that the control environment is the attitude towards financial control and control consciousness established and maintained by the management and employees of an organisation. It is the foundation of other components and involves core ethical values that organisational staff should subscribe to. It therefore shows the responsiveness of employees to financial controls. Jansen (1998) subscribes to similar sentiments by pointing out that financial controls focus on conforming actions of employees to the desire of management. Staff behaviour affects design and implementation of financial controls. Factors identified by Gamage *et al*. (2014) as affecting control environment include organisational structure, integrity, management philosophy, ethical values, and board of directors, responsibility, assignment of authority and human resource policies and practices. Dittmieier (2007) opined that all other elements of financial controls are influenced by the general organisational culture while Horngren *et al*. (2012) pointed out that the human resources department plays a crucial role to influence the control environment of the entity.

Different authors attempted to demonstrate the effect of control environment on the performance in private and public sectors. Muraleetharan (2013) conducted a study to establish the relationship between financial controls and financial performance shows that the relationship is not significant. Ali (2013), on the other hand discovered a positive correlation between the financial control systems and the financial performance of the organisation. Kinyua *et al*. (2015) studied the effect of financial control environment on the performance on Nairobi Securities Exchange (NSE) and discovered a strong positive relationship.

2.3.2 Risk assessment

The term risk is defined by COSO (2013) as “the probability that an event will occur and will adversely affect the achievement of objectives.” Risk assessment is therefore the identification and analysis of relevant risks associated with the achievement of the management objectives (Theofanis, Drogalas & Giovanis, 2011). It is an iterative process for identification and assessment of risk in relation to organisational objectives. All risks are considered to establish the risk tolerance where financial risk tolerance, as explained by Grable (2008) is the maximum amount of uncertainty someone is willing to accept when making a financial decision. On the other hand, Sudsomboon and Ussahawanitchakit (2009) view risk assessment as the process of identifying and analysing management relevant risks to the preparation of financial statements that would be presented fairly in conformity with general accepted accounting principle. Karagiorgos *et al*. (2009) also alluded that risk assessment is the identification and analysis of relevant risks for achieving objectives. Risks threaten the ability to achieve objectives. Hongren *et al*. (2012) also asserted that effective financial control reduces major risks and ensures that financial information reported is reliable. Management must therefore define the level of risk tolerance and work towards those defined limits.

2.3.3 Information and communication systems

Information and communication systems focuses on the nature and quality of information necessary for effective controls that the system uses to develop such information and reports necessary to communicate it effectively according to Gamage *et al.* (2014). Aldridre and Colbert (1994) defines Information and communication as the process of identifying, capturing, and communicating of relevant information in an appropriate manner and within a specified time frame in order to accomplish the objectives of financial reporting. According to Theofanis *et al*. (2011), effective communications should occur in a wider sense within various sections of the organization. There is need for recording and communicating of relevant and reliable information to management and other staff members within the organization to enhance effectiveness and efficiency of control systems as pointed out by Lamoye (2005). Amudo and Inanga (2009) also hinted that information and communication facilitates the working relationships within the organization and is thus a very important tool. The IASB Conceptual Framework also acknowledged that relevant information makes a difference in decisions by different user groups.

2.3.4 Control activities

Aikins (2011) explained control activities as the policies, procedures and mechanisms that for ensuring the proper carrying out of management's directives. Control activities include "policies and procedures with regard to approval, authorisation, verification, reconciliation, review of operational activities, safeguarding of assets and segregation of duties" (Visser *et al.*, 2008). It is the duty of management to establish control activities that efficiently and effectively achieve the goals of the organization. Shelton and Whittington (2008) also observed that control activities cover different areas as proposed by the above different authors. Lamoye (2005) also observed that control activities are policies and procedures used by management to ensure compliance to management directives. This concurs with DiNapoli (1999) who defined control activities as a set of instructions, rules and decisions used by management to control and deter risk. These activities are at all organisational levels as emphasized by Walker (1999). Walker (1999) put forward control activities as functional reviews by management, human capital management, physical controls, segregation of duties, access restrictions, proper transaction documentation, accurate recording to transactions and establishment of performance indicators. Lastly, Amudo *et al.* (2009) also concurred with most authors as they defined control activities as authorisation, verification of payments, reconciliation, operations review, segregation of duties and supervision.

2.3.5 Monitoring

Badara (2003) opined that there is need for adequate monitoring to access the quality and the effectiveness of the system's performance over time. Furthermore, Amudo *et al.* (2009) emphasized that monitoring of operations ensures effective functioning of financial controls. Monitoring mechanisms include internal and external audit. Continuous follow up and evaluation of all financial control issues is of paramount importance to enhance the effectiveness of financial controls. Ongoing monitoring includes continuous supervision by management whilst internal auditing can be done on non-routine basis to ensure compliance. It can be argued that monitoring tracks quality of financial control systems of a period of time. Various levels of assessed risk determine the frequency of monitoring and continuous monitoring is necessary if the level of non-compliance is high. All identified challenges in the control system should be brought to the attention of the senior personnel (COSO, 2005).

Gamage *et al*. (2014) discovered that financial control system and application of controls change overtime because of reasons like new personnel, supervision, shortage of resources, and others. Furthermore, Theofanis *et al*. (2011) viewed that monitoring assures that the findings of audits and other reviews are promptly determined. Management therefore need to constantly determine whether the financial controls in place are still relevant and effective as intended. On the same note, Ofori (2011) also opined that a financial control system is adequately designed and properly executed if all components of financial controls are present and functioning as designed. Ofori (2011) therefore hinted that monitoring is necessary to determine whether financial control is adequately designed, properly executed and effective.

Most authors claim that effectiveness of financial controls can be linked to complete implementation of the control environment, the entity’s risk assessment process, information and communication system, control activities and monitoring as components of financial control. Relationship amongst components of financial controls can also be illustrated by Figure 2.3 below.

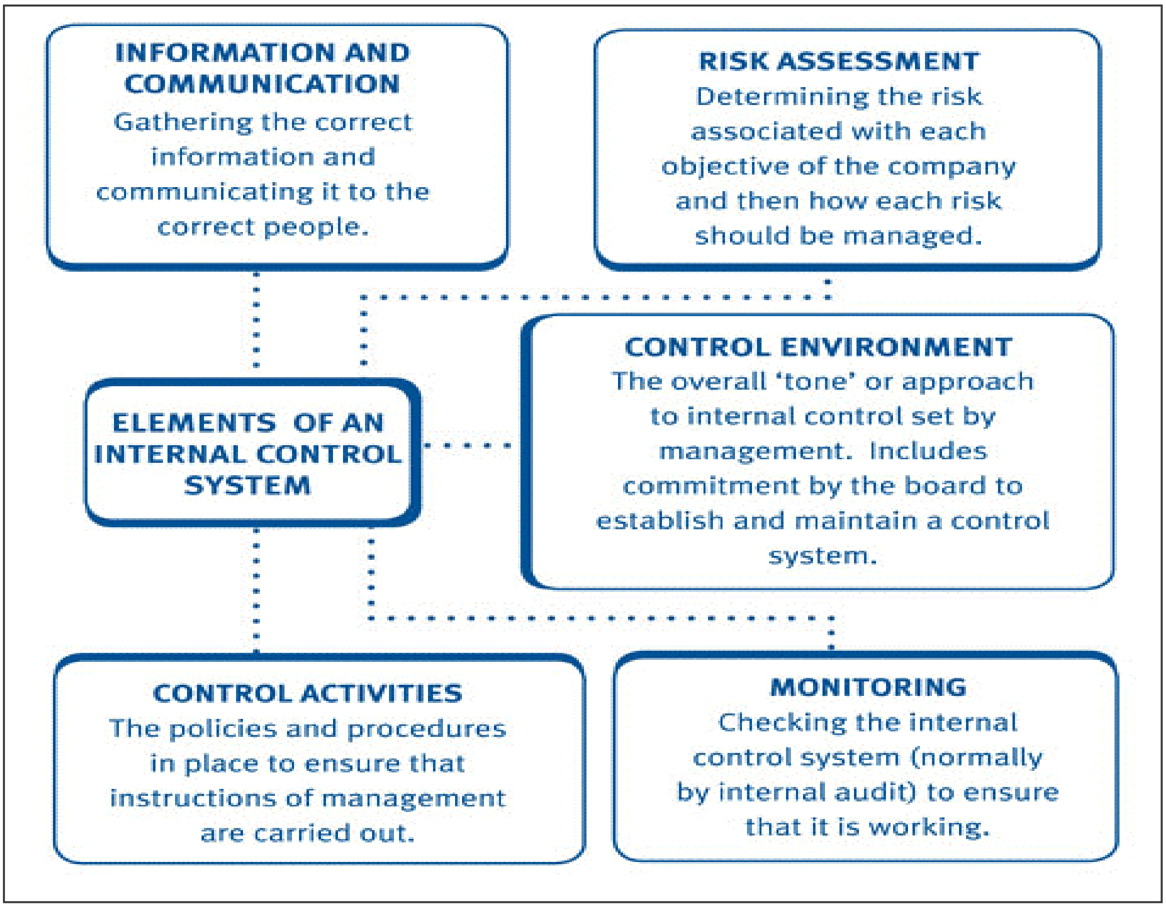


Figure 2.3: Elements of an effective internal control system (COSO)

Adapted from Kaplan Financial Knowledge Bank, (2012, p.14)

2.4 Financial Control Measures

A list of financial control measures mentioned by Jackson and Stent (in COSO, 2007) include, staff competency; isolation of responsibility; delegation of duties; comparisons; access and authorization; reconciliations; and source document design. Visser (2011) also hinted that financial control elements need to be examined to understand the whole system of financial controls. Elements of financial controls include policies, management, reasonable assurance and control objectives. These are the assumptions for designing financial control systems.

Policies: These are institutions, directives and formalised procedures from management to employees mainly in a written document or manual form describing in detail the performance toll of specific activities. Policies serve as the basis or foundation for financial controls.

Management: This is responsible for designing and implementation of financial control systems in an organization. Although management can delegate to subordinates they remain accountable for financial control implementation and maintenance.

Reasonable assurance: The effectiveness of financial control implementation is determined by various elements. Management should not assume that implementation of financial controls completely eradicates operational irregularities like errors and fraud. Financial control systems on management overrides, collusion human error and cost benefit analysis are some of the inherent limitations on financial controls.

2.4.1 Types of Financial controls

Different types of financial control systems have been identified by different authors. According to Milichamp (2002), safeguarding of assets, segregation of duties, verification, authorisation and reporting as some of the types of financial controls. DiNapoli (2007) posits the types of financial controls as directive controls, preventative controls, compensating controls, detective controls and corrective actions.

Preventative Controls

These are measures to avoid risk of noncompliance with policies, directives and procedures (Lacotelli, 2009). The main aim of these controls is to reduce losses caused by error, fraud, and irregularities. Proactive in nature, preventative controls help to reduce losses and errors. Lousteau (2006) mentioned segregation of duties, authorisation and proper documentation as examples of preventative controls. Customer credit rating to reduce levels of bad debts, information technology controls like firewalls and antivirus software to reduce risks of data loss, physical controls like security guards to control physical movement of goods are also preventative controls.

Detective Controls

Detective controls focus on detecting fraud, exposing errors and other irregularities like fraud after occurrence and these include post audits and validation procedures done to detect any anomaly. Whilst detective controls are a source of evidence that a loss has occurred, they do not prevent it. Wells (2006) emphasised that detective controls show evidence that preventive controls are working or not. DiNapoli (2007) gave examples of detective controls which include approvals, verifications, reconciliations, authorisations and control over information system. Spot checks on petty cash balances, random age analysis of debtors, systems monitoring and variance analysis of project costs against budgets add up to other detective controls.

Corrective controls

Simmons (1995) posited that corrective controls address every problem which is foreign and has occurred in the system. They are used to avoid the repeated occurrence of irregularities. Corrective controls include system redesign, staff training and coaching, correcting entries in the accounting system using journals, software upgrading, post audits and any follow ups.

Directive Controls

These refer to policies and procedures instituted by management to enhance compliance with independence rules (Rittenberg, Martens & Landes, 2007). Rittenberge *et al*. (2007) further argue that policies and procedures must spread through the organisation to ensure compliance. This is in line with an argument by Kyriazoglou (2012) who stressed that directive controls serve the following aims:

i. to inform all participants in the activities of the organization how the specific business entity will function in various governance issues and

ii. to direct company resources and stakeholders about how to handle a variety of governance and management issues of the organization

Compensating Controls

These are always in place to act as a fall-back position in case of emergencies like maintenance of hard copy to use in case of electrical faulty. Compensating controls helps to reduce the risk of an existing or potential control weakness (Kyriazoglou, 2012). They include plant shut downs to do major maintenance, sampling transactions for reviewing especially during audits, reviewing registers.

Executive management must choose a right mix of these control activities in line with their operating environment. A critical analysis of activities is needed to find out the value each activity plays in the business model.

2.4.2 Operational Means of Financial controls

Managers can ensure that financial controls are applied through certain means that exist (Visser & Erasmus, 2008). Visser and Erasmus (2008) also opines that these means include organisational structure; existing policies; administrative and operational procedures; personnel matters; accounting; budgeting; reporting; internal review; and internal auditing as well as strategic planning.

