

MIDLANDS STATE UNIVERSITY



FACULTY OF COMMERCE

DEPARTMENT OF INSURANCE AND RISK MANAGEMENT

**THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS
USED BY PARASTATALS IN ZIMBABWE IN REDUCING THE
RISK OF FRAUD.**

BY

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**THIS DISSERTATION IS SUBMITTED IN PARTIAL
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DEDICATIONS

I dedicate the completion of this project to my Father Mr V.T Mashiri, and Mom Mrs Mashiri,

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I would like to give praise and thanks to the Almighty God for his wisdom and strength not forgetting the divine favor upon my life, without His guidance I wouldn't have made it this far. I am also grateful and so thankful to the people who matter most in my life that is my family, friends and colleagues who have been pillars of strength and some of them role models in my life.

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ABSTRACT

This research is an investigation into the effectiveness of internal control systems being employed by Zimbabwe Parastatals in reducing the risk of fraud. The objectives of the research are to evaluate the effectiveness of the internal controls currently being used by Parastatals in reducing fraud and to give recommendations on what can be done to improve their effectiveness. Literature reviewed showed that ineffective internal controls provide an opportunity for fraudulent activities to happen in Parastatals. The researcher used stratified sampling technique whereby the target population was divided into stratus which includes mining, agriculture transport, telecommunication, health etc. The major finding of this research is that internal controls currently being employed are ineffective. The researcher recommended that Parastatals should formulate and implement corporate fraud policies as well as bringing about the concept of enterprise wide risk management in their system.

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CHAPTER 1

1.0 Introduction

This chapter gives the background of the study. It discusses the statement of the sub research questions and objectives of the study. Delimitations and limitations of the study are discussed including assumptions and justification of the study.

1.1 Background of Study

In the course of the colonial period, the Zimbabwean economic policies comprised of huge investments in physical and social infrastructure for whites. The government used Parastatals to govern all sectors of the economy. Most of the Parastatals were fully owned state monopolies and the government had a great influence on the prices of the goods and services they provided. This system was inherited by the Zimbabwean government at independence. (Masunungure 2006)

Internal control is a process executed by an entity's board of directors, management, and other personnel, in an attempt to provide reasonable assurance concerning the accomplishment of objectives linking to operations, reporting, and compliance (Hilton 2011). Internal control has been known in the Zimbabwe parastatals as one of the most essential ingredients, required for the continued existence of the business enterprise and government agencies. Besides the problem of limited resources, organizations run a high risk of fraud, errors, miss appropriation of funds (Masunungure 2006)

The Herald of 29 January 2014 published an article where the suspended Chief Executive Officer (CEO) of the Zimbabwe Broadcasting Company (ZBC) and other three senior management were involved in a multinational dollar dipping housing scandal. The four set up a housing scheme with mortgage guarantees from CBZ building society supported by 1,3 million dollars deposited by ZBC in an investment account lacking an authorization of the board. In an article in the Herald of 13 February 2014 the CEO of ZBC was involved in a fraudulent case in connivance with the Instrimpex officials. He allegedly overstated the purchase of radio outside broadcasting. The original price was \$100 000 and was overstated to \$1 050 000, the difference being shared between the 2 parties.

According to New Zimbabwe Independent of 4 November 2010 five officials from the state owned Zimbabwe mining development corporation (ZMDC) were arrested over an alleged \$2 million billion fraud. The allegations arose following a failed investment by South African diamond firm into a diamond mining project in Marange diamond fields. In an article in the Herald of 10 April 2015 an Air Zimbabwe executive was convicted for a planned and executed fraudulent transaction in conjunction with the former Air Zimbabwe CEO. The executive bled 10 millions in a fraudulent aviation insurance deal that favored Navistar Insurance brokers.

The table below shows some of the statistics of fraudulent cases made by Parastatals

Fig 1.1 Statistics of fraudulent cases

Year	Parastatal	Amount (\$)
2013	ZBC	900 000
2014	ZINARA	2015 650
	ZESA Holdings	6 000 000
	ZBC	1300 000
	ZIMRA	1000 000
	CMED	3 000 000
2015	Air Zimbabwe	10 000 000
	Central Vehicle Registry	16 500 000
2016	ZPC	5 000 000
	ZESA	500 000 000

Source Annual Corruption report (2013-2015)

1.2 Statement of the problem

Against the above background what are the other systems that can be employed in reducing the risk of fraud in Zimbabwean parastatals?

1.3 Research questions

- a) What are the current internal control systems being adopted by parastatals?
- b) How effective are the internal control systems being used by parastatals?

c) What are the possible alternatives that can be used to detect or prevent fraud cases from recurring in the Zimbabwe Parastatals?

1.4 Objectives

a) To identify the internal control systems that are currently being used by Zimbabwe Parastatals

b) To evaluate the effectiveness of the internal controls being used by Zimbabwe Parastatals

c) To identify possible alternatives that can be used to detect or prevent fraud cases from recurring in the Zimbabwe Parastatals

1.5 Delimitations

The study focuses on how effective are the internal controls being used in the Zimbabwe Parastatals, this will be carried out in Harare since most of the Parastatals Head Offices are located there. The research will be carried out for 3 months starting from January 2017 to May 2017.

1.6 Limitations

The following drawbacks may have a negative effect on the study.

(a) Time

The research was carried out when the researcher had limited time to dedicate to the project. The researcher was in her final year to the university.

(b) Finance

The researcher conducted the research while she was doing her final year and finance was the greatest barrier. The basic income was supposed to be distributed between consumption needs, housing, stationery and transport expenses to go and carry out the research elsewhere.

(c) Access to data

Some of the data to be collected is very sensitive and of a tactical nature and the researcher may not be able to have access on it. However the researcher will restore confidence to respondents, informing them that the data will be used for academic reasons only

1.7 Assumptions

The following assumptions are made in this study :

- (a) Respondents to both questionnaires and interviews will answer in utmost good faith
- (b) All respondents will totally understand the questions on the self-administered questionnaires.
- (c) The sample size used will be a true reflection of the target population
- (d) The response rate will be at least 50 percent

1.8 Justification of the study

a) To the researcher

The research project is being carried out in partial fulfillment of the requirements of the Bachelor of Commerce Honors Degree in Insurance and Risk Management at Midlands State University. This study gives the researcher the platform to incorporate the concept grasped in the course of her studies at the University with the practical feature of the current internal controls to be employed by Parastatals

b) To the University

The research project can be of a greater use to other scholars since they can make use of the literature on future research on the similar or related topics. Since the research concentrates on all parastatals in Zimbabwe, it offers a room for good relations between Midlands University and Parastatals.

c) To the Entity

Parastatals in Zimbabwe will gain immeasurably from this research as the outcomes will assist them to ascertain the main aspects that uncover and reduce fraudulent activities. The recommendation from the study will help them to implement effective internal controls to mitigate fraudulent activities

1.9 Definitions of terms

Internal control system: Noren (2000) defined internal control as measures taken by the management in order to achieve set objectives and to ensure that all parts of the organization function in a manner consistent with organizational policies

Fraud: Beasley (1999) defined fraud as the inappropriate or unlawful behavior which management, organizational units or one of personnel used fraudulent schemes deliberately to gain profits. The misconduct of an organization which causes loss of material value to shareholders and which may trigger regulatory or legal enforcements

Risk: The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

1.10 Summary

This chapter discussed the background of the Entity, back of the study, statement of the problem, and the research objectives. It also discussed the delimitations, limitations and the justification of the study. Lastly it defined key terms that will be used in this study.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter looks broadly on the work other authors and scholars all over the globe have published on the effectiveness of the internal control systems put in place. The literature reviewed was from the internet, textbooks and journals.

2.1 Definition of terms

2.1.1 Fraud

Beasley(1999) defined fraud as the inappropriate or unlawful behaviour which management, organizational units or one of personnel used fraudulent schemes deliberately to gain profits. The misconduct of an organisation which causes loss of material value to shareholders and which may trigger regulatory or legal enforcements.