Policies: An organisation must have policies in place to regulate their functions and also to give guidance in terms of implementation. These policies can be in the form of legislation, regulations, or directives. They provide the statutory framework within which public officials and managers execute their responsibilities and duties. Some of these refer specifically to the implementation of financial controls in the institutions.

Procedures: these are ways used to perform certain functions in conformity with laid down regulations. These procedures must be followed correctly in terms of their implementation to avoid possible irregularities (Visser & Erasmus, 2008). Before any activity can be implemented procedures must first be outlined to the officials, to ensure a step by step follow up in acting the tasks given to them.

Personnel: the hiring of personnel should be according to the skills, competencies, experience and qualifications that they possess. Visser and Erasmus (2008) postulates that a high standard of supervision is it is necessary to ensure and monitor personnel performance according to laid standards.

Accounting is considered one of the prime financial controls over activities and resources, and when followed as set out, the analysis of financial information and variances can be utilised as a form of financial control in establishing the cause of such variances (Visser & Erasmus, 2008). Accounting provides an organisational framework for transactions and forms the public institution's operational activities backbone.

2.4.3 Key Players in Financial controls

Management

Management has a fiduciary role to devise, implement and maintain financial controls in safeguarding shareholders' resources entrusted to them. Management should continuously supervise and monitor the adequacy of financial control systems.

Internal audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Institute of Internal Auditors, 2015). Al-Matari *et al*. (2014) posited that internal audit forms the backbone of the accounting in business and plays a crucial role in the application of accounting system. The quality of the internal audit is reflected through financial reports. Al Matarneh (2011) identified internal auditing, external auditing and directorship as monitoring mechanisms in business.

Dinapoli (2010) postulated that internal audit should objectively advise management for proper design and effective implementation of financial controls. The status of the design and effectiveness of controls in place must be reported by to the board by internal audit. It is the role of internal audit to advise management but the internal audit function should remain independent. Dinapoli (2010) also hinted that internal audit is there to supplement management oversights through monitoring the implementation and adherence to established policies and procedures. Internal audit concentrates on areas of greatest inherent risk attached to fraud and error. Functions of internal audit according to Dinapoli (2010) include:

i. Examination of operating and financial controls

ii. Efficiency and effectiveness reviews

iii. Conducting reviews of compliance with laws and other external regulations

iv. Evaluating the design and execution of financial controls

Audit Committee

Audit committees play an advisory role to the main board of directors on monitoring and review of financial controls. Management and internal audit reinforces the audit committee (Jovanovi, 2011). The competence of the audit committee is very important to guide the main board on reviewing financial controls and financial statements. The audit committee, according to Dinapoli (2010) assists the board of directors to comprehend external audits. The audit committee also reviews and discusses risk assessment with external auditors, reviewing audit reports and helps the board to understand audit reports and working with the internal audit to strengthen its independence from management.

The Sarbanes Oxley Act (2002) stipulates that an organisation must have a minimum of one financial ‘expert’ in the audit committee and the absence of non-accounting financial expertise in company’s audit committee composition may lead to weaknesses of financial control systems (Zhang *et al.*, 2007). The Sarbanes Oxley Act (2002 also stipulated requirements for audit committees and these are:

a. Independence of the members of the board of directors

b. The committee should be responsible for the appointment, remuneration and oversight of the external auditor

c. Authority to engage advisors

d. The committee should be financed properly to carry out duties effectively

In order to get a deeper understanding and insight of the external auditor’s findings the audit committee should hold meetings with the external auditor where upon the committee can seek clarification on issues like challenges faced by the external auditor in getting evidence, management cooperation during the audit period, major misstatements or fraud unearthed during the audit and others.

External Auditors

Millichamp (2010) posited that an external auditor is appointed to overcome the problem of credibility of financial statements as he is independent of the management and is appointed to investigate the information in the financial statements and report his findings to the shareholders. Independence of external auditors is therefore very important.

Although accounting is typically seen as number crunching, auditors recognize that financial statements do not exist in a vacuum. External auditors are charged with obtaining a thorough understanding of their client's environment, operations and financial controls. To do this, auditors will perform an initial risk assessment of the company. External auditors will often examine the electronic accounting information system to ensure that the data is not being compromised.

2.5 Major financial controls

The major financial controls include periodic financial audit, reconciliations, approval of transactions by senior persons and sufficient number of persons, appropriate supporting documents attached to payment approvals. Financial control tools are budgetary controls, statement of cash flow, financial ratios and accounting system (Gilbert, 2003).

2.5.1 Financial audit

Audit has been necessitated by the need for transparency, accountability and efficiency. It can be internal audit or by external bodies. The purpose of audit is to give an independent opinion to the shareholders on whether financial statements were fairly and truthfully prepared (ICA, 2016). It is the auditors' mandate to provide information for decision making and it therefore works as an assurance of the production of reliable information, (Alpertunga, 2015). Financial audit should provide useful and reliable financial information for decisions making. According to ISA (2003), International standards of Audit, the reason for carrying out a periodic audit is to instil confidence of the intended users of the financial statement by giving a reasonable assurance that the financial statements are free from material misstatement which arise as a result of error or fraud.

Methods that are used to carry out an audit depends on the qualification of the audit body and also the motive behind carrying the audit i.e., investigatory, documental or control. For the purpose of this study, internal audit will be discussed.

Internal Audit

The Turnbull of 1999 defined internal audit as an independent evaluation function within an organization established to examine its activities. The internal audit is answerable to the management where they are expected to give their observation, analysis and recommendations pertaining to the examined activities.

Internal audit is aimed at but not limited to reviewing the financial controls and accounting systems, review of adherence with laws, regulations and reviewing of measures for safeguarding assets as well as identifying and monitoring of risk areas to the organization.

Types of internal audits

According to Accountants (2010), internal audit can take various forms. These include;

Operational audits

These are more centred on the operating efficiency of the organization. They compare performance in relation to pre-set standards.

Systems audits

These test the degree of reliability and accuracy of controls to ensure effective allocation of resources. This is done through verifying the accuracy of figures and checking if financial controls are applied as expected.

Transaction audits

These are aimed at detecting unlawful acts within the operations of the business. The most common unlawful act in most organizations is fraud.

2.5.2 Bank reconciliation

It is a process of matching and balancing figures in the accounting records with those shown on the bank statement. This is a very effective way of managing finances and reducing fraud and error if it is performed regularly.

2.5.3 Segregation of duties

Segregation of duties is common with duties associated with cash handling. For example, in order to minimise the risk of fraud and error, the cashier should not be the one posting cash transactions at the same time authorising the passing of those transactions as well as reconciling the cash book.

2.5.4 Approval of transactions by senior persons

Before each transaction can be executed, it should be approved by the appropriate and sufficient senior persons authorised to do so. According to (Managing my finances journey, 2016), not everyone in the organisation is fit and proper to approve transactions. Only those designated as approved persons are solely responsible for approval of transactions. When the authorised persons is not available, they should ensure that there is enough coverage for example through the nomination of a temporary approval authority, (NYU, 2017). Employees should also know their authorisation limits and adhere to them.

2.5.5 Appropriate Documentation

According to (Auditing Standards no. 106, 2017), this is evidence needed to sufficiently support the assertions in the relevant financial statements as underlying accounting data and substantiate information. These supporting documents to every transaction should be easily accessible for inspection by the authorized persons.

2.5.6 Internal checks

This is an accounting procedure where work is intertwined such that the work of one person depends on that of the other person. No one person has exclusive control over transactions. This enables continuous and real time audit of day to day transactions.

2.6 Financial Controls and Firm Performance

Jenning *et al.* (2008) posits that financial controls such as internal audits primarily enhances the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Muhunyo, 2018). Donald and Delno, (2009) mentions that the purpose of financial controls in organisations and or at organisation level is much broader. Muhunyo (2018) further provides that financial controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation.

Ondieki (2013) in his study points out that the major enemy of profitability is fraud. Financial Control measures help to avert, detect and eliminate fraudulent occurrence thereby creating an atmosphere for profitability (Muhunyo,2018). Effective Financial control system support profitability and growth of an organization by protecting the general assets and resources thereby averting cases of loss (Muhunyo, 2018).

Mugo (2009) postulates that strong financial controls are vital in preventing, minimizing, transferring or eliminating risks, which may affect any profitable operations. Effective financial controls also prevent production wastages and inefficiencies in the provision of goods and services. The formulation and implementation of quality procurement procedures that helps to factor justification for requisition at proper lead-time, quantity and at lowest prices (Ngechu, 2004) is assisted by effective financial control systems. This helps to boost profitability when blind ordering which result to loss and waste is avoided. Muhunyo (2018) further posits that every section or department of an organization should have an effective financial control system that helps to block an organization's income leakages and loopholes. This helps to support sustained profitability, growth and other general corporate goals and objectives (Muhunyo, 2018).

Posthuma (2013) asserts that performance is regarded as that ability to efficiently and effectively operate while generating profits and adapt to environmental changes whether positive or negative. Effective operations refer to the safeguarding of organizational assets which includes cash and receivables (Abdullahi, 2016). Effective operation is one of the fundamental objectives of management. Ineffective financial control systems in organisations has led to magnificent loss in investments through fraud and error, corruption and collusion of management and external auditors compromising the independence of auditors to properly carry out their duties (Abdullahi, 2016). If financial controls are well executed, they improve organisation performance. The better the financial controls the better the organisation performance.

2.6.1 Performance measurement tools

Performance measurement is an ongoing process of determining how well of bad an organisation is achieving its intended objectives and goals with performance indicators set as a standard of evaluating the level at which company objectives are met.

Revenue

It is the sales value of offerings for an organisation. It is often considered as the top line of a business (corporate finance institute, 2015). According to (Watson, 2010), most investors place more value on sales than what they do on earnings. Of late, the significance of using sales revenue as a measure of performance had been not been common. The use of sales revenues has significantly gained momentum and it is ranked the second used performance measure. Sales revenue is obtained by the formulae:

Price per unit sold X Number of units sold = Revenue

Profitability as a measure of performance

Profitability is the capacity to generate profit from all aspects of business showing how capable management is in obtaining revenue by using the available resources. Upto (2018) defined profitability as the capability of an organization to earn a return from the use of a given investment.

It is also regarded as an indicator of efficiency and a benchmark for measuring efficiency. Profitability is generally associated with good performance. Upto (2018) argued that, profitability cannot be taken as a final evidence of efficiency because sometimes efficiency can be associated with an absence of profit and that profits can sometimes show inefficiency. Besides efficiency, there are many other factors which have an effect on profitability.

The income statement is used to measure profitability by maintaining a record of the income and expenses of an organisation for an interval of time. Profitability of an organisation is evaluated using profitability ratios. These are;

Return on assets

It is also known as the return on investment and it indicates company profitability relative to total assets. It is one way of measuring management efficiency in utilising the available resources to the full capacity (Botchkarev, 2011). It is given by the formula:

$$\text{ROA} = \frac{\text{Profit before interest and tax}}{\text{Total Assets}}$$

Return on equity or earnings per share

It is a ratio that is used by organisations to assess revenue generated relative to investments made by equity holders. It is a measure of efficiency and it is expressed as a percentage of net profit earned to the owner's equity (CIO Whitepapers review, 2018). It is given by the formula below:

$$\text{Return on equity} = \frac{\text{Net Profit}}{\text{Owner Equity}} \text{ X } 100$$

It shows how much have been earned form the funds invested by the shareholders either through retained earnings or directly. Management's efficiency in utilising investments is indicated by a higher return on equity.

Return on capital employed

According to Upto (2018), It shows the relationship between profit earned and capital employed to earn it. Capital employed is the long term funding obtained from both shareholders and creditors of the organisation and return represents operating profit before interest and tax. The ratio is one good way of assessing the efficiency of internal management in utilising the funds obtained from the owners and creditors of the organisation.

It is given by the formula: ROCE=Earnings before interest and tax/Net capital employedX100

Where capital employed =Long term loans+ Reserves +Share Capital-Liabilities and earnings before interest and tax are the operating profit. A high ratio signifies better performance where as a low ratio depicts poor performance.

Net Profit Margin = Net profit before interest and tax/Sales

Gross Profit margin= Gross Profit /sales

2.7 Challenges to Financial Control Systems

Visser (2011) identified some of the challenges that can be encountered when implementing financial control systems as follows:

Costs- Financial controls support business operations but at a cost. The benefits should always exceed costs for it to be viable. Costs can be higher than benefits in sight of employees.

Resistance - Visser (2011) pointed out that people always resist to implementation of financial controls. The exclusion of members of the organisation in the financial control system development may lead to resistance. Resistance also comes if people fail to understand the objectives of implementing financial controls. Controls are also viewed by employees as ‘punishment’ and hence resistance.

Increased Controls-Controls can increase and reach the maximum point where effectiveness will decline. The cost may outweigh benefits and greatly affects the effectiveness of financial controls.

Excessive, redundant and obsolete controls-Visser (2011) reiterated that excessive controls confuses and frustrates employees leading to their avoidance in application. As a result, continuous monitoring to determine relevance of financial controls is desirable.

Behaviour-The behaviour of employees plays a vital role in the implementation of financial controls. Visser (2011) postulated that communicating to affected staff members and involving them in the design process of financial controls is vital. Financial control system implementation may fail if issues to do with behaviour are not considered.

Table 2.1: Threats to financial controls

Management Override	A well-designed control system, if set aside at management's discretion, can be equivalent to no control in terms of risk
Access to Assets	The best way to safeguard assets is to control access to them
Substance over form	Controls may appear to be well-designed and still lack substance
Conflicts of interest	When an employee's loyalties are divided there is a distinct risk that the employee will chose a course of action detrimental to the organisation
Failure to anticipate certain risks	Management may fail to anticipate certain risks, and thus fail to design and implement appropriate controls
Collusion	Two or more employees may agree to circumvent financial controls

The Enron failure demonstrated a failure of corporate governance, in which financial controls were short -circuited by conflict of interest that enriched certain managers at the expense of shareholders (International Swaps and Derivatives Association, 2002). DiNapoli (2010) observed that management can override financial controls even though they are properly designed. Some senior managers may abuse authority and manipulate policies and procedures. Internal auditors can help to reduce such practices from management.

Visser (2011) also pointed out that failure to delegate, unclear rules about implication of fraud and poor communication can result in failure of financial controls. There is need for clear policies and procedures to handle financial control issues if the organisation is to yield maximum benefits from financial controls. Management should continuously appraise staff in their respective departments to instil the culture of financial controls.

2.7.6 Other Challenges inhibiting the successful application of financial controls

Like any other financial control policies, financial control execution is faced with challenges and obstacles. According to IFAC (2003), an effective financial control system is one that shows some features that enables the assessment and enhancement of financial controls in place by showing possible areas where the application of those guideline normally fails in most organisations.

The adoption of several controls and business management practices are usually a source of conflict to the organisational members and it weakens members ‘self-driven loyalty (IFAC, 2003).

Most organisations are faced with financial constraints which is a major component of a successful control practice. According to Gielisse (2011), the challenges associated with the execution of financial controls are;

Managerial accountability

Some of the top management views accountability as a literal thing such that they believe that responsibility is controlling the detail of everything. The results will be that all other staff become separated from the internal financial control processes. Other managers are of the belief that they should personally take all decisions and that every transaction should pass through their offices for them to be held accountable. The organisation perspective on risk and other aspects will be limited to top managers only which will limit other staff development, accountability and organisational efficiency. If the managers were appointed for other reasons besides competence, it will definitely put the organisation at greater risk of failure.

Risk management is not well understood

Financial controls are an element of financial controls hence there is need for risk management. It is a key component of financial control which identifies and analysis risk for the attainment of organisational objectives and determining the correct mitigation measures. Risk management process involves risk identification, risk evaluation and classification, evaluating the risk appetite of the company and development of risk response.

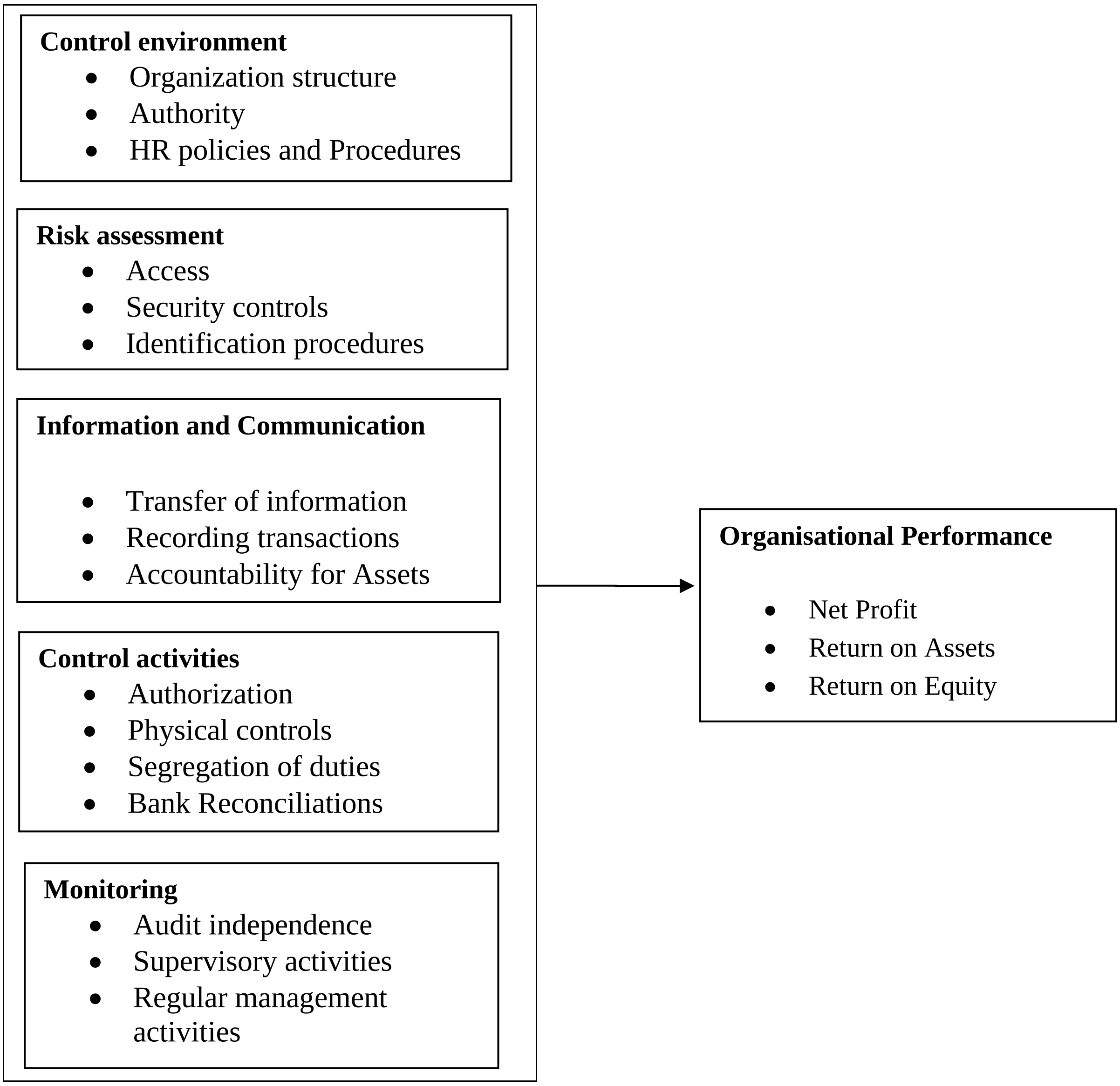
Top management is not well versed with their responsibility to implement risk management so they are lax to implement it. On the other hand, middle managers are afraid of executing risk management because of the mere reason that they do not want to acknowledge that there are flaws in their operation. Risk management is then applied at the end of financial control rather than at the start which is not appropriate.

Weak Internal audit

Most internal auditors' opinions are compromised due to a number of factors, this result in lack of independence in carrying out their duties despite the fact that they have declared their independence in writing (Parker, 2015). IAASB (2013) pointed out the relationship between auditors and those assigned with governance of the company as a factor that influence the execution of financial controls. Any adverse findings may be viewed as a direct criticism to the top management. For this reason, internal auditors end up playing an insignificant role of only checking for the reliability of system rather than primary audit role.

2.8 Conceptual framework

The conceptual framework shows the link between dependent and independent variables. Figure 2.4 below shows the Conceptual framework adopted for this study showing the variables of the study.



Independent variables Dependent variables

Figure 2.4 Conceptual framework

In this study, the dependent variable is performance. Components of financial controls which include the control environment, risk assessment, information and communication, control activities and monitoring are the independent variables in this research. The moderating variables are authority and working environment.

2.9 Empirical Literature Review

The empirical literature review explores what other researchers have done in their research studies and finding the existing gap with those who have researched about the relationship between financial controls and firm performance.

An empirical study carried by Ibrahim and Mustapha (2019) examined the impact of financial controls mechanisms on profitability performance on manufacturing firms in Nigeria. The study was a qualitative research and a survey descriptive method was adopted and inferential statistics using the Pearson Product Moment Correlation. The findings of the study revealed that a positive correlation between financial controls mechanisms and firm's profitability performance. The study, being a qualitative may have only relied on primary sources of date and thus may have been biased on the results.

In another study Kisanyanya (2018) examined the Financial control systems and firm performance of public institutions of high learning in Viliga Country, Kenya. The author used financial controls namely control activities, risk assessments, control environment, information and communications and monitoring as proxies for the independent variable whilst financial reporting surplus was used as a proxy for financial performance. The research study was a descriptive research design and also a multiple regression was adopted by the study. The results of the study revealed that there is a positive correlation between proper risk assessment tools, risk assessment management system, effective flow of information and communication, financial monitoring and firm financial performance.

The relationship between financial controls and firm performance was also carried out by William (2017) when the author examined the effect of financial controls on the financial performance of listed entities on the Nairobi Securities Exchange. The study was a descriptive quantitative in nature and secondary data was used on the research study. The study used return on assets as a proxy for the dependant variable (firm performance) and financial controls namely control environment, risk assessment, information and technology, control activities, leverage as measured by ratio of total liabilities to total assets, liquidity measured by the current ratio and firm size measured by total assets as proxies for the independent variables (financial controls). The results of the study revealed that all the variables of the Financial controls namely control environment, risk assessment, control activities, information and technology, monitoring, leverage, liquidity and firm size are significantly positively correlated with firm performance. However, the study confirms and is consistent with the results from other empirical studies and the study produced reliable results since multi- econometric models were adopted by the researcher to confirm the results.

Asiligwa *et al.* (2017) empirically examined the effect of financial controls on the financial performance of Commercial banks in Kenya. The authors used historical return on equity as a proxy for the dependent variable (firm performance) and control environment, risk management, information and technology, communication, control activities and monitoring as independent variables which acted as proxies for the financial controls. The study was a descriptive, cross sectional research design. The findings of the research study revealed that there is a strong positive correlation between financial controls and financial performance for Commercial banks in Kenya. The study also revealed that there was a negative correlation for banks which had weak or absent of strong financial control systems. However, the study falls short for not testing for stationary to avoid spurious results as asserted by Olweny and Kimani (2011) cited in Badze and Nhavira (2016), since time series data needs to be tested for stationarity as it is prone to errors. Secondly, the study did not test for co-integration and causality to find the direction of the relationship. The study did not capture control variables. Basing on the above facts, the study could have led to biased results; hence the researcher seeks to close this gap by employing control variables and testing for stationarity and causality tests between the regressors.

Kamau (2014) carried a study to investigate the effect of internal controls on the financial performance of manufacturing firms in Kenya. The study found out that most manufacturing firms had a control environment as one of the functionality of internal controls of the organization that greatly impacts on the financial performance of the firms (Asiligwa, 2018). The results also revealed that the staffs were trained to implement the accounting and financial management systems, the security system identified and safeguarded organizational assets. The statistical result from the regression analysis shows that there is a positive relationship between internal control and financial performance of manufacturing firms in Kenya. The study went on to recommend that both internal and external auditors should be constantly updated and well-grounded on international financial reporting standards (IFRS) and principles in order to enhance their knowledge and skills in application of accounting practices and to keep them updated on the contemporary issues.

A study by Palfi and Muresan (2009) which examined the importance of a well-organized system of internal control in regards to the banking sector of Romania using a survey revealed that the continuous collaboration, based on periodical meetings, between all structures of bank, characterizes an effective internal audit department. In a related study, Musa (2010)'s study investigated the existence and adequacy of implemented security controls of computerized accounting information systems in the Saudi banking sector and found out that the vast majority of Saudi banks have adequate security controls in place (Simiyu, 2011).

Ndiwa (2014) also carried a study on the assessment of Internal Control System on Financial Performance in tertiary training institutions in Kenya. This study was motivated by the fact that many public institutions in Kenya were being faced with poor financial performance which in extreme cases were leading to the closure of some of them, despite having the necessary resources to run them. The study, therefore, endeavoured to investigate the persistent poor financial performance from the perspective of internal controls which had hitherto been ignored. The general objective of the study was to establish the relationship between internal control and financial performance in tertiary institutions in Kenya. The study was limited to the African Institute of Research and Development Studies. The findings indicated that most respondents were of the view that indeed there was a relationship between internal control and financial management.

Kinyua (2015) studied the Effect of Internal Control Environment on the Financial Performance of Companies quoted in the Nairobi Securities Exchange. The objective of the study was to establish the effect of internal control environment on financial performance of companies quoted in Nairobi Securities Exchange. The findings indicated that there is a positive significant relationship between internal control environment and financial performance, which corroborates with the findings of Mawanda (2008), states that institution which have enforcement of proper internal control systems will always lead to improved financial performance. The study, therefore, recommends that internal control environment should be enhanced to further improve the financial performance of companies quoted in Nairobi securities exchange.