Murphy et al. (2009) asserts that fraud is an economic crime that involves misrepresentation of information, facts and skills, by public officials who stands between politicians and people, seeking to draw a private gain. According to Garner (2004), fraud is an act of deliberately hiding the truth from someone in order to persuade another to act to his or her harm.

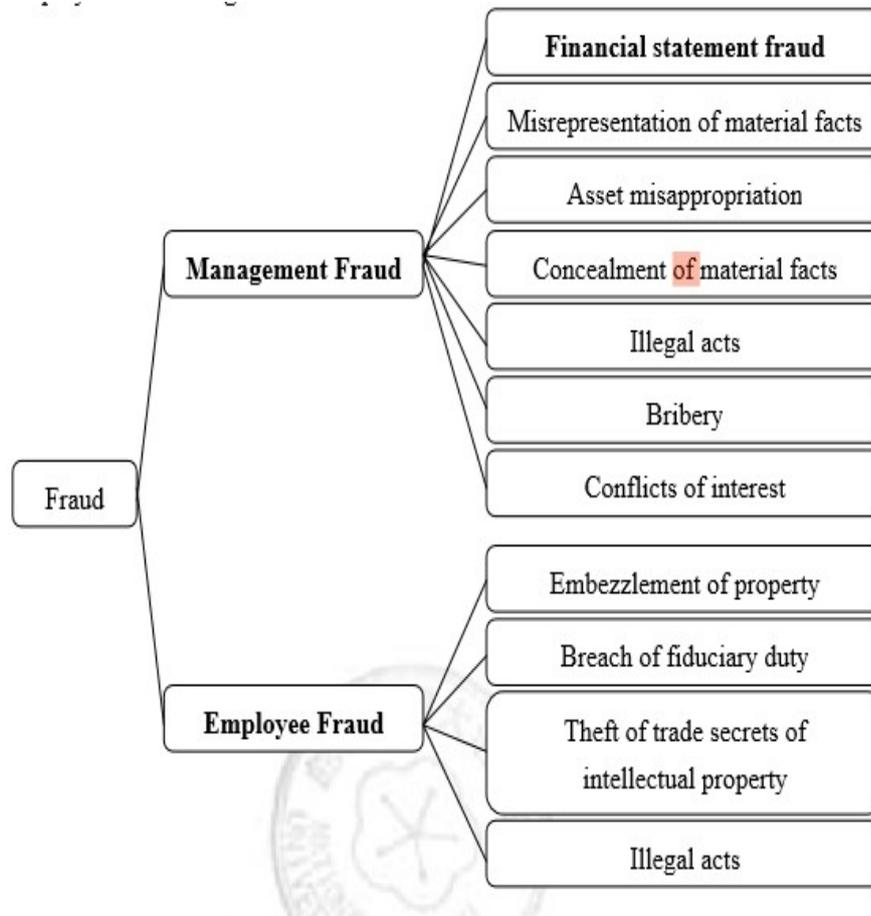
Furthermore fraud is emphasized by Anti-Fraud Policy (2008) as being deceitful with the objective of having a gain for himself or herself or for a third party or parties, avoiding responsibility, or causing loss to another party. The term fraud refers to offences such as deception, forgery, extortion, corruption, theft, embezzlement, misappropriation, false representation, concealment of material facts and collusion, conspiracy and bribery.

It is evidence from various definitions given by different authors that the word fraud is universal. The authors above share the same view that fraud an unlawful behaviour which the management employees and stakeholders of an organization use deliberately dishonesty methods for profit gain.

From the above definitions I can reach to a conclusion that fraud is anything calculated to mislead or trick, it is an act of deceitful for a personal gain and it is committed by the

management, employees and third parties. In addition Razez (2001) classified fraud into management and employee fraud below

Fig 2.1 Classification of fraud activities



Razaee (2002) classification showed that financial statement fraud is included in management fraud rather than employee fraud. In other words, financial statement fraud are usually perpetrated by managers particularly.

According to Brewer and List(2004) management fraud involves the senior management of the organization fabricating financial data such a transactions, trades in order to profit the committers of the misconduct. Management fraud is a fairly infrequent event, however when it happens, it can have a weighty effect on shareholders, employees and other parties.

Employee fraud refers is when fraud is committed against the company or organisation by an employee or person working for the company for example receipt fraud, payment fraud and

exploiting assets and information (Garner 2004) .The main internal fraudulent activities face by organisations are

a) Asset Misappropriations

These are any scheme that involves the theft or misuse of an organization's assets and examples includes fraudulent invoicing, payroll fraud and skimming revenues,

b) Fraudulent statements

This is when there is falsification of an organization's financial statements to make it appear more or less profitable and this may include booking fictitious sales. Recording expenses in the long period (Fair 2007)

c) Skimming

This is any scheme in which cash is stolen from the organization before it is recorded on the organisations books and records. Skimming examples may include when an employee accepts payment from a customer but does not record the sale.

d) Inventory

Any scheme involving the theft or misappropriation of physical, non-cash assets such as inventory, equipment or supplies. Employee steals merchandise from warehouse or sales floor. Employee diverts incoming shipments of inventory for personal use (Fair 2007)

e) Expense Reimbursements

Any scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expenses Employee files fraudulent expense report, claiming personal travel and nonexistent meals,

f) Check Tampering

Any scheme in which a person steals his or her employer's funds by forging or altering a check

on one of the organization's bank accounts, or steals a check the organization has legitimately issued to another payee. Employee steals blank company checks, makes them out to himself or an accomplice.

2.1.2 Internal control

COSO(1992) defined internal control as a process implemented by an organisation`s board of directors, management intended to provide rational assurance concerning the attainment of objectives in three categories which are effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations.

In addition to this definition COSO (1998) divided internal controls into two corresponding forms, the accounting controls and administrative controls. In Accounting controls are known as safety measures to control assets and ensure the accuracy of financial records while administrative controls are precautions designed to provide operational effectiveness and adherence to policies and procedures.

Govindavajan (2004) share the same view that internal controls gives reasonable assurance that objectives of the organization are being attained in the following categories that are effectiveness and efficiency of operations including the use of entity resources ,reliability of financial statements and other reports for internal and external use, conformity with related laws and regulation. Internal control was designed to offer assurance concerning preventions of or quick detection of unapproved acquisition, usage or disposition of organizational assets.

COBIT (2001) defined internal control as the policies, procedures, practises and organizational structure intended to give rational assurance that business objective will be achieved and undesired events will be prevented or identified and corrected. Internal controls are set of processes, functions, activities, subsystems and individuals who are gathered together or deliberately segregated to guarantee the effective attainment of objectives and goals (Mair,2002).

Although these definitions comprises of the same concept, the emphasis is different. COSO defines internal control system as a process that is an integrated part of continuing business activities. COBIT views internal control as a practice which comprises of policies, processes, practises and organizational structures that enhance organizational objectives and processes. However only COSO concentrate on the overall organization where all other frameworks focus on some of its aspects.

2.2 Importance of Internal controls

According to Hevesi (2005), internal control helps an organization to

- Stimulate orderly, economical, effective and efficient operations of an organisation by allowing it to respond properly to significant business, operational, financial, compliance and other risks to achieving the company's goals. This includes the protection of assets from mismanagement or from loss and fraud, and ensuring that liabilities are well managed.
- Develop and maintain appropriate records and procedures that generate a flow of appropriate and reliable information from the inside and outside of the organisation;
- Helps to ensure adherence to applicable laws and regulations, and also internal policies with reverence to the conduct of business.

Risk management is at the heart of effective fraud control, especially through the development of risk criteria and implementation of effective controls (IUCN 2008).

2.3 Internal control system imbedded in risk management

NIVRA (2007) postulated that risk management and internal control play an essential role in the management of risks that are important to the accomplishment of organizational objectives. Risk management and internal controls make best use of business opportunities and cut or reduce unwanted event accompanying potential losses.