Muhunyo (2018) studied on the effect of internal control systems on financial performance of Public institutions of higher learning in Nairobi city county, Kenya. The study was anchored on agency theory, stewardship theory, positive accounting theory and attribution theory. The study used a descriptive research design. This study took a sample study approach with its target population being the different categories of staff in different departments of Public Institutions of Higher Learning in Nairobi City County, Kenya. It took on a sample of 96 employees. Primary data was collected from sample population using open and closed ended questionnaires. Descriptive statistics was used in the data analysis and information presented in statistical forms. A multiple linear regression was also used to analyse the relationship between the dependent and independent variable. The study realized that the control environment, risk assessment, control activities and information and communication as indicators of internal control systems have a significant influence on the financial performance of the institutions of higher learning in Nairobi City County, Kenya. The variables explained 99.1% of the changes in financial performance of the institutions. The study recommends that internal control systems among the institutions need to be improved and accountability of organizational resources be upheld.

However, there has been very little empirical studies on the relationship between financial controls and performance in Zimbabwe, and specifically at Zimpapers. This forms the basis of this present study.

2.10 Summary

The chapter has reviewed the relevant literature on financial controls and organisational performance. A number of relevant theories have been discussed and the chapter covered the theoretical framework which provided a snapshot of the constituents on internal controls. The chapter has defined the concept of internal controls and organisational performance. The chapter also provided an analysis of previous research work on the subject by empirical scholars in an attempt to identify the gap which formed the basis of this study.

The chapter also provided the conceptual framework showing the variables (dependent and independent) of the study. The dependant variable was organisational performance as proxied by net profit, return on assets and return on equity while the independent variable internal controls proxied by control environment, control activities, risk assessment, monitoring and information and communication. The next chapter presents the research methodology.

CHAPTER 3 METHODOLOGY

3.1 Introduction

The primary objective of the study is to examine the relationship between financial controls and firm performance. The research study used the triangulation research technique by employing both the qualitative and quantitative research methodologies. This chapter describes and explains the materials and methods of analysis used in the study. Section 3.2 covers the research design that was adopted by the research study, Section 3.3 describes the population and the sample framework. Section 3.6 covers data collection instruments and data collection procedures, Section 3.7 explains the pilot testing, data validity and data reliability and the econometric analysis of the methods that were used to analyse the data. Section 3.9 rounds up with the chapter summary.

3.2 Research Design

A research design is defined by Saunders and Thornhill (2009) as a general plan adopted in answering the study's research questions. The research design adopted in this study was a descriptive case study research design. Burns and Burns (2011) points out that a descriptive case study research design is where the researcher attempts to document what is actually occurring. The researcher adopted this method because it allowed room for inferences to be made about some attitudes or behaviours of the study population. In a descriptive case study design it is also easy to collect data and accurate information is usually obtained. Descriptive case study design was found to be more appropriate in this study as it allows for systematic collection and analysis of data in order to test hypothesis (Mugenda & Mugenda, 2003).

3.2.1 Research Approach

This study adopted a mixed methods research composed of both qualitative and quantitative information. It also contained both primary and secondary data. The rationale for using a mixed method approach is that qualitative data can complement quantitative data and where primary data falls short, secondary data can also complement primary data. This method was adopted in order to avoid bias in study data collected and strengthen the research findings.

3.3 Population and Sampling

Population is defined as the researchers' universe (Kothari, 2011). Cooper and Schindler (2011) argued that population is a total collection of elements upon which a researcher can make inferences.

Target population is defined as the entire group of objects upon which a researcher seeks to obtain information about a specific research relevant for the study (Cooper & Schindler, 2011). They assert that a population of the study should reflect the researchers' area of study and interest. The population which was employed in this study focused on the Zimpapers Group, which is a public listed company on the Zimbabwe Stock Exchange. The research population study focused on all the subsidiaries of the Zimpapers Group.

The research study used the target population from the strategic business units of the Zimpapers Group and it was categorized from the Group for equitable distributions amongst the strategic business units of the population by the sample shown on the below table 3.1.

Table 3.1: Target Population

Respondent Strategic Unit	Number	Pecentage
Herald	20	14%
Chronicle	10	7%
H Metro	10	7%
Sunday Mail	10	7%
Sunday News	10	7%
Manica Post	15	11%
Kwayedza	10	7%
Umthunywa	10	7%
Southern Times	10	7%
Star FM	20	14%
Diamond FM	15	11%
Total	**140**	**100%**

3.3.1 Sampling Design

Purposive sampling technique was used to select the respondents. According to this method, sample members are selected on the basis of their knowledge, relationships and expertise regarding a research subject (Freedman *et al*., 2007). Miles and Huberman (2001) describes purposive sampling as "a method of sampling where the researcher deliberately chooses who to include in the study based on their knowledge and ability to provide the necessary data. In this study only respondents who were eligible were purposively chosen to participate in the study. The rationale for choosing this approach was that the researcher was seeking knowledge about the impact of financial controls and organizational performance which respondents would provide by virtue of their knowledge of the organization.

3.3.2 Sample Size

The Table below shows the sample size selected.

Table 3.2 Sample Size

Respondents' Strategic Unit	Sample
Herald	17
Chronicle	8
H Metro	8
Sunday Mail	10
Sunday News	9
Manica Post	13
Kwayedza	7
Umthunywa	8
Southern Times	9
Star FM	18
Diamond FM	13
Total	**120**

The sample selected represents 85% of the total population, as advocated by Saunders and Thornhill (2009) who mentions that a sample size should be large enough above 70% to ensure reliable results.

3.4 Data sources

The main primary data collection method used in the research study was through the use of a semi-structured questionnaire. The semi structured questionnaire was distributed to Management and Staff of Zimpapers group. Questionnaires are cost effective, free from the bias of the researcher, give respondents adequate time to give well thought out answers and the distant respondents can be reached by posting the questionnaires. The questionnaire used a five point Likert scale to examine relationship between financial controls and firm performance. The questionnaire was administered to junior, middle and senior managers with a view of obtaining their input and opinions on the topic of the research.

3.5 Data Sources

This study triangulated by using a combination of both primary sources of data and secondary sources of data.

3.4.1 Primary sources of data

Primary data is defined by Meyer (2015) as raw information which include data gathered from unpublished or gathered directly from entities or individuals. Primary data is original in nature and collected through interviews, surveys, questionnaires, focus groups, observation and experiments (Saunders *et al*., 2009). In this study the main primary data collection method used in the research study was through the use of a semi-structured questionnaire. The semi structured questionnaire was distributed to Management and Staff of Zimpapers group.

3.4.2 Secondary sources of data

Secondary data sources are defined by Wegner (2010) as those sources where data is collected and processed but not for the purpose of the existing need and data which has been further processed or published such as published financial statements of a firm. Secondary data is collected through, newspapers, journals, magazines, internet and published reports. In this study secondary data was obtained through the use the company's audited annual reports for analysis. The secondary data sources were used to complement the primary data findings and provide more data and insight of some of the information that may not have been answered by the respondents. The secondary data used for a time series data from 2010 to 2019.

3.5 Pilot Testing

A pilot study is a small scale preliminary study conducted in order to evaluate feasibility, time, cost, adverse events, and improve upon the study design prior to performance of a full-scale research project. This pre-exercise study orientated the researcher to the research project and provided him with invaluable insight into the phenomenon. The pilot study ensured the rectification of errors at little cost. Welman *et al*. (2005) posits that the pilot study essentially administers the questionnaire instrument to a limited number of participants from the same population as that for which the eventual project is intended. Welman *et al*. (2005) also summarised the purpose of a pilot study as being to detect possible flaws or errors in the measurement procedures and to identify unclear or ambiguously formulated items. A pilot study was conducted to pre-test the practicability of the study and to detect flaws in the data collection process. This helped to discover errors on the issues raised such as ambiguous instruction or wording, inadequate time limit and measurability of variables defined. In this study questionnaire and interview guide were circulated to a colleague who was requested to make recommendations and amendments in the layout, contents and instructions. The necessary changes were made to the questionnaire and interview guide in line with the applicable recommended feedback.

3.6 Data Collection Instruments

Burns and Groove (2003) defines research techniques as the tools used in the collection of data which is relevant in substantiating the research. Milne (2012) defined research instruments as tools used to obtain information to be analysed in a study. Questionnaires and interviews were used in this research.

3.6.1 Questionnaire

Bulmer (2004) defined a questionnaire as a research tool for collecting information on participant’s social characteristics, behaviour, beliefs and reasons for action in relation to a topic under investigation. Moreover, Monette *et al* (2011) identified a questionnaire as an instrument that contains recorded questions that people respond to directly on the questionnaire form itself and there will be no interference of the interviewer. In this research, the questionnaire had four different sections. The first section consisted of demographic information such as the age, gender, income, and education of the respondent. Section B to Section D of the questionnaire covered on internal controls adopted at Zimpapers, the effectiveness of the existing internal controls in improving performance of Zimpapers (Pvt) Ltd and the challenges inhibiting the effective application of internal controls at Zimpapers (Pvt) Ltd.

The researcher distributed a total of 120 questionnaires to the respondents who were given a maximum of forty-eight hours to complete the questionnaires since they are also committed to their work schedules. A follow up was done using telephone calls and emails to the respondents.

A five point Likert scale was used to capture the opinion of the respondents on a scale of one to five. The Likert scale was used because the research found it easy to be understood by respondents, easy to analyse data statistically, made question answering easier for respondents, responses were easy to be quantified, does not require respondents to provide a yes or no answer and was a quick, efficient and inexpensive method for data collection.

A questionnaire was used in this study because questionnaires give respondents the liberty to be honest in their answers since they will remain anonymous and not held liable for answers or opinions they give. They also give time to think through the questions before answering and the questions guide them in the lines of thought of the researcher. The use of a questionnaire was also justified in this study as it is a low cost data collection instrument. Further, a self-administered questionnaire assists to enhance self-reporting on the samples opinions, attitudes, beliefs and values (Mwambota *et al*., 2016).

3.7 Analysis and Organisation of Data

Hall (2010) postulated that data processing involves coding, editing, classification, tabulation and graphical presentation. The data collected in the research study was edited and analysed to remove any unbiased reliabilities so that it makes it clear for maintaining data integrity. Data was analysed through descriptive statistics. Multiple liner regression models were used to find the relationship between the repressors, dependent variable (firm performance) and the independent variables. The researcher used data analysis package namely Statistical Package for Social Science (SPSS Version 23) to analyze the data for triangulation methods (both qualitative and quantitative data).

3.7.1 Research/Econometric Analysis

Methodology for Objective 1 and 4: To Identify the major existing financial controls at Zimpapers and to Explore the challenges inhibiting the effective application of financial controls of Zimpapers.

The researcher sought to answer objective one and four by using semi-structured questionnaires which were qualitative in nature.

Methodology for Objective 2 and 3: To Determine the effectiveness of the existing financial controls in improving performance of Zimpapers and to determine the relationship between financial controls and firm performance at Zimpapers.

The study sought to achieve objective two and three by using quantitative techniques namely the Pearson correlation and Regression analysis. The study adopted and modified the model by Murayi *et al.* (2013) by including control variables of inflation, exchange rates.

Following the model by Murayi *et al.* (2013), the model can generally be specified as follows:

FP=f (CE, RA, CA, IC; InfR, ER) *(1)*

Where: FR= Firm performance
CE= Control Environment
RA= Risk Assessments
IC = Information and Communication
INFR= Inflation Rate
ER= Exchange Rates
ε_t =Error term

To analyse the relationship between financial controls and firm performance, the research utilizes the log-linear model, which is specified as follows:

$$lnFP_t = \beta_0 + \beta_1 lnCE_t + \beta_2 lnRA_t + \beta_3 lnIC_t + \beta_4 lnINFR_t + \beta_5 lnER_t + \varepsilon_t \quad (2)$$

The model can further be decomposed into specific variables as follows:

$$lnNP_t = \beta_0 + \beta_1 lnCE_t + \beta_2 lnRA_t + \beta_3 lnIC_t + \beta_4 lnINFR_t + \beta_5 lnER_t + \varepsilon_t \quad (3)$$

$$lnROA_t = \beta_0 + \beta_1 lnCE_t + \beta_2 lnRA_t + \beta_3 lnIC_t + \beta_4 lnINFR_t + \beta_5 lnER_t + \varepsilon_t \quad (4)$$

$$lnROE_t = \beta_0 + \beta_1 lnCE_t + \beta_2 lnRA_t + \beta_3 lnIC_t + \beta_4 lnINFR_t + \beta_5 lnER_t + \varepsilon_t \quad (5)$$

Where: NP= Net Profit

ROA= Return of Assets
ROE= Return on Equity

The natural logarithm of a time series data effectively line arises the exponential trend in time series data analysis since the log function is the inverse of an exponential function (Asteriou & Price, 2007) as cited by Jecheche (2011), hence the study has applied the log-linear model.

3.7.2 Reliability and validity analysis

Anderson (2014) contend that it is necessary to consider how reliable and valid the data is as data credibility is both relevant and valuable for any investigative enquiry. Reliability refers to consistency and correctness of measures taken as defined by Brynard and Hanekom (2016). Furthermore, Eachus (2012) argued that reliability is about the instrument being able to produce same data when the phenomena are measured at different times. The instrument should give same results under same conditions on different occasions. Results should be reproduced and repeated.

Cronbach's Alpha was applied to measure the co-efficient of internal consistency and therefore ensuring the reliability of the instrument. Cronbach's alpha measures the average of measurable items and its correlation. SPSS software was used to verify the reliability of collected data. Overall scales' reliability of the present situation and the desirable situation were tested by Cronbach's alpha, which should be above the acceptable level of 0.8 (Hair *et al*., 1998). The Cronbach's alpha obtained from the instruments used to collect data was above the acceptable level which indicates that the research instruments were reliable.

Brynard and Hanekom (2016, p.47) defined validity as "the ability of the instrument to measure what it is supposed to measure". Burns and Grove (2011) also defined validity as a measure of truth or falsity of the data obtained through using the research instrument. Validity is therefore influenced by many factors. In quantitative research, the instrument should measure what it is supposed to measure. In qualitative research, the researcher should have knowledge to do inductive inference. This was also supported by Robson (2012) who alluded that the major concern of validity is to identify whether the results are really to be what they purport. Burns and Grove (2011, p.814) further emphasized that validity of the instrument refers to the extent to which "… the instrument actually reflects the abstract construct being examined." Validity is important as it measures the soundness of the interpretation of scores from a test. Validity was ascertained by developing the questions based on the respective objectives. In addition, piloting was also used to enhance and verify validity.

3.8 Ethical Issues

Silverman (2000) posits that in carrying out a research, a researcher should always be aware that he/she is entering the participants' private spaces and thus must address several ethical issues during and after the research had been conducted (Thomas, 2010). Creswell (2003) notes that researchers should duly respect the informants' rights, needs, values and desires and should uphold participants' privacy, confidentiality, dignity, rights, and anonymity by adhering to strict research ethics guide lines. The researcher took into account the following factors in conducting the study, which were also pointed out by Miles and Huberman (1994) that any researcher must consider. These include:

Informed consent-Prior to commencement, the researcher informed the participants of the purpose and nature, as well as the extent of the research.

Harm and risk - The researcher, as stated by Trochim (2000) guaranteed that no participant would be put in a situation where they might be harmed physically or psychologically as a result of their participation,

Privacy, confidentiality, and anonymity-the researcher ensured that confidentiality and anonymity of the participants would be maintained and that no participants name or information that reveals their identity was shared. It was clarified to the participants that their participation to the study was absolutely voluntary and more importantly that the research was only for academic purpose.

3.9 Summary

The chapter has highlighted the research design used in this study, which is a descriptive case study. The study used mixed method research which was both qualitative and quantitative. The main research instrument used was a self-administered questionnaire although profit, return on assets and return on equity was obtained from the company's annual reports. The target population and its composition was also explained in this chapter which consisted of 120 employees, from the strategic business units of the Zimpapers Group with the sample size consisting of 100 respondents drawn through purposive sampling.

Ethical issues were also discussed in this chapter where the major ethical issues addressed in this study related to lack of informed consent, invasion of privacy, and deception. To avoid lack of informed consent all the respondents were informed that the study is purely for academic purposes and participation to the study was voluntary. The next chapter provides a discussion and interpretation of the research findings.

CHAPTER 4 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the results and interpretation of the results with respect to financial controls and organisational performance for the Zimpapers Group. Section 4.1 discusses the background information of the data gathered. Section 4.2 covers the validity and reliability of the research instruments. Section 4.3 highlights the level of training of the finance personnel, Section 4.4 discusses the control environment, section 4.5 discusses the risk assessment, section 4.6 analyses the control activities. Section 4.7 discusses the information and communication variable and section 4.8 discussed also discussed the control variables, inflation and exchange rates. The Pearson Correlation was discussed in Section 4.9 and Regression analysis in section 4.10. The chapter rounds up with the chapter summary in section 4.11.

4.2 Data Presentation and Analysis

The section provides the background information with regard to the questionnaire response rate, gender, age, and department enrolled in the Zimpapers Group.

4.2.1 Response rate of Questionnaires

The success rates obtained from the questionnaires conducted are shown in the table 4.1 below:

Table 4.1 Questionnaire Response rate

	Questionnaires Sent	Questionnaires Returned	Response Rate %
Population	**120**	**100**	**83.33%**

The table 4.1 above indicates that 120 questionnaires that were distributed, 100 respondents returned the questionnaires giving a rate of response of 83.33%. The response rate was indicative that it was exceptionally good. This was argued and supported by Mugenda and Mugenda (2003) cited by Andai (2016) that an adequate response rate should be 50%, 60% moderate and 70% exceptionally good.

4.2.2 Gender of Respondents

The research sought to examine the respondents' gender in order to ascertain their gender moderation in the organization. This was shown in table 4.2 below:

Table 4.2: Respondents' Gender

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	35	35	35	35
	Male	65	65	65	100.0
	Total	100	100.0	100.0	

The empirical results from the study revealed that (65%) of the respondents were male while (35%) were female. Results indicate that there was gender imbalance on the respondents and it's also indicated that more males contributed and responded to the study. The results also revealed that there was less participation of women within the financial controls and firm performance within the Zimpapers Group.

4.2.3 Respondents' Age

The study sought to examine the respondents age of the respondents to determine the age distribution of the respondents. This was revealed in the table 4.3 below:

Table 4.3: Respondents' age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Years ≤30	25	25	25	25
	30<years≤40	45	45	45	70
	40<years≤60	30	30	30	100
	Cumulative Total	100	100.0	100.0	

The findings shown in table 4.4 above highlighted that 45% of the respondents' age was within the age band of 31-40 years, which was the majority age during the study. The aged band of less than 30 years and 40-60 years had a percentage responsive rate of 25% and 30% respectively. The results indicate that there was mixture of the age band between the participants.

4.1.4 Department Enrolled

The empirical study examined the various departments which were at the Zimpapers Group to ascertain the departments in which financial controls are imperative for organizational performance. The table 4.4 below shows that 32% of the employees at Zimpapers Group were stationed at operation departments which comprised of the newspaper Editing team and the radio DJs. Marketing and Finance Department which were support departments constituted 30 5 and 25% respectively of the employees whilst human resources and support staff had 8% and 5% respectively.

Table 4.4 Department enrolled

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Marketing	30	30	30	30
	Finance	25	25	25	55
	Business Development	8	8	8	63
	Operations (Editors & Djs)	32	32	32	95
	Others	5	5	5	100.0
	Total	100	100.0	100.0	

4.2 Reliability Statistics

The Reliability statistics of the data used in this study are presented in table 4.5 below:

Table 4.5 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.732	0.787	100

The respondents were given a scale of 1-5 indicating how they view a given variable of the research instruments that is, control environment, risk assessment, information and communication, inflation, exchange rates and financial performance. Reliability analysis was done on the 100 items of this study. An acceptable value is one that is above 0.7 which indicates that the respondents were indeed consistent with the information they provided. With this in mind the information analysed revealed a Cronbach alpha of 0.732 which is slightly above the acceptable mark thus indicating consistency in ratings. This was also supported by Muhunyo (2018) who contends that a Cronbach Alpha of above 0.70 indicates that the research instruments employed by the study are reliable.

4.3 Level of Training of Finance Staff

The study sought to examine the level of training and staffing of the finance personnel in the Zimpapers Group. It was realized that 80% of the finance personnel had the pre- requisites and were well trained within the specific financial controls, while 20% well not sufficiently trained. This indicates that internals financial controls were in force within the finance department.

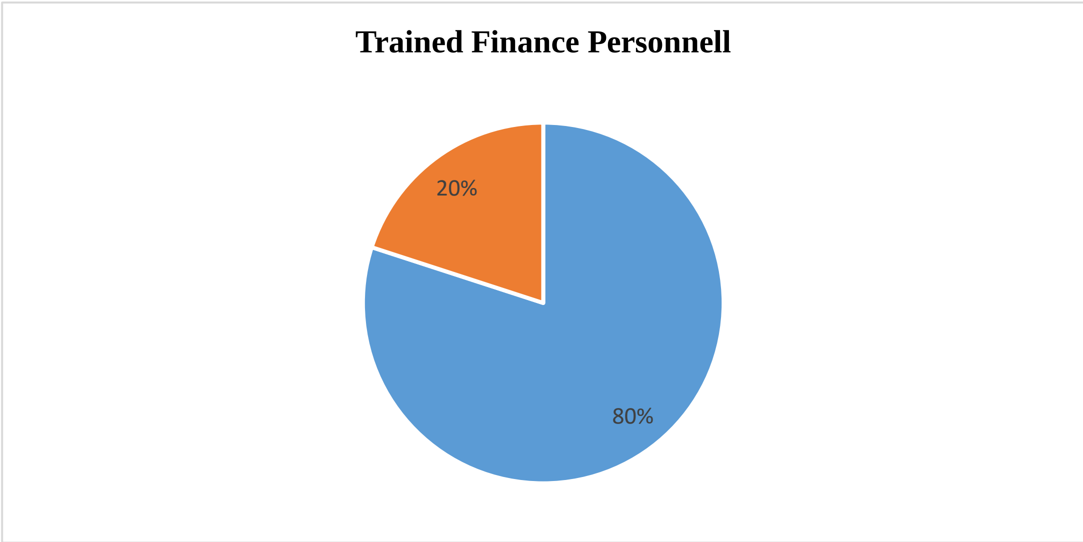


Figure 4.1 trained staff in the finance department

4.3.1 Finance Departments' Existence of Adequate Segregation of Duties

The study sought to examine and determine whether duties which are assigned to the finance personnel are properly segregated to ensure the effectiveness of financial controls to enhance firm performance in the Zimpapers Group. The findings were as follows.

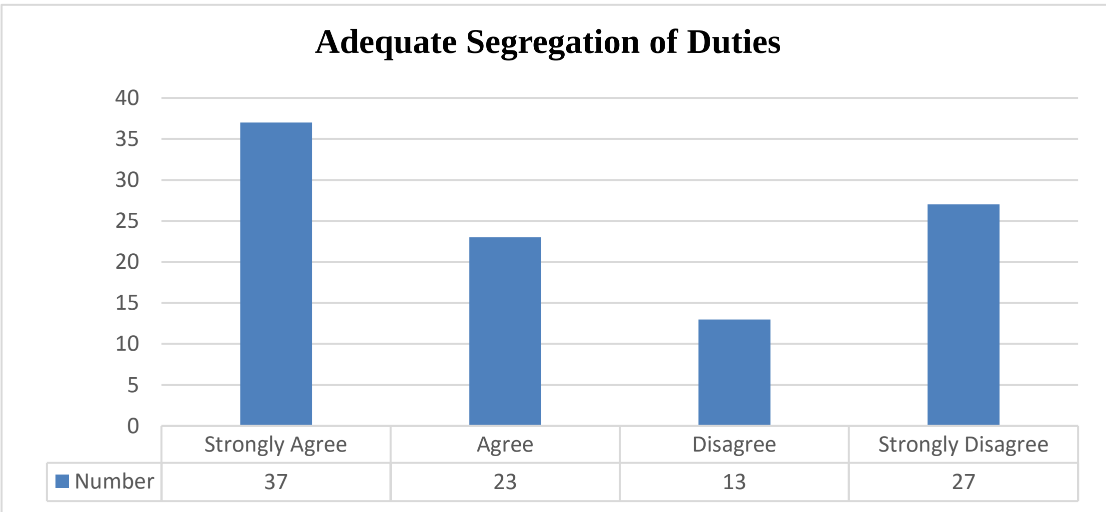


Figure 4.2: Existence of Adequate Segregation of Duties

Based on the Table 4.6 highlighted above, 37% of the respondents strongly agreed that there were efficient and effective segregation of duties within the finance department whilst 23% agreed, 13% disagreed and 27% strongly disagreed that there was proper segregation of duties within the department. From the research data provided by the respondents, this shows that majority of the staff within the Group (60%) agreed of the existence of segregation of duties within Zimpapers though there was cross pollination of duties within the intra-companies.

4.3.2 Financial control Systems and Financial Performance Systems

The research study sought to establish the set of financial controls systems and the financial performance systems which were in use within the Group.

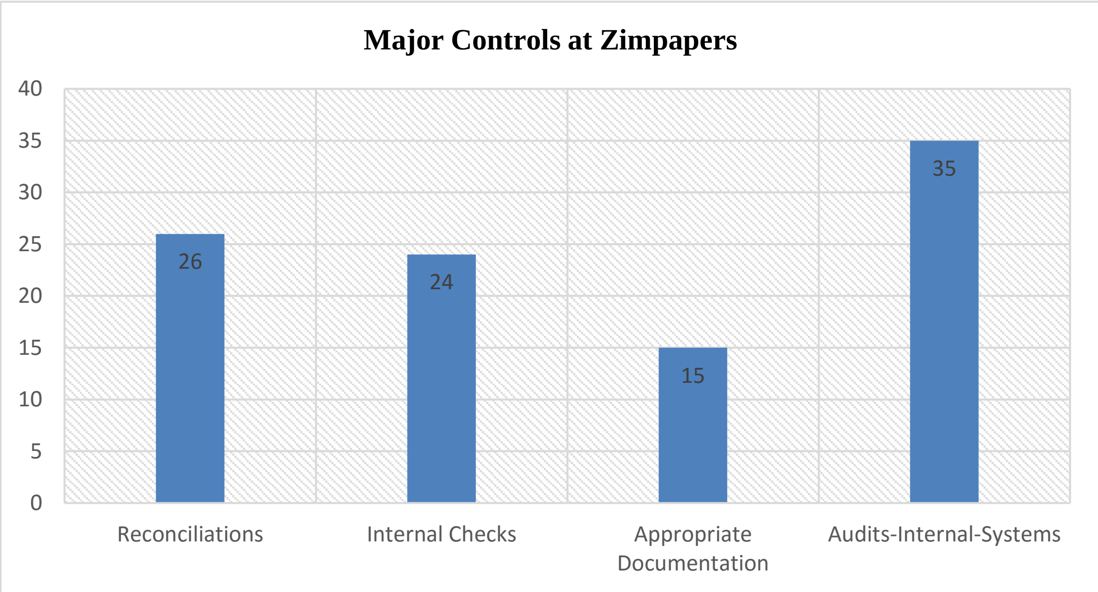


Figure 4.3 Major financial controls at Zimpapers (Pvt) Ltd

Thirty-five percent (35%) of the respondents revealed that the Group relied mainly on internal audit and reconciliations (26%) while internal checks and the use of appropriate documentation with 24% and 15% respectively. In addition to segregation of duties the above are the major existing controls at Zimpapers. The study using this interprets that Zimpapers has weak internal control systems and that the firm had effective internal control systems and well-functioning financial performance or reporting systems.