The Public Certified Accountants (2005) emphasized that the system of internal control should be implanted in the operations of the organization and be part of the organization and its culture, be able to react quickly to changing risks in the organization which arise from factors within the organization and changes in the corporate environment, and include processes for reporting immediately to suitable levels of management any important control failings or weaknesses that are recognized, together with details of the corrective action being embarked on.

Dinapoli(2007) emphasized that the process of risk management involves understanding organizational objectives, identifying the risks associated with achieving or not achieving them and assessing the likelihood and potential impact of particular risks, developing programme to address the identified risk and monitoring and evaluating the risks and the arrangement in the place to address them.

He added on to say that an organization is committed to the identification, monitoring and management of risks associated with the business activities. Management is ultimately responsible to the board for the company's system of internal controls and risk management.

The company's risk management policies and procedure cover regulatory, legal, property, treasury, financial reporting and internal controls. Clear organizational structure specifies lines of authority and control responsibilities. Each business unit is responsible and accountable for implementing procedure and controls to manage risks within its business

According Certified Public Accountants (2005) Risk may affect many areas of activity m, such as strategy, operations, finance, technology and environment. In terms of specifics it may include, for example, loss of key staff, substantial reductions in financial and other resources, severe disruptions to the How of information and communications, fires or other physical disasters. Leading to interruptions of business and/or loss of records. More generally, risk also encompasses issues such as fraud, waste, abuse and mismanagement.

Risk management is vital for reducing the possibility that corporate objectives will be exposed to unforeseen events. The board figures out the type and degree of risks that are can be accepted by the organization, and strive to keep risk within these levels. Internal control is one of the principal means by which risk is managed. Risk management is not intended to prevent work being undertaken, but to ensure that when an entity undertakes a programme of activities it has considered the risks that it might accept and developed an appropriate system of internal controls to manage and minimize the risks to occur.

2.4 Internal control as defined by the Committee of sponsoring organization of the Treadway Commission (COSO)

The Committee of sponsoring organization of the Treadway Commission (COSO) has been on the lead of driving internal control framework that has been implemented by organizations globally. COSO has placed 2 landmarks of internal control frameworks in 1992 and a revised version in 2013.

COSO (2013) has suggested that internal control system has 5 components which are Control Environment, Risk Assessment, Control Activity, Information and Communication and Monitoring. The components could be viewed as both the fundamental principles and aid planning evaluating and updating controls in any organization. A company's system of internal control commonly comprises:

2.5 Control environment

The control environment is the most important component of internal control as it sets the tone of the whole organization .The management sets the structure and the channels of

communication used to convey best practices and policies of the organization to employees. According to COSO (2013) the control environment is concerned with the setting up of an environment in which employees carry out their activities and responsibilities efficiently and effectively. Control environment is influenced by the executives of the organization and by management. It also institutes necessary control procedures such as approval of activities, authorization of transactions, and review of resolutions and addresses audit recommendations through timely corrective action.

Whittington (2001) shared the same view that the control environment set the tone of the organization by influencing the control awareness of employees. He further emphasized that control environment is seen as the control environment factors include integrity and ethical values of employees responsible for creating, directing and monitoring controls, commitment and competency of employees carrying out assigned duties, or audit committee, management values and operating style and organizational structure.

Peterson(2001) emphasized that a controlled environment is achieved by focusing on several attributes which are

a)Ethical and integrity

This refers to professional codes of conduct and standards of behavior in the agenda of management. Codes of conduct should be a source of guidance directing daily behavior and setting the standards for behavior in the company

b)Commitment to competence

This ensures that the workforces both internal and external are capable and educated. Commitment to competence is shown by the setting of levels of qualifications for each position, employing and promoting employees with the right skills enhancing the skills of employees by doing safety programs.

c) Organizational structure

Organizational structure can be described as the legal and operational structure that organization accepts to drive its goals, financial operations and assessments. A functional organization structure is made up of an up-to-date organizational chart, suitable structure in relation to the scope and complexity of the organization, recognized policies and procedures

for all major operations and management support for internal controls and response to internal and external audit recommendations

d) Relationship with boards of directors and audit committees

Refers to a positive relationship where corrective actions are effected in a well-timed manner enforcing the objectives of organization and showing a positive attitude towards internal control policies and procedures to the subordinates.

Whittington(2001) added on to say that control environment has numerous elements comprising of management value and operating style, integrity and ethical values of employees , that generate and governs controls, audit committees and board of directors. These elements set as foundation upon which the other factors can be built. They also provide a frame work within which the other elements operate.

However the ascertainment has not always been held true since the organization has always outweighed these controls, lack of monitoring has always led to the downfall of these controls (Sconer, 2003).

Rotenberg et al (2005) emphasized that the control environment begins with the board of directors and senior managers , who set the tone of an organization using policies, behavior and operative governance. If the tone set by organization is lenient, then fraudulent financial reporting and performance is likely to arise

2.6 Risk assessment

According to OECD(2014) risk assessment is the process of identifying possible misstatements and scheming controls to avoid or promptly discover misstatements .Risk assessment is the practice used by an organization to determine how it will handle the risk that threatens the achievement of its objectives . Risk identification entails to identification and prioritization of objectives that is the identification of risk and assessment of their probability and negative effect (Cingram 2007)

According to Cingram(2007) an effective control system enables the management to control significant risks and monitor the reliability and integrity of financial information reported to the public

a)Risk identification

The organization comes up, analyses and manages risks that can have a negative effect on the organizational goals. The management assesses the organization as a whole and come up with the areas that have a great probability of the risk of fraud, non-compliance and errors. Management comes up with proper controls to deal with risks identified.

b)Risk Management

The management determines the possibility of the occurrence of a particular risk leading to financial loss or nonconformity with the protocols of the organization. When a risk is identified, the organization must agree on whether to take risk and minimize it by using controls or totally avoid the risk

According Thompson (2001) risks are assessed through management`s awareness of the environment in which it operates and direct involvement with the day to day operation of the client community association. Primary categories of risk are related to fraud, errors, omissions and delays .Examples of risk include assets not adequately safe guarded, non-compliance to laws and regulations, production of unreliable reports.

According to the internal control and audit tracking policies (2010) risk assessments is a continuous process of identifying, analyzing and manage risk. Management requires a strategy to identify external and internal risk. The strategy will enable the management to understand how those risks affect their activities, evaluate their consequence, manage their activities, manage their negative effects and provide constant monitoring. Risk identification can often be integrated into with an organization planning activities

- External risks arise from activities outside the organization. Technological developments, changing public expectations, legislative directives, natural catastrophes and economic changes all have the potential for creating external risks in an agency.

-Internal risks arc less predictable and arise from activities inside the agency. Disruption of the central computer system or telephone system causes obvious operational problems. When a new agency director is appointed, changes in management style can affect internal control objectives.

2.7 Control activities

These are policies and procedures that are placed in a particular organization to manage fraud and manage the risk of human error make up the control activities. These comprises of activities such as reconciliations, authorizations, verifications, assessments of operative performance, separation of duties (Whittington 2008). These controls apply to the entire organization and all functions in specific departments.

According to Horngren(2012) Control activities cover a variation of important functions within the control environment these includes

a)Security of Assets

Specific control activities are set and put in place so as to minimize the risk of loss or mismanagement of assets and these comprises of passwords to eliminate unauthorized access, physical safekeeping of tangible and intangible assets, backing up computer records` and programs and performing periodic unexpected verifications of amounts and condition of assets and developing facility that is not on site.

b)Segregation of duties

Segregation of duties is the separation of operations duties and the related record keeping. This is when different employees are assigned responsibilities of authorizing transactions, recording transactions and maintaining custody of assets. Segregation of duties makes it difficult for an employee to be in a position to commit and cover errors in the normal course of his duties.

c)Approval, Verification and reconciliation

Management approves an employee to carry out a certain duty and to perform a certain transaction within limited parameters. In addition, management lays down those duties or transactions that need supervisory authorization before they are carried out by employees. A supervisor`s approval (manual or electronic) indicates that the employee is verified and validated that the activity conforms to established policies and procedures

While the professional guidance continues to emphasize some traditional internal accounting controls for example physical controls and segregation of duties, there is for example no

direct reference to authorization or cross checking in COSO `s illustration of control activities (Rotenberg et al 2005).