4.4 Control Environment

The study sought to establish the impact of the control environment on the financial performance of the firm for the past decade (10 Years). The findings of the study were as highlighted in table 4.6 below:

Table 4.6 Impact of Control Environment on Firm Performance

	(1)	(2)	(3)	(4)	(5)	Mean	S.D
The control environment has affected the institutions revenue over the last 10years	5%	4%	6%	67%	18%	4.89	0.9
Control environment has an impact on the firm operating costs over the past 10 years	12%	9%	5%	58%	16%	3.32	1
Control environment has affected the firm generating a return on investment over the past 10 years	11%	13%	5%	53%	18%	3.21	1

Table 4.6 above analysed the response on the impact of the control environment on firm performance and it indicated that the firm's revenue, operating costs and return on investment had a great impact on firm financial performance as indicated by the mean score of 4.89, 3.32 and 3.21 respectively, thereby implying that the control environment has a significant influence on the firm financial performance. From the results, the study also found that 67% of the respondents indeed confirmed that the control environment had a positive relationship with the organizational performance. The overall mean score of control environment was 3.8 with standard deviation of 0.95. Taking into account that scores were measured on a five-point Likert scale, the mean score is above the 3.0 midpoint. This therefore means that on average respondents of the control environment and firm performance are fully aware of. The

findings are consistent with those of Ibrahim *et al*. (2017) who found a positive relationship between control environment and firm performance.

4.5 Risk Assessment

The research study sought to establish the impact of the risk assessment of the financial performance of the Zimpapers Group. The findings of the study are highlighted in table 4.7 below:

Table 4.7 Impact of Risk Assessment of Firm Performance

	(1)	(2)	(3)	(4)	(5)	Mean	S.D
Risk Assessment has affected the institutions revenue over the last 10years	7%	7%	4%	66%	16%	3.32	0.7
Risk Assessment has an impact on the firm operating costs over the past 10 years	16%	12%	9%	45%	18%	3.41	0.8
Risk Assessment has affected the firm generating a return on investment over the past 10 years	15%	14%	8%	56%	7%	3.21	0.6

According to findings presented in table 4.7, majority of respondents (66%) agreed that risk assessment had affected the firms' revenue thereby impacting of the organization performance positively. Respondents also cited that the firm operating efficiency and the return on investment was were enhanced by the risk management practices that the firm had engaged in to firm up its internal control systems. The overall mean score of risk assessment was 3.32 with standard deviation of 0.70. This implies that on average respondents had positive perception of the risk management practices which are being employed by the organization.

4.6 Control Activities and Firm Performance

The study sought to establish the impact of the control activities and firm performance for the Zimpapers Group. This findings of the study were highlighted in table 4.8 below:

Table 4.8: Control Activities and Firm Performance

	(1)	(2)	(3)	(4)	(5)	Mean	S.D
Control activities has affected the institutions revenue over the last 10years	0%	5%	5%	15%	70%	3.56	0.8
Control activities has an impact on the firm operating costs over the past 10 years	5%	6%	7%	14%	68%	3.0	0.6
Control Activities has affected the firm generating a return on investment over the past 10 years	12%	10%	8%	14%	56%	2.45	0.5

Based on the findings on the table 4.8 the study found out the 70% of the respondents strongly affirmed that control activities such as bank reconciliation and segregation of duties ensured the attainment the budgeted revenue of the group, whilst 68% of the respondents agree that the cost containment strategies which were employed by the Group enhanced the Groups bottom line (net profit). 56% of the respondents argued that control activities had an impact to the groups return on investment whist 12% of the respondents argued that the control activities negatively impacted the Groups' return on investment as shareholder value is eroded through overinvestments which do not yield a return on investment to the shareholder.

4.7 Information and Communication and Firm performance

The study examined the relationship between information and communication on organizational performance. The findings were tabulated on table 4.9 below:

Table 4.9: Information and Communication and Firm Performance

	(1)	(2)	(3)	(4)	(5)	Mean	S.D
Information and Communication has affected the institutions revenue over the last 10years	0%	4%	4%	32%	60%	3.67	0.9
Information and Communication has an impact on the firm operating costs over the past 10 years	2%	13%	5%	24%	56%	3.87	0.8
Information and Communication has affected the firm generating a return on investment over the past 10 years	8%	14%	6%	28%	44%	4.04	0.6

From the table 4.9, 60% and 32% of the respondents indicated that information and communication had significant impact on the firms' revenue generation, whilst 4% disagreed that information and communication had impact of the firm performance thereby making the firms Information and technology systems ineffective internal control tools leading to poor firm financial performance. The table 4.9 also highlighted that information and communication systems had significant impact and influence on the operating costs and return on investment of the firm, thereby leading to high revenues streams, minimization of operating costs and enhanced shareholder value through a good return on investment through Information and communication systems.

4.8 Inflation, Exchange Rates and Firm Performance

The study also sought to establish the impact of inflation and exchange which were used as control variables to ascertain their influence on the organizational performance. The findings of the used were tabulated in table 4.10 below.

Table 4.10 Inflation Exchange Rates and Firm Performance

	(1)	(2)	(3)	(4)	(5)	Mean	S.D
Inflation and exchange rates had affected the institutions revenue over the last 10years	2%	2%	14%	72%	14%	3.92	0.9
Inflation and exchange rates had an impact on the firm operating costs over the past 10 years	16%	12%	9%	66%	18%	3.75	0.8
Inflation and Exchange rates has affected the firm generating a return on investment over the past 10 years	5%	8%	8%	74%	5%	3.56	0.5

Based on the findings as revealed in the table 4.10 above, the 72% of the respondents had affirmed that high inflation coupled with exchange rate disparity have a negative impact on the firm revenue streams as disposal incomes of consumers are depressed, thereby the firm real value is affected due to volatility of inflation and exchange rates making the firm financial reporting subdued. The respondents also highlighted that a moderate rate of inflation and stable exchange rates contributes to the firms' revenue and net profits.

4.9 Pearson correlation

Pearson correlation was performed to determine the relationship between the independent variables (Control environment, risk assessment, control activities, information and communication, inflation and exchange rates) and the dependent variables of firm performance (revenue, return on equity, in the study. The results of the Correlation are presented in table 4.11 below.

Table 4.11: Correlation Matrix: (Net Profit) and Independent Variables

		NP	CA	RA	CE,IC	InflR,ER
NP	Pearson correlation	1	-0.322	**.75****	0.19	0.59
	Sig. (2 tailed)		0.265	0.554	0.081	0.081
CA	Pearson correlation	-0.122	1	**.660****	0.44	**.410****
	Sig. (2 tailed)	0.266		0	0.69	0.005
RA	Pearson correlation	0.065	**.660****	1		**.812****
	Sig. (2 tailed)	0.554	0			0
CE,IC	Pearson correlation	0.19	**.69****	0.126	1	0.183
	Sig. (2 tailed)	0.081	85	85		0.094
InflR,ER	Pearson correlation	0.192	**.410****	**.512****	0.183	1
	Sig. (2 tailed)	0.079	0.005	0	0.094	

The results of the correlation matrix presented in table 4.11 above shows that firm performance and risk assessment positively and strongly correlate, r =0.750, p<0.01 thus indicating a significant relationship. Information and communication also strongly and significantly correlate r =0.660, p<0.01. Control activities also shows a positive but moderate correlation at 0.410 with significant level of 0.005. The results also show a negative association between high inflation and exchange rates effects on the firm financial performance r =-.0.019 but the relationship is not significant.

4.9.1 Pearson Correlation between Return on Assets and Independent Variables

The study sought to establish the relationship between another proxy of firm performance (return on assets) and the independent variables namely control activities, risk assessment, information and communication, control environment, inflation and exchange rates. Table 4.12 highlights the correlation matrix of the variables.

Table 4.12: Correlation Matrix: (Return on Assets) and Independent Variables

		ROA	CA	RA	CE;IC	InflR, ER
ROA	Pearson correlation	1	0.322	**.875****	0.555	**-0.222**
	Sig. (2 tailed)		0.004	0.001	0.062	0.072
CA	Pearson correlation	**.640****	1	.**750****	0.44	.**325****
	Sig. (2 tailed)	0.266		0	0.69	0.005
RA	Pearson correlation	.875**	**.0781****	1		.**360****
	Sig. (2 tailed)	0.554	0			0
CE; IC	Pearson correlation	0.555	**..781****	0.126	1	0.183
	Sig. (2 tailed)	0.081	85	85		0.094
InflR; ER	Pearson correlation	0.322	.**325****	**.360****	0.183	1
	Sig. (2 tailed)	0.079	0.005	0	0.094	

The results of the correlation matrix presented in table 4.13 above shows that firm performance (Return on assets) and risk assessment positively and strongly correlate, r =0.875, p<0.01 thus indicating a significant relationship. Information and communication also strongly and significantly correlate r =0.56, p<0.01. Control activities also shows a positive but moderate correlation at 0.322 with significant level of 0.004. The results also show a negative association between high inflation and exchange rates effects on the firm financial performance r =-0.222 but the relationship is not significant.

4.9.2 Pearson Correlation between Return on Equity and Independent Variables

The research study also sought to examine the relationship between return on equity which also acted as a proxy for organizational performance (dependent variable) and the (independent variables) regressors namely control activities, risk assessment, information and communication, control environment, inflation and exchange rates. Table 4.13 highlights the correlation matrix of the variables.

Table 4.13: Correlation Matrix: (Return on Equity) and Independent Variables

		ROE	CA	RA	CE;IC	InflR, ER
ROE	Pearson correlation	1	0.724	**.650****	0.512	.450
	Sig. (2 tailed)		0.003	0.004	0.041	0.002
CA	Pearson correlation	**.724****	1	**.750****	0.44	**.325****
	Sig. (2 tailed)	0.266		0	0.69	0.005
RA	Pearson correlation	.650**	**.750****	1		**.360****
	Sig. (2 tailed)	0.554	0			0
CE; IC	Pearson correlation	0.512	**.781****	0.126	1	0.183
	Sig. (2 tailed)	0.081	85	85		0.094
InflR; ER	Pearson correlation	0.450	**.325****	**.360****	0.183	1
	Sig. (2 tailed)	0.079	0.005	0	0.094	

The results of the correlation matrix presented in table 4.13above revealed that return on equity was strongly positively correlated with the firms internal control activities, r =0.724, p<0.01 thus indicating a significant relationship. Risk Assessment was also strongly and significantly correlate r =0.650, p<0.01. Control environment and Information and communication also shows a positive but moderate correlation at 0.512 with significant level of 0.041. The results also show that return on equity in an inflationary environment and volatile exchange rates, was moderately correlated to the variables, r=0.450 with a 0.002 significant level.

4.10 Regression Analysis

The study adopted and modified a regression analysis from by Asiligwa and Rennox (2017) which was used as a statistical technique to analyze the relationship between dependent variable and independent variables. Multiple linear regression analysis was conducted to determine the relationship between dependent variable which is firm performance as proxied by net profit, return on assets and return on equity and independent variables.

The regression equation was:

$$lnFP_t = \beta_0 + \beta_1 lnCE_t + \beta_2 lnRA_t + \beta_3 lnIC_t + \beta_4 lnINFR_t + \beta_5 lnER_t + \varepsilon_t \quad (1)$$

The model was further decomposed into an expanded form as follows:

$$lnNP_t = \beta_0 + \beta_1 lnCE_t + \beta_2 lnRA_t + \beta_3 lnIC_t + \beta_4 lnINFR_t + \beta_5 lnER_t + \varepsilon_t \quad (2)$$

$$lnROA_t = \beta_0 + \beta_1 lnCE_t + \beta_2 lnRA_t + \beta_3 lnIC_t + \beta_4 lnINFR_t + \beta_5 lnER_t + \varepsilon_t \quad (3)$$

$$lnROE_t = \beta_0 + \beta_1 lnCE_t + \beta_2 lnRA_t + \beta_3 lnIC_t + \beta_4 lnINFR_t + \beta_5 lnER_t + \varepsilon_t \quad (4)$$

Where: NP= Net Profit
ROA= Return of Assets
ROE= Return on Equity

4.10.1 Descriptive Statistics of Firm Performance (Net Profit)

The study sought to examine the regression analysis of the regressors for the firm performance (Net Profit) relationship with the independent variables which were used in the study. Table 4.14 revealed the findings of the regressors:

Table 4.14: Descriptive Statistics of the data used in the study: Model Summary:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.972a	0.944	0.935	1594733

a. Predictors: (constant), control activities, risk assessment, control environment, information and communication, inflation, exchange rates

b. Dependent variable: Net Profit

Table 4.14 above shows the model summary of regression analysis. R square, also called the coefficient of determination, shows how the net profit varied with control activities, risk assessment, control environment, information and communication, inflation and exchange rates. R square value indicates that 94% variance in net profit among financial controls as explained by the independent regressors. Table 4.15 revealed the results of the coefficients of the regression:

Table 4.15: Coefficient Results

Model	**Unstandardized Coefficient**		**Standardized Coefficient**	**T**	**Sig**
	B	**Standard Error**	**Beta**	**5.318**	
(Constant)	0.835	0.525		1.802	0.075
Control Activities	0.152	0.096	0.132	1.582	0.128
Risk Assessment		0.093	.750	-0.02	0.984
Information and Communication	0.56	0.1	0.694	5.602	0
Inflation and Exchange rates	0.054	0.085	0.047	0.633	0.529

a. Dependent Variable: Net Profit

From the results presented in table 4.15, the following regression equation was established:

$$NP = 0.835 + 0.152(CA) + 0.750(RA) + 0.694(IC) + 0.047(InfR) + 0.047\ (ER) \quad \textbf{(6)}$$

From the regression equation above, holding all factors constant (control activities, risk assessment, information and communication, inflation and exchange rates), the factors affecting the firm financial performance (net profit) will be 0.835. Information and communication and risk assessment has the strongest relationship with net profit with a regression coefficient of 0.694 and 0.750 respectively meaning a unit increase in innovation in information and communication and risk assessments will increase net profit of the organization by 0.694 and 0.750 respectively. There is a low correlation relationship between inflation and exchange rate and net profit with regression coefficient of 0.047. The findings of the study therefore reject the null hypothesis which states that there is no a relationship between financial controls and organizational performance. These results are in tandem and are supported by the findings by Ndiru (2016) who contend that there is a positive relationship between internal controls and firm performance.

4.10.2 Descriptive Statistics of Firm Performance (Return on Assets)

The study examined the regression analysis of the regressors for the firm performance (Return on Assets) relationship with the independent variables which were used in the study. Table 4.15 revealed the findings of the regressors:

Table 4.16: Descriptive Statistics of the data used in the study: Model Summary:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.952a	0.901	0.952	1461700

a. Predictors: (constant), control activities, risk assessment, control environment, information and communication, inflation, exchange rates

b. Dependent variable: Return on Assets

Table 4.16 above shows the model summary of regression analysis. The coefficient of determination (R-square) displays how the Return on assets varied with control activities, risk assessment, control environment, information and communication, inflation and exchange rates. R square value indicates that 90% variance on return on assets among financial controls as explained by the independent regressors. Table 4.16 revealed the results of the coefficients of the regression:

Table 4.17: Coefficient Results

Model	**Unstandardized Coefficient**		**Standardized Coefficient**	**T**	**Sig**
	B	**Standard Error**	**Beta**	**5.318**	
(Constant)	0.758	0.525		1.802	0.075
Control Activities	0.152	0.096	0.859	1.582	0.128
Risk Assessment		0.093	0.812	0.02	0.984
Information and Communication	0.56	0.1	0.550	5.602	0
Inflation and Exchange rates	0.054	0.085	-0.125	0.633	0.529

a. Dependent Variable: Return on Assets

From the results presented in table 4.17, the following regression equation was established:

ROA =0 .758 + 0.859(CA) + 0.812(RA) + 0.555(IC) -0.125(InfR) -0.125 (ER) (7)

From the regression equation above, holding all factors constant (control activities, risk assessment, information and communication, inflation and exchange rates), the factors affecting the firm financial performance (return on assets) will be 0.758. Control activities and risk assessment has the strongest relationship with ROA with a regression coefficient of 0.859 and 0.812 respectively meaning a unit increase in effective internal controls and vigorous risk assessments will enhance the utilization of the firm's assets thereby improves the return on Assets of the organization by 0.694

and 0.750 respectively. The study also shows that there is a negative correlation between high inflation and volatile exchange rates on the return on assets of the organization with a regression coefficient of -0.125. This will be attributed by the depletion of the asset base due to the inflationary spiral and high exchange rates erodes the firms' asset base real value.

4.10.3 Descriptive Statistics of Firm Performance (Return on Equity)

The study sought to examine the regression analysis of the regressors for the firm performance (Return on Equity) relationship with the independent variables which were used in the study. Table 4.18 revealed the findings of the regressors:

Table 4.18: Descriptive Statistics of the data used in the study: Model Summary:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.982a	0.967	0.972	1675734

a. Predictors: (constant), control activities, risk assessment, control environment, information and communication, inflation, exchange rates
b. Dependent variable: Return on Equity

Table 4.18 above shows the model summary of regression analysis. R square, also called the coefficient of determination, shows how the net profit varied with control activities, risk assessment, control environment, information and communication, inflation and exchange rates. R square value indicates that 97% variance on return on equity among financial controls as explained by the independent regressors. Table 4.19 revealed the results of the coefficients of the regression:

Table 4.19: Coefficient Results

Model	Unstandardized Coefficient		Standardized Coefficient	T	Sig
	B	Standard Error	Beta	5.318	
(Constant)	0.759	0.525		1.802	0.075
Control Activities	0.152	0.096	0.752	1.582	0.128
Risk Assessment		0.093	0.682	-0.02	0.984
Information and Communication	0.56	0.1	0.594	5.602	0
Inflation and Exchange rates	0.054	0.085	-0.038	0.633	0.529

a. Dependent Variable: Return on Equity

From the results presented in table 4.19, the following regression equation was established:

NP =0 .759 + 0.752(CA) + 0.682(RA) + 0.694(IC) - 0.038(InfR) -0.038 (ER) (8)

From the regression equation above, holding all factors constant (control activities, risk assessment, information and communication, inflation and exchange rates), the factors affecting the firm financial performance (Return on Equity) will be 0.759. Control activities and risk assessment has the strongest positive relationship with net ROE with a regression coefficient of 0.752and 0.682 respectively meaning a unit increase in internal controls and risk management practices will increase Return on equity of the organization by 0.752 and 0.682 respectively. There is a negative correlation between inflation and exchange rate and Return on equity with regression coefficient of -0.038. This implies that an inflationary spiral and an upward trend in exchange rates erodes the shareholder value of the firm.

4.11 Challenges inhibiting the effective application of financial controls

The study sought to establish the challenges inhibiting the successful application of internal controls at Zimpapers and the results of the study are presented in table 4.20 below

Table 4.20: Challenges in the application of internal controls

Challenges	(1)	(2)	(3)	(4)	(5)	Mean	S.D
Management Override	5%	4%	6%	57%	28%	4.79	0.9
Costs	12%	9%	12%	51%	16%	3.12	1
Resistance	13%	5%	11%	53%	18%	3.21	1
Excessive, redundant and obsolete systems	12%	8%	7%	63%	10%	4.82	1
Lack of Managerial Commitment and Weak Internal Audit	13%	9%	11%	47%	20%	2.89	1
Collusion	11%	3%	6%	68%	12%	4.89	1

The study findings as shown in table 4.20 above details that the 57% of the respondents agreed that management override is the major inhibiting factor in the successful implementation of internal controls. Management, by virtue of their positions' power tend to take short cuts that bypasses the laid down procedures and in this case junior staff cannot query or argue with their bosses. The study findings also revealed that cost is the major factor affecting the continuous adoption of internal control systems such as latest technologies and up to date ERPS. This is supported by 51% of the respondents agreeing to that effect. Fifty-three percent (53%) of the respondents also agreed that there is usually resistance by staff to adopt new technologies or use new ERPs and thereby affecting the successful application of internal controls.63% of the respondents also affirmed that the major challenge for the successful application of internal controls is the existence of obsolete systems and procedures which are kept on being followed in organizations. Respondents also agreed that there is too much bureaucracy in the systems which are mainly manual at Zimpapers. Lack of managerial commitment and weak internal audit also results in failure to implement up to date and current internal controls. Respondents cited management's lack of commitment which is seen in them not willing to release enough resources and funds to procure latest technologies that ensure the organization is not at risk of loss from theft and embezzlement of funds and assets. Collusion by staff has also been identified as a major challenge to the effective application of internal controls (68%) and mean of (4.79). The respondents affirmed that there is always collusion among the implementers and the rest of the staff in order to flout the procedures and controls in place.

A similar study conducted by Abdulkadir (2014) on challenges of implementing internal control systems in Nongovernmental Organizations (NGO) in Kenya found out that the adoption of more formal controls and business like management practices are often a source of conflict to the members of the organization and weakening of their strong self-driven commitment, which depicts the fact that in organisations there is always conflict in the implementation and lack of management commitment.

4.12 Summary

The chapter has presented the results in examining the impact and relationship of internal controls and organizational performance. The chapter has first presented the demographic information of the respondents and a presentation of the findings in both qualitative and quantitative techniques was. Cronbach's Alpha was used to test for the reliability of the Data and Pearson correlation was also employed to test the correlation of the regressors. The study also adopted the multiple linear regression analysis to test the relationship between the dependent variables and the independent variables.

The chapter has presented that that Zimpapers Group relied mainly on internal audit and reconciliations while internal checks and the use of appropriate documentation was minimal and interpreted that Zimpapers has weak internal control systems. Control activities and risk assessment had the strongest relationship with net profit and return on equity. The results of the correlation matrix presented revealed that return on equity was strongly positively correlated with the firms internal control activities, and risk assessment was also strongly and significantly correlated with performance. Management override was found to be the major inhibiting factor in the successful implementation of internal controls. The next chapter provides the summary of findings, conclusion and areas for further research.

CHAPTER 5 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusions, implications, recommendations and suggested areas for further research.

5.2 Discussion

The main objective of the study was to the relationship between financial controls and Organizational performance. The study triangulated by adopting the use of both qualitative and quantitative techniques as well as primary and secondary data. The research adopted a descriptive survey research design and used questionnaires as the main research instrument and the research population study focused on all the subsidiaries of the Zimpapers Group namely the nine newspapers publishing units (Herald, Chronicle, H-Metro, Sunday News, Sunday Mail, Manica Post, Kwayedza, Umthunywa, Southern Times (partly owned), and the two radio broadcasting (Star FM and Diamond FM) strategic business units. Data was analysed through descriptive statistics. Multiple liner regression models were used to find the relationship between the regressors, dependent variable (firm performance) and the independent variables

The study found out that the most adopted financial controls at Zimpapers are segregation of duties, internal audit, reconciliations, internal checks and the use of appropriate documentation. This was supported by a majority of respondents who pointed affirmed on the existence of these as the main financial controls in place.

The study using this interprets that Zimpapers has weak internal control systems and that the firm had effective internal control systems and well-functioning financial performance or reporting systems.

The study found out that:

1. 67% of the respondents indeed confirmed that the control environment had a positive relationship with the organizational performance.

2. Majority of respondents (66%) agreed that risk assessment had affected the firms' revenue thereby impacting of the organization performance positively.

3. 56% of the respondents argued that control activities had an impact to the groups return on investment whist 12% of the respondents argued that the control activities negatively impacted the Groups' return on investment as shareholder value is eroded through overinvestments which do not yield a return on investment to the shareholder.

4. 60% and 32% of the respondents indicated that information and communication had significant impact on the firms' revenue generation

From the correlation matrix the study found out that firm performance and risk assessment positively and strongly correlate, return on equity was strongly positively correlated with the firms internal control activities and risk assessment has the strongest positive relationship with net profit with a regression coefficient of 0.752and 0.682 respectively.

The study also found out that management override, costs, resistance, excessive, redundant and obsolete systems, lack of managerial commitment and weak internal audit and collusion are the major challenges to the successful application of the financial controls. Lack of management emphasis on the importance of internal controls, lack of a proper strategy to identify risk and lack of management risk evaluation during planning were also observed as challenges to the implementation of internal controls. Lack of management commitment is also evidenced in lack of monitoring on internal control implementation by the audit committee to frequently assess continuous functioning of internal controls. Another challenge involves the cost of implementing the computerised accounting system. SAP is costly to implement and its licence fees are very high.

5.3 Conclusions

The study concluded that Zimpapers have weak financial controls with segregation of duties, internal audit, reconciliations, internal checks and the use of appropriate documentation as the major financial controls in place.

The study also concluded that a positive relationship exists between the control environment and organizational performance, risk assessment and organization performance, control activities has an impact to the return on investment and that information and communication significantly impact on the firms' revenue generation.

The study concluded that firm performance and risk assessment are positively and strongly correlated while return on equity is strongly positively correlated with the firms internal control activities and risk assessment has the strongest positive relationship with net profit.

Overall the study concluded that a significant positive relationship exists between financial controls and organizational performance.

The study also concluded that management use their position to influence financial controls and that lack of management commitment to devote resources to adoption and successful implementation financial controls.