COSO(1994) which suggests these control activities are of diminished importance. This interpretation is consistent with research findings that after the implementation of re-engineering, traditional internal accounting controls were found to less important.

2.8 Information and communication

Information and communication are a vital element in the achievement of organizational objectives. Reliable information about the organization `s plans, risk, control environment and activities and performance should be communicated all over the organization in an episodic manner (Horngren et al 2012).Information and communication systems includes

- Written policies and procedures
- Mission statements
- Organizational charts
- Job descriptions
- Training material
- Periodic reports assessing the organization`s progress towards accomplishing its goals and objectives
- Internal and external reports
- Financial reports

Information and communication enable the workers to understand the organization goals and it provides the management with reports with operational, financial and compliance information and be able to assess the progress towards achieving the set objectives and making corrective actions.

2.9 Monitoring

Jones (2008) defined monitoring as the evaluation of internal control performance over a long period of time. This was supported by COSO(2004) who defined monitoring as the process of assessing the quality of the system`s performance over time This is accomplished through constant monitoring of activities, periodic assessments or a combination of the two. These activities are related to the entire organization at all levels and functions. Internal control is considered to be properly designed and maintained if all five internal control components are

present and functioning as they should be (Horngren et al 2012). Internal control is effective if the management and stakeholders are guaranteed that:

- Organizational objective are being achieved
- Financial statements are producing reliable statements
- Compliance with laws and regulations

According to Guy (1996) Monitoring is aimed at ensuring that the internal controls continue to operate as planned. This can be achieved through continuous monitoring or separate assessments. Separate assessments are non-routine monitoring activities such as period audits by the internal auditors (Whittington 2001). In general, internal control is very vital to the reliability of financial statements when the internal control system examined closely in timeliness. Monitoring focuses on following major areas which are:

a)Control activities

These are implemented to avoid or reduce the risks of fraud that a likely to occur in an organization. If these control fail the organization becomes vulnerable to risks, hence management uphold procedures and monitor the effectiveness of control activities. Effective monitoring gives management the chance to make decisions and correct any control problems and reduce the effect of unfavorable events

b)Mission

This includes the development and examination of operational data that enables the management to decide whether the department is achieving its mission .This can be accomplished through periodic assessment of operational data to the department`s strategic plan.

c)Control environment

Senior management monitors environment to ensure that managers at all levels are upholding ethical standards of behavior and that staff motivation is at a good level. Managers ensures that the employees are competent, and adequate training is given to them and that management styles and philosophies help to accomplish of the organizational mission

d)Communication

Managers should occasionally check that employees are getting and distributing information appropriately and that the information is up to date and sufficient for the user. Management should make sure that there are also open lines of communication, which encourages the reporting of both positive and negative information on every aspect

e)Risks and Opportunities

The Superiors monitors the organization`s internal and external environment to detect any changes in risks or maybe some chances for improvement. If changes are detected, managers must able to take the correct action to deal with the new changes. Delay in responding to risks could result in damage in the department. A slow response to changes in risk may result in loss revenue or unattained cost savings and therefore influence the achievement of goals and objectives.

2.10 Types of internal controls

There are different types of internal controls and these are preventative controls, detective, corrective controls and. On the other hand, different writers have a different view on the types of internal controls. Milichamp (2002) states internal controls consist of safeguarding of assets, separation of duties, supervision, verification, approval and authorization, documentation and reporting. Other authors such as Lousteau (2006), and Dinapoli(2007)share the same view that internal controls comprise of directive controls , preventive controls, compensating controls, detective controls and corrective controls. Thesetypesof internal controls are explained below

a) Preventatives controls

Lacotelli(2009) defined preventive controls as actions laid by management to daunt and prevent non-conformances with policies and procedures. Preventive controls are put in place to inhibit the risk of error, frauds and abnormalities from arising in transactions and prevention of loss and these includes training of applicable policies and departmental procedures, review of supervisor approvals on transactions or activities uses of passwords to stop unauthorized access to systems, segregation of duties

b) Detective controls

These controls detect and reveal problems such as fraud, abnormalities and errors after they have been committed. Although detection is vital prevention is more desirable. These controls are in the form post-audits, exception reports and validation.

Detective controls do not prevent a loss from occurring but they give evidence that a loss has already perpetrated. Examples of detective controls are the review of information about the current expenditure to the budget, bank reconciliation and the review of payroll reports. However, detective controls are important as they give evidence that the preventive controls are functioning and preventing losses or not Wells(2006)

c) Corrective controls

According to Simmons (1995) corrective controls are placed to address every problem that has already taken place in the organization. Examples of corrective controls includes revision of manuals to prevent future errors and submitting corrective journals after detecting an error includes Revision of manuals to prevent future errors and punishments by management for wrong doing

d) Recovery Controls

Recovery controls Compensating controls are put in place for lack of controls elsewhere in the system. For example, firms with an electronic database could maintain a hard copy of the client list in the office library. Such a list would compensate for downtime in electronic systems and difficulties in locating names in an electronic system. data back-ups for electronic and storing IT backups for electronic database

Compensating controls are put in place for lack of controls elsewhere in the system. For example, firms with an electronic database could maintain a hard copy of the client list in the office library. Such a list would compensate for downtime in electronic systems and difficulties in locating client names in an electronic system.

2.11 Effectiveness of an internal control system

DiNapoli (2009) stated that internal control evaluation is the process management uses to evaluate whether an organization's operations are effective in achieving its objectives. The purposes of evaluation are to provide management with a reasonable assurance that, the

organization's system of internal control is functioning effectively, and they can identify both risks to the organization and opportunities for improvement.

Lee et al(2004) postulated that internal control is a dynamic component of operation, effected by the management and driven by the achievement of the entity's objectives. A system of effective internal controls is a vital element of an organization management and a basis for the safe and sound operation of an organization. Weak and unsuccessful internal controls have caused losses in many organizations.

Internal controls `s effectiveness can be judged basing on the extent to which the elements are present and operating efficiently .Effective functioning of all the elements gives a rational assurance for the achievement of the internal control objective Internal control may be said to be effective for each of the categories of internal control objectives if the board of directors and management have reasonable assurance that:

- i. They understand the extent to which the organization's operations goals are being attained.
- ii. Published financial statements are being prepared reliably
- iii. Compilation with laws and regulations

However internal control offers rational but not a total guarantee that the organizational objectives will be met. The degree of control employed is a management responsibility based on the matter of business judgment (Grobstein et al. 2001).

a)Control activities

According (COSO1994) suggested that control activities are of diminished importance after the implementation of which suggests these control activities are of diminished importance after the implementation of re-engineering. In contrast to this internal control are more effective when they are viewed by management and all other personnel as vital part of the organization rather than an addition to day to day activities of an organization. When controls are viewed as an addition to the day-to-day activities, they are often seen as less important and may not be performed in situations where individuals feel pressured to complete activities in a limited amount of time. In addition, controls that are an integral part of the daily activities enable quick responses to changing conditions and avoid unnecessary costs. As part of fostering the appropriate control culture within the bank, senior management

should ensure that adequate control activities are an integral part of the daily functions of all relevant personnel (Dinapoli 2009).

It is not sufficient for senior management to simply establish appropriate policies and procedures for the various activities and divisions of the organization. They must regularly ensure that all areas of the organization are in compliance with such policies and procedures and also determine that existing policies and procedures remain adequate (Grobstein et al 2001).

b) Information and Communication

Jones (2007) emphasized that some organization have a bad experience of fraud due to unreliable or incomplete information and communication within an organization. Financial information may be misreported internally and incorrect data series from outside sources may be used to value financial positions and small but high-risk activities may not be reflected in management reports.

In addition to this Cooper et al(2006) deduced that in some other cases, inexistence of adequate lines of communication for the reporting of suspected improprieties by employees can hinder the effectiveness of information and communication. If channels had been established for communication of problems upward through the organizational levels, management would have been able to identify and correct the improprieties much sooner

c)Monitoring of activities

Effectiveness of monitoring activities can be affected by inadequate risk assessment, High insufficient resources to control and monitor high risk activities the organizations increase the risk of fraud and misappropriation of funds. In some organizations high risk activities can be functioning with less oversight than activities with lower risk profiles. (Cunningham 2004)

COSO (1994) emphasized that to evaluate the effectiveness of control systems studied. In addition, none of the works reviewed was able to establish the effectiveness of the control systems studied by assessing their abilities to direct, prevent, correct and detect errors and possibly frauds in the business.

In view of these limitations reviewed, there is the need for additional research to be conducted in order to establish what are the other systems that can work hand in hand with the COSO framework to reduce fraudulent

Everyone in the organization has some responsibility for ensuring the internal control system is effective and followed. The strength of the system depends upon employee's attitude toward internal control and their attention to it. Top management has the ultimate responsibility in this regard. Senior management sets the tone at the top and must ensure that all personnel in the organization know their roles and responsibility. Management is also responsible for a developing detailed documented policies, procedures and practices for their specific departmental operations and mission (Grobstein et al. 2001).

The effectiveness of internal control is demanding element to measure, which is what the auditors try to do through assessments to arrive at an opinion. According to American Institute of Certified Public Accountants (AICIPA), Auditors should carry out an evaluation of the effectiveness of internal control that would determine the nature of the audit and its scope. Before the Sarbanes Oxley act, no specific guidelines were available for auditors to use in order to have a proper evaluation of the effectiveness of the internal control mechanism , the evaluation process of internal control was rather biased and inaccurate, and the methods were inconsistent and subjective(Yu 1973)

2.12 Limitations of Internal Control System

No matter, No matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved (COSO, 1999). Some limitations are inherent in all internal control systems (Mercer University, 2015). These include:

a)Judgement

Decisions made by human working under pressure to conduct business using information at available limits the effectiveness of internal controls According to Lannoye (1999) The achievement of effective internal controls can be restricted by the realities of human decisions. Judgments are usually done in a short period of time and the affect the accomplishment of objectives. Internal controls can be inefficient if the management are unsuccessful to reduce the occurrence of errors, for example misinterpretation of orders, negligence, tiredness or mistakes

Bowrin(2004) He added on to say that even well-established internal control system can fail. Employees at times misinterpret instructions or basically make errors. Faults can as well be a product of new innovations and complexity of computerized data

b)Management dominance

Management may overrule set policies and procedures to private profit or advantage. This is different from management intrusions, which takes the form of management actions to move off from the set policies or procedures for legitimate reasons

According to Lannoye(1999), management may disregard prescribed policies, procedures and controls for improper purposes. Override practices include misrepresentations to state officials, staff from the central control agencies, auditors or others. Management override must not be confused with management intervention. Intervention may be required in order to process non-standard transactions that are otherwise would be handled inappropriately by the internal control. Transactions that otherwise would be handled inappropriately by the internal control system .A provision for intervention is needed in all internal control

c) Conspiracy

Individuals acting jointly can modify or change financial statistics or other management data in a way that is difficult to detect it using internal controls. The success of segregation of duties relies on individuals carrying out only their allocated tasks or actions or performance of individual being checked by another. There is a risk that conspiracy amongst individuals will have a negative effect on the effectiveness of segregation of duties. For example an employee getting cash receipts from clients can scheme with an employee who accounts these receipts in the clients `s records so as to steal monies from the organization.

2.13 Strategies that can work hand in hand with internal controls

2.13.1 Implementation of the Zimbabwean national code of Cooperate Governance

The Institute of Directors Zimbabwe strongly believes that Zimbabwe should have its own national code on corporate governance that should take into account the country`s peculiar cooperate governance challenges (Zimcode, 2015)

Corporate governance is a wide concept that has been used by regulators, investors, accountants, and boards of directors. Corporate governance involves a set of relationships between a company`s management, its board, its shareholders and other stakeholders. Cooperate governance also provides the structure to which the objectives of the organization (Imhoff 2003)

Lacks of proactive approach by the regulatory authorities have stimulated poor corporate governance practices and that the failure by the Board of Directors to adjust to the demands of the dynamic competitive environment affected loyalty to the principles of good corporate governance.

The ZimCode(2015) minimises this risk by emphasizing that: Directors of companies should have knowledge about risk and how it can be measured, enhanced, eliminated or mitigated.

- A systematic, documented and formal risk assessment should do annually.
- Robust systems and procedures should be in place to address the four lines of defense
- Internal Auditors should be independent and report functionally to the Audit Committee Chair and administratively to the CEO.
- Independent external auditors should be appointed and their reappointment should be done annually taking into account a formally documented assessment of their independence and performance.
- The external audit leads person or firm to change every five years.
- Robust and transparent procedures should be in place to handle disputes/disagreements between internal and external auditors and management, including the board should be in place.
- There should be an audit committee of the board with clear and smart terms of reference.
- A robust and transparent procedures and structures should be in place for listed companies to deal with combined assurance.

In conclusion corporate governance is of a paramount importance to a company and is almost as important as its primary business plan. When executed properly , it can prevent cooperate scandals ,fraud and civil liability of the company Good corporate governance gives proper incentives for the board and management to pursue goals that are in the interests of the organization and shareholders and should permit effective monitoring(Cohen et .al.2002)

2.13.2 Creation and maintenance of a true ethical climate in organisations

Depending on a formalized control systems can be a hindrance on the total prevention and detection of fraud. While it is important to establish formalized internal control systems

within an organization, depending on these strict systems to detect and prevent fraud can be ineffective. When the management only hand out certain control systems for the employees to conform to, without leading by an example as how to live by and interpret the controls, the employees will not engage themselves in any kind of moral analysis. While a formalized internal control system can be a starting point, management and employees should not depend on them only, by trying to do so may cause the employees to conclude that if it's not forbidden then it must be ok. There should be room for analysis beyond what is written in the formal document.

Firms are expected to enhance the financial statement credibility, objectivity and reliability, improve the management staff accountability, reduce any opportunistic behavior of management, increase the efficiency and effectiveness of internal control as well as that of internal and external auditor and strengthen the board of directors function while helping them to meet their legal responsibilities (Chen et al 2006). In general, the implication is that the audit committee activities could improve the firm corporate governance and framework.

In summary, there are four steps that an organization's leadership can take to create and maintain a good ethical climate within an organization:

a) Communicate what is expected of employees

The first step managers need to take is to state clearly and influentially what the organization's values, ethics and objectives are and what is expected from each employee. This is done through the execution of a written code of ethics and a formal training program. The policy should be persistently reinforced by the management through communication.

b) Lead by integrity

The second step is to lead by example. Workforce takes their work ethic cues from the top management. The management cannot just talk about acting morally, they also have to walk the walk and show the workforces how to act by setting the example. Management must demonstrate their commitment to the controls systems by both their words and their actions.

c) Provide a safe mechanism for reporting violations

The third step is to create a conducive environment for the workforce to report misconduct. Employees who are suspicious of, fraudulent behavior should be able to report without fear of retaliation from the senior management or other employees. The senior management

should convey the importance of reporting misdeeds and how it is highly valued by the organization and those who report will be well protected

d)Reward integrity

The fourth step is to reward integrity. Organization should not only reward workers for meeting their financial objectives, if the employees are implementing and executing internal control systems very well they should be rewarded for it. Employees should know that meeting the bottom line is not the only measure of success. Acting with integrity and ethics should also be rewarded by the company and should be integrated into existing employee incentive programs to encourage ethical.

2.14 Summary

The chapter reviewed literature by reputable authors and scholars and their views on the internal control systems that affect organization. The literature reviewed was from the internet, books and journals.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

This chapter focuses on the methodology employed to attain the objectives of the study. It outlines the research design, the research method, population under study, the sampling procedure and the method that was used to collect data. The reliability of the research instrument is addressed.