5.4 Implications

- The study is of the opinion that management at Zimpapers must commit to devoting resources for the implementation of latest technologies and financial control systems. This also involves adoption of latest ERPs and continuous updating of existing controls.
- The study is also of the opinion that management at Zimpapers must design and implement internal controls which are all encompassing. This means controls must be preventive, detective, corrective, directive and compensating. Such controls can deter, detect fraud and errors and may also help to rectify any wrongful act done to the firm.

5.5 Recommendations

Based on the study findings and conclusions, the researcher recommends that:

- The study recommended that communication be improved within the firm to ensure organization wide awareness on the importance of financial controls. Monitoring facilities should also be improved. This can be achieved by adequately resourcing the audit committee with competent personnel with the requisite expertise, like accounting qualifications. The internal audit should be allowed its autonomy and independence from management such that they can report to the highest authority available, like the audit committee or board of directors.

- It is also recommended by the study to promote a culture of adhering to internal control procedures and policies at Zimpapers. Workshops and trainings should be conducted to enhance finance personnel's understanding of the financial controls.

5.6 Suggestions for further research

This study focused only on an analysis of a single organisation at Group Level and thus is not exhaustive in nature. There is need to do a comprehensive study on an individual basis of all companies under the group. Moreover, a study should be carried out to investigate on how financial controls can be improved at Zimpapers Pvt Ltd and on all other ZSE listed companies. Because internal controls are closely related to corporate governance, there is also need to assess on the existence of corporate governance deficiencies at Zimpapers and proffer solutions to improvement of the governance structure.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE ON INTERNAL CONTROLS AND ORGANIZATIONAL PERFORMANCE

My name is Sekai Chijaka and I am a student at Africa University. I would appreciate your support in completing this questionnaire as part of my dissertation titled: “INTERNAL CONTROLS AND ORGANIZATIONAL PERFORMANCE AT ZIMPAPERS PRIVATE LIMITED, ZIMBABWE”.

The researcher assures all information collected will be used for **academic purposes only** and will be treated as highly confidential. Your discretion and authenticity in answering these questions will be highly appreciated
I thank you in advance for your time and effort in filling out this questionnaire

Should you require additional information concerning this study or further, you may contact the researcher as per the following details:

Sekai Chijaka email –skychijaka@gmail.com cell phone +263 78 283 4712

Section A: General Information

Please **tick** in the space provided to indicate your answer

1	Gender	Female		
		Male		
2	Age	Years ≤30		
		30<years≤40		
		40<years≤60		
		Years>60		
3	Department enrolled	Marketing		
		Finance		
		Human Resources		
		Operations(Field Surveys)		
		Other (Specify)		
4	How long has the organisation been operating	Years ≤5		
		5≤ years ≤10		
		6≤ years ≤10		
		Years ≥10		
5	Does your organization have well trained and equipped Finance Personnel	Well Equipped & Trained		
		Moderately Trained & Equipped		
		Averagely Equipped & Trained		

		Below Average		

6. Is there an effective segregation of duties in your finance department/s?

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

7. What is the effectiveness of the financial control systems within your organization?

___

8. Does your organization have any financial performance systems? [yes] [no]

Section B: Control Environment & Risk Assessment

9. Does the control environment within your organization have an influence on your firm financial performance? [Yes] [No]

10. In your view, do you consider your control environment as effective compared to your industry peers? [Yes] [No]

11. In your view, how has the control environment had an impact on the firm financial performance?

___

___

12 The following tables relates to the control environment, risk assessment and firm financial performance. Please use the scale below to delineate your personal opinion/s.

1= strongly disagree 2=Disagree 3=Neutral 4=Agree 5=strongly agree

No	Item	1	2	3	4	5
a	The control environment has affected the institutions revenue over the last 10years					
b	Control environment has an impact on the firm operating costs over the past 10 years					
c	Control environment has affected the firm generating a return on investment over the past 10 years					
d	The control environment has affected the firm generation of return on capital					
13	**Risk Assessment**					

a	Risk assessment has affected the institutions revenue over the last 10years					
b	Risk Assessment has an impact on the firm operating costs over the past 10 years					
c	Risk Assessment has affected the firm generating a return on investment over the past 10 years					
d	The risk assessment has affected the firm generation of return on capital					

14. Does the risk assessment within your organization have an influence on your firm financial performance? [Yes] [No]

15. In your view, do you consider risk assessment as effective compared to your industry peers? [Yes] [No]

16. In your view, how has the risk assessment had an impact on the firm financial performance?

____

____

SECTION C: Control Activities & Information and Communication

17 Do you consider that the control activities within your organization have an influence on your firm financial performance? [Yes] [No]

18. In your view, do you consider your control activities as effective compared to your industry peers? [Yes] [No]

19. In your view, how has the control activities had an impact on the firm financial performance?

____

____

20 The following tables relates to the control activities, information & communication and firm financial performance. Please use the scale below to delineate your personal opinion/s.

1= strongly disagree 2=Disagree 3=Neutral 4=Agree 5=strongly agree

Control activities

No	Item	1	2	3	4	5
a	The control activities has affected the institutions revenue over the last 10years					
b	Control activities has an impact on the firm operating costs over the past 10 years					
c	Control activities has affected the firm generating a return on investment over the past 10 years					
d	The control has affected the firm generation of return on capital					
21	**Information and Communication**					
a	Information and has affected the institution's revenue over the last 10years					
b	Information and Communication has had an impact on the firm operating costs over the past 10 years					
c	Information and Communication has affected the firm generating a return on investment over the past 10 years					
d	Information & communication has affected the firm generation of return on capital					

22. Does the information and communication within your organization have an influence on your firm financial performance? [Yes] [No]

23. In your view, do you consider information and communication as effective compared to your industry peers? [Yes] [No]

24. In your view, how has the information and communication had an impact on the firm financial performance?

____

____

Section D: Financial Performance

25. Do you consider the accountability at your institution to have a significant influence on your financial reporting/Performance?
26. In your view, how had accountability affected the financial performance of your organization?

____

____

27. Does any cost containment strategies has an effect on the performance of your organisation.
28. Do you consider that capital investment of your institution have a significant influence on the financial performance? [Yes] [No]

29. Do you consider the shareholder value is being created and have a significant influence on the firm performance of your organization?
30. In your view, how have the creation of shareholder value affected the firm's financial performance?

____

____

31. Do you consider inflation and exchange rate to have an impact on your firm financial controls which will have an effect on the firm performance?

32. in your view, how have the inflation and exchange rate had an impact on the financial performance of your organization?

____

____

Thank you for filling the Questionnaire

APPENDIX 2: AUREC APPROVAL

AFRICA UNIVERSITY
(A United Methodist-Related Institution)
INVESTING IN AFRICA'S FUTURE

AFRICA UNIVERSITY RESEARCH ETHICS COMMITTEE (AUREC)

P.O. Box 1320 Mutare, Zimbabwe, Off Nyanga Road, Old Mutare-Tel (+263-0202) 60075/60026email: aurec@africau.edu website: www.africau.edu

Ref: AU1050/19

25 September, 2019

Sekai Chijaka
C/O CBPLG
Africa University
Box 1320
MUTARE

RE: THE EFFECTIVENESS OF FINANCIAL CONTROLS ON IMPROVING PERFOMANCE: A CASE STUDY OF ZIMPAPERS, MUTARE

Thank you for the above titled proposal that you submitted to the Africa University Research Ethics Committee for review. Please be advised that AUREC has reviewed and approved your application to conduct the above research.

The approval is based on the following.

a) Research proposal
b) Questionnaires/interview guide
c) Informed consent form

- **APPROVAL NUMBER** AURECAU1050/19
This number should be used on all correspondences, consent forms, and appropriate documents.
- **AUREC MEETING DATE** NA
- **APPROVAL DATE** September 25, 2019
- **EXPIRATION DATE** September 25, 2020
- **TYPE OF MEETING** Expedited

After the expiration date this research may only continue upon renewal. For purposes of renewal, a progress report on a standard AUREC form should be submitted a month before expiration date.

- **SERIOUS ADVERSE EVENTS** All serious problems having to do with subject safety must be reported to AUREC within 3 working days on standard AUREC form.
- **MODIFICATIONS** Prior AUREC approval is required before implementing any changes in the proposal (including changes in the consent documents)
- **TERMINATION OF STUDY** Upon termination of the study a report has to be submitted to AUREC.

Yours Faithfully

AFRICA UNIVERSITY
RESEARCH ETHICS COMMITTEE (AUREC)
25 SEP 2019
APPROVED
P.O. BOX 1320, MUTARE, ZIMBABWE

Mchinzou

MARY CHINZOU – A/AUREC ADMINISTRATOR
FOR CHAIRPERSON, AFRICA UNIVERSITY RESEARCH ETHICS COMMITTEE

APPENDIX 3: APPROVAL LETTER TO CONDUCT STUDY AT ZIMPAPERS

The Manica Post

"Not just news, but hotnews from the East"

Africa University

Fairfield, Old Mutare

P.O Box 1320

Mutare

Date: 19 April 2019

Dear sir/madam

Ref: Permission to conduct a research at Zimpapers

On behalf of Zimpapers, Mutare Branch, I am writing to formally indicate our awareness of the research proposed by Sekai Chijaka a student at Africa University. The research will be on assessing the effectiveness of internal financial controls on organization performance. Information obtained should only be used for the purpose of this study. I do acknowledge that she intends to conduct her research by distributing written questionnaires and face to face interviews with Zimpapers employees.

If you have any questions or concerns, please feel free to contact my office on zenenga@manicapost.co.zc or 0220 66981.

Yours faithfully

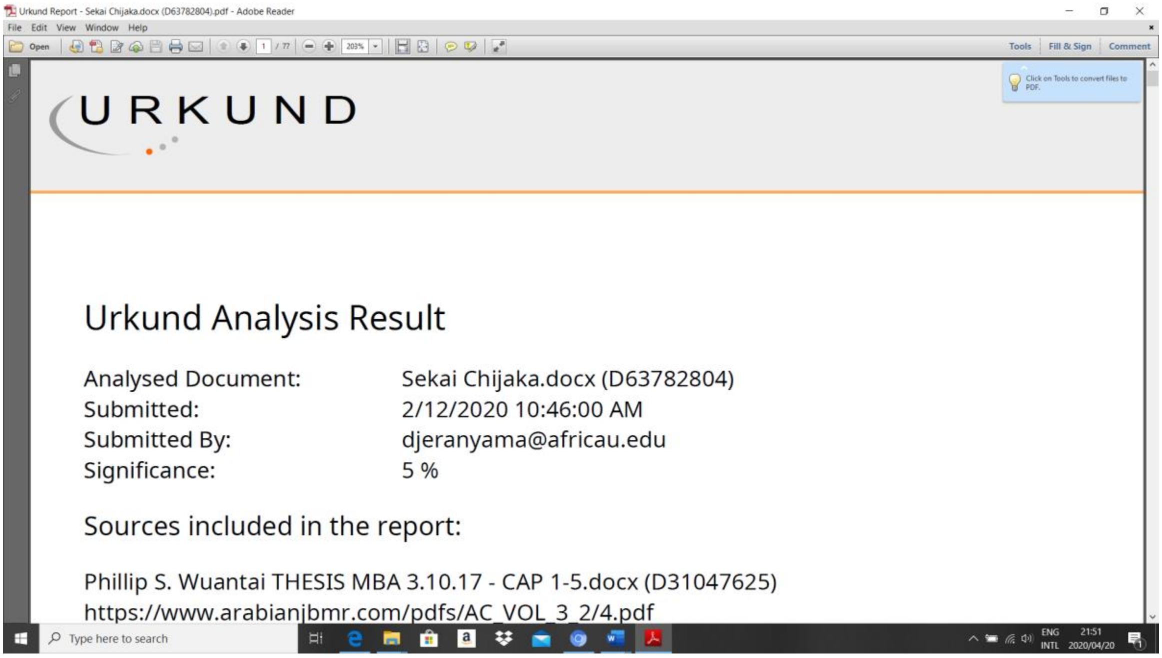
H Zenenga

(The Manica Post Editor)

APPENDIX 4: Data for Rgression

Year	Net Profit (USD)	Return on Assets	Return on Equity	Inflation Rate	Exchange Rate
2010	800,000.00	2.67	0.20	65%	1.23
2011	816,000.00	2.72	0.20	65%	1.27
2012	832,320.00	2.77	0.21	65%	1.30
2013	848,966.40	2.83	0.21	65%	1.34
2014	865,945.73	2.89	0.22	65%	1.38
2015	883,264.64	2.94	0.22	65%	1.43
2016	900,929.94	3.00	0.23	82%	1.47
2017	918,948.53	3.06	0.23	103%	1.45
2018	937,327.50	3.12	0.23	155%	8
2019	956,074.05	3.19	0.24	230%	20

Source:Zimpapers Management Accounts,ZIMSTAT and RBZ Exchange rates



URKUND

Urkund Analysis Result

Analysed Document: Sekai Chijaka.docx (D63782804)
Submitted: 2/12/2020 10:46:00 AM
Submitted By: djeranyama@africau.edu
Significance: 5 %

Sources included in the report:

Phillip S. Wuantai THESIS MBA 3.10.17 - CAP 1-5.docx (D31047625)
https://www.arabianjbmr.com/pdfs/AC_VOL_3_2/4.pdf