3.1 Research Design

Research design acts as a guideline to the researcher in the course of collecting data, analysing and interpreting it (Keith et al, 2007). A research design is defined as a structure that is used to the gather, measure and analyse collected data (Shlindler et al, 2003). According to Collis and Hussey (2009) coming up with a research design will give a comprehensive plan which will be used to direct and focus the research being carried out. Designing a research assists the researcher in planning and coming up with the study in a way that will assist the researcher to get anticipated results (Burns and Grove 2001).

A research design can be in form of qualitative or quantitative. According to Kumur(2011) quantitative is the collection of data in order to quantify and expose information to statistical treatment so as to support alternative knowledge claim.

Burns and Grove (2003) defined a qualitative approach as a systematic subjective approach used to describe life experiences and situations to give them meaning. However, qualitative research is defined by Holloway and Wheeler (2002) as a form of social enquiry that focuses on the way people interpret and make sense of their experience and the world in which they live. The research was a qualitative one although conclusions were made quantitatively basing on the qualitative data collected.

3.2 Types of research designs

i. Exploratory research

Exploratory research is the initial research into theoretical idea that is observed and pursuing to understand more about it .It is an attempt to lay the background that will lead to future

studies or to determine if what is being observed might be explained by a current existing theory. More often the exploratory research lays the initial groundwork for future research (Khothari 2004)

ii. Explanatory

Khothari(2004) states that an explanatory research is done so as to recognize the extent and nature of cause and effect relationship. Explanatory can be done in order to evaluate effects of particular changes on present norms and several processes. This research type focuses on an analysis of a situation or a specific problem to explain patterns between variables .Experiments are the most common primary data collection methods in studies with explanatory research design

iii. Descriptive

Descriptive research pursues to offer a correct description of observations of phenomena. The main goal for the gathering of census data is to correctly describe basic information about a national populace at a certain point in time. The objective of most descriptive research is to plot a terrain for a particular phenomenon (Lancaster 2005). A descriptive research was used in this study because it gives a detailed, highly accurate picture of the problem on hand and it presents an opportunity to fuse both quantitative and qualitative data.

3.3 Population Study

Burns and Grove(2003:19) highlights that the target population includes all individuals whom the researcher is interested in getting information from and making conclusions. Population study can be defined as a study of a group of individuals taken from the general population who share a common characteristic such as in the same type of business. The target population consists of those subjects whose characteristics are similar to those of the subjects in the sample and one makes conclusions from the sample drawn from this target population (Frankel and Wallen 1996). The target population of this study consists of 63 Chief Auditors from Zimbabwe Parastatals (www.zim.gov.zw. visited on 15 March 2017).In this research chief auditors are my target respondents because they possess relevant information. However, a sample representative of the population was selected as the researcher could not collect data from the whole population due to financial constraints and limited time.

3.4 Sampling and Sampling Methods

According to Hungler (1991) sampling is a process of selecting a portion of the portion of population to represent the entire population. Russel(2001) defined a sample as a group of people or subjects chosen out of larger number and asked questions in order to get information about a large group. A sample is a small part of population, which has the same characteristics of the population .Kush and Khan (2000) states the concept of sample arises from the inability of the researchers to test all the individuals in a given population a

3.5 Sampling Technique

a) Random sampling methods

A random sampling method comprises of four methods that can be used to come up with a sample and these include:

- i. **Simple random sampling** technique enables each and every unit of the population to have equal chances of being selected in order to represent the whole population and be part of the sample (Peatman, 1947).
- ii. **Systematic sampling** is when a sample is selected using an even pattern like the way from the population using time, space or a certain order (Hansen et al, 1953).
- iii. **Stratified sampling** involves dividing the population into different segments called strata, each stratum having identical elements for example cultural groups, male and females which are assumed to have the similar influence on the data that is being collected. (Allison, 2001).
- iv. **Cluster sample** involves dividing the population generally a district into separate areas called clusters and selecting samples from each cluster and to come up with a sample (Allison 2001)

In this study the researcher used stratified sampling. The target population was divided into 11 stratus, this is because the target population comprised of parastatals in different sectors which includes mining, agriculture transport, telecommunication, health etc. Stratified sampling gives equal chance of selection from a given stratum or a group of population and it also reduces bias as it allows grouping the target population so that different participants with different views are both interviewed.

b) **Non Random Sampling** Non-random sampling can be attained by using one of the four ways namely Quota, Convenience, Judgmental and Snowball sampling.

i. **Quota sampling** begins with a matrix describing characteristics of the population. Quota sampling is defined as a method in which the selection of the respondent is in the same ratio with that found in the general population (Peatman, 1947)

ii. **Convenience sampling** is when a sample is taken from the researcher's convenience. This is when the intended sample is drawn from the expediency of the researcher or from the subjects that are immediately to hand of the researcher (Allison,2001).

iii. Under **Judgmental**, the researcher attempts to come up with a sample using own judgment on the subject matter and the amount and degree of errors depends on the ability and expertise of the researcher (Allison, 2001).

v. **Snowball** as a method which is usually used when members of the desired population are difficult to identify or when the sample is very small (Saunders et al (1997).

The researcher used Judgmental sampling method since its centred on a person's judgements basing on the knowledge of the population being sampled .The researcher chose chief auditors within the parastatals assuming that they possess adequate knowledge required for the research.

3.6 Sample size

Sample size is determined based on a 95% confidence rate interval, an estimate of margin of error and total population which the sample was to be drawn (Saunders et al, 2007). Langdridge (2004) mentioned that there is no simple figure, but the rate will vary depending on which statistical technique is being used to analyse your data. According to Haralambos and Holbon (1990), stipulates that, at least 33% of the population being studied can be used as representing sample.

For the purpose of this study the researcher sampled 21 Chief auditors of all parastatals in Zimbabwe because they have the ultimate responsibility and ownership of the internal control system. The 21 chief auditors were selected randomly from 11 stratas or sectors of the entire population they constitute the study population which is 33% of the parastatals' study population.

3.7 Research Instruments and Data Collection

For the purpose of this research, the researcher employed the survey design in which data was collected by way of questionnaires and interviews. There are two sources of data which are primary sources and secondary sources

3.8 Primary Data

When using primary data sources, data is obtained from the core source other than from any pre-existing research. The researcher is going to use questionnaires.

3.8.1 Questionnaires

A questionnaire is defined as a device used for carrying out a research, it comprises of a sequence of questions and other prompts that can be used to collect information from the respondents. Saunders et al (2003) postulated that a questionnaire is a method of gathering data where the respondents are required to answer back to a particular matching collection of similar questions in a prearranged order. The data was easy to collect because a standardized questionnaire was used to obtain information

Advantages of Questionnaires

- a) Large quantities of data may be gathered from a large volume of populaces in a limited period of time and in relatively cost effective way
- b) Can be conducted by the researcher or by any number of people with limited effect to its soundness and reliability
- c) The results of the questionnaires can usually be quickly and easily quantified by either a researcher or through the use of software package
- d) Can be evaluated more scientifically and accurately than other methods of research
- e) They exclude interview unfairness as the respondent will not be sharing his views face to face with the interviewer.
- f) They offer secrecy thus giving respondents the guarantee of their privacy and confidentiality.

Disadvantages of Questionnaires

- a) Inadequate to understand as they don't capture some forms of information such as changes
- b) Subjective in the sense that people read differently into each question and therefore reply based on their own interpretation of the question in such a way that what is 'good' to someone may be 'poor' to someone else.
- c) There is no certainty as to if the stated respondent is the one who completed the questionnaire. For example a busy manager can pass the task to their assistants to complete on their behalf.

3.9 Secondary Data

According to Forshaw (2000) secondary data comprises of gathering and the use of current data for purposes other than those for which they were originally collected. These secondary data may be obtained from many sources, inclusive of literature, industry surveys, compilations from computerized databases and information systems.

Secondary data analysis saves time that would otherwise be spent collecting data and, particularly in the case of quantitative data, provides larger and higher-quality databases that would be unfeasible for any individual researcher to collect on their own.

3.9.1 The Internet

Internet data comprises of ebooks and journals and these are valuable in conducting a research. The internet contains a lot of journals and eBooks which are useful for the research. The internet is user friendly and provides the researcher with all referencing. The internet also enables the sending of questionnaires via email. The internet also provides information on how other Parastatals in other countries are handling electrical fraudulent cases and ways of preventing them.

3.9.2 Textbooks

The researcher made use of a various text books and journals in relation to internal controls and fraud. The key advantage of using published books is that they are relatively cheap and extensively accessible since they can be borrowed from the University library free of charge

3.9.3 Research Papers and Journals

These are known as data from former researches on the same focus or topic and were regained from journals and preceding presentations by world legendary authors and scholars. These groups have former performances on the matter they discussed through seminars held.

3.9.4 Newspapers

Newspapers were used in this study as they provide an in depth of the current issues in Zimbabwe in relation to the published fraudulent cases occurring in the country. The researched gathered information from the Herald, Chronicles and Newsday

3.10 Conclusion

This chapter gives a background of the research was carried out. The research techniques used in this study were examined including the soundness and fitness of these research techniques were debated

CHAPTER 4

DATA ANALYSIS AND PRESENTATION

4.0 Introduction

This chapter disclose the primary and secondary data collected in the course of the research upon an investigation of the effectiveness of internal controls being employed by parastatals .Statistical tools which includes bar graphs, tables and pie charts has been used in this chapter to clearly illustrate the results of the research and provides qualitative data from the chief auditors.

4.1 Response rate

Response rate is also known as the return rate or completion rate. Respond rate is a measure of how many in percentage of the sample actually completed the survey. It believed that the lower the response rate the lesser the population is represented and the higher the response rate the higher (De Vaus2002).

According to Babbitt (2011) the respondent's rate is as follows:

$$\text{Number of actual responses} * 100\% = \frac{\text{Rate of response}}{\text{Total number approached}}$$

The researcher distributed 21 questioners to Parastatals which constitute the sample size. Out of 21, 14 were returned on time making it a 65% overall response rate from the chief auditors. According to Trochin (2006) a response rate ranging from 65 to 88 is favorable .This respond rate was fair as the respondents were generally cooperative

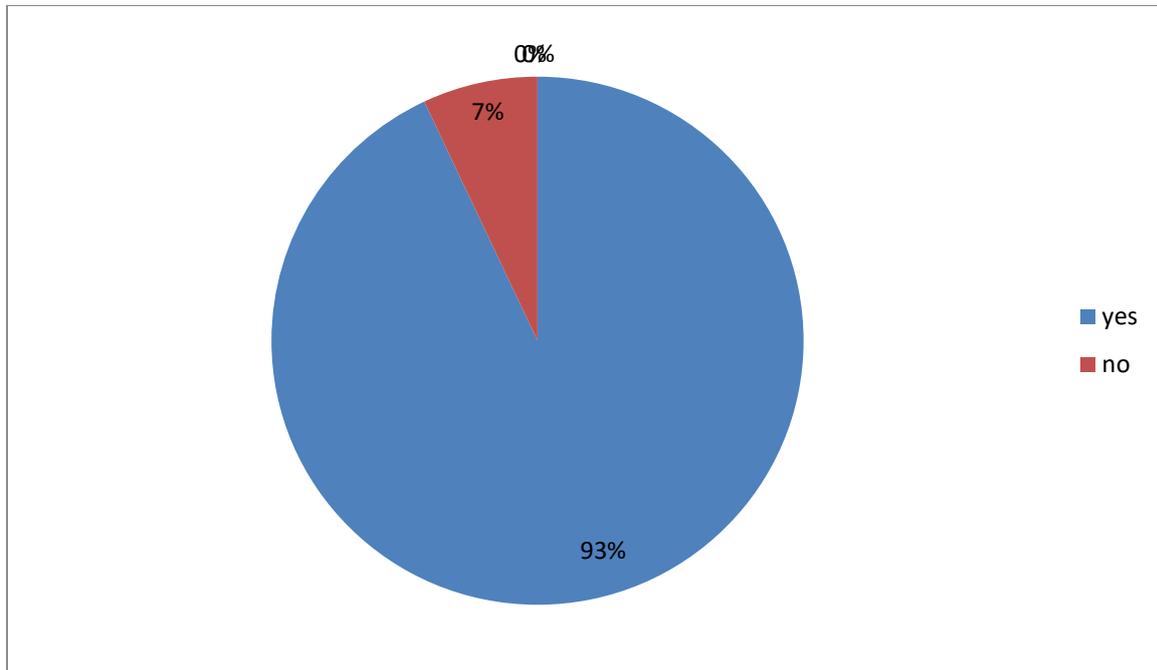
Fig 4.1 Questionnaire responses

RespondentParastatals	Number of questioners distributed	Number of questioner completed and returned	Response rate
Chief auditors	21	14	65%

Source: Primary Data

4.2 Discussion of findings

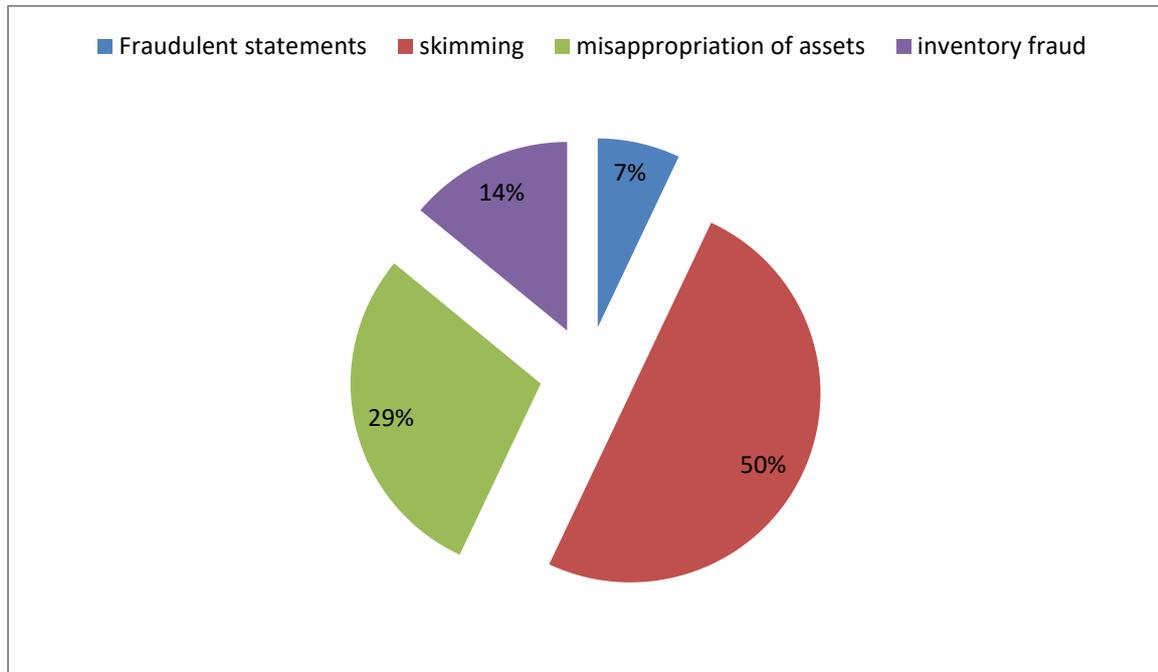
4.2 Availability of a risk department in Parastatals



Source: Primary data

This question was asked so as to ascertain whether the Parastatals have risk management department. A risk management department enables the identification of potential risks so that risk handling activities can be planned and invoked. The data below shows that 93% of the respondents had knowledge about the risk management department and 7% didn't have a risk department in their organizations. This shows that the risk management is imbedded in the system of many parastatals

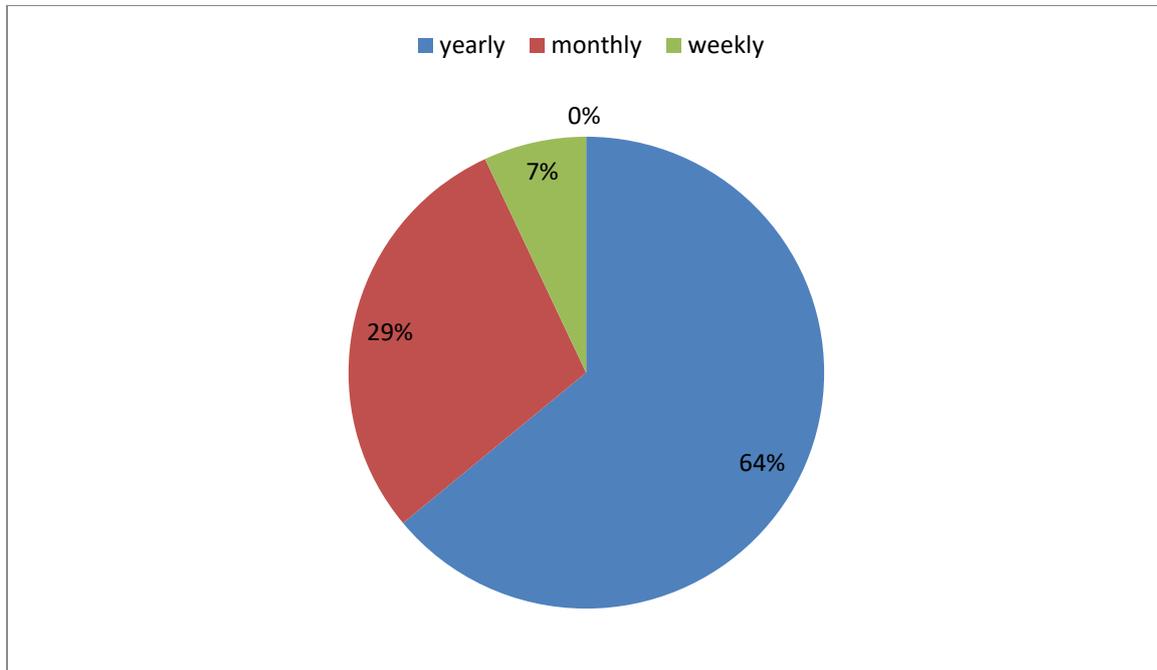
4.3 Different types of fraud



Source :Primary source

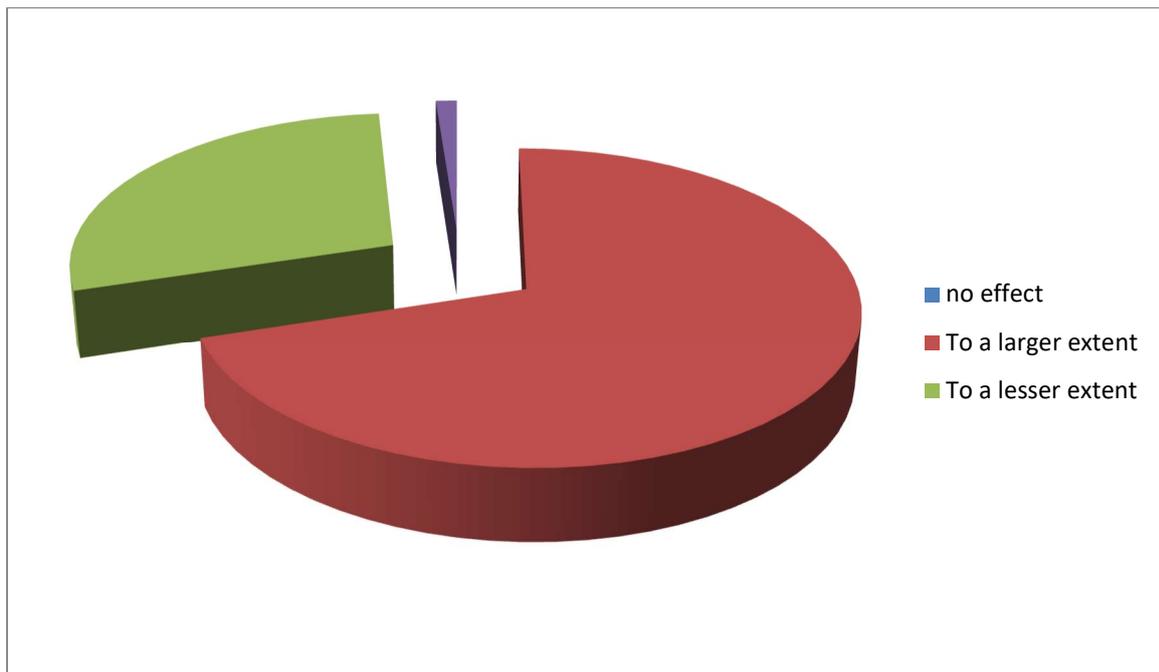
The common types of fraud that affect parastatals are fraudulent statements, misappropriation of assets, inventory fraud and skimming. The researcher discovered that 50% of the respondents indicated that skimming is on increase, 29% stated that they are mostly affected by misappropriation of assets. 14% showed that they are mainly affected by inventory fraud while 7% cited that they are affected by fraudulent statements.

4.4 Frequency of fraudulent activities



This question's intention is to come up with the frequency fraudulent activities occur in Parastatals. The findings showed that 7% of the respondents were aware that fraudulent activities were being committed weekly and 29% showed that there was chance of them occurring weekly and 64% of occurring within a year .

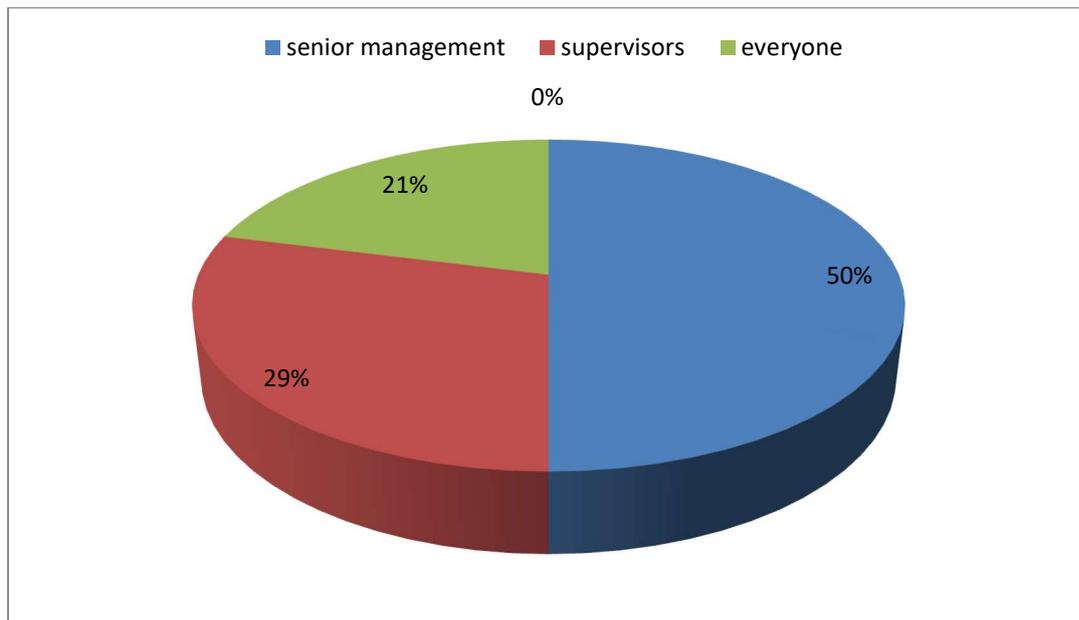
4.5 The extent to which fraudulent activities affect the performance of an organization



Source: Primary source

This question was designed to collect the views of the respondents on the extent to which the organization is being affected by fraudulent activities. 71% of the respondents believed that fraudulent activities have a large effect on the overall performance of an organization since it reduces the profits of an organization and increase operational costs. The researcher found out that the remaining 19% who believed that fraudulent activities affect the organization to a lesser extent.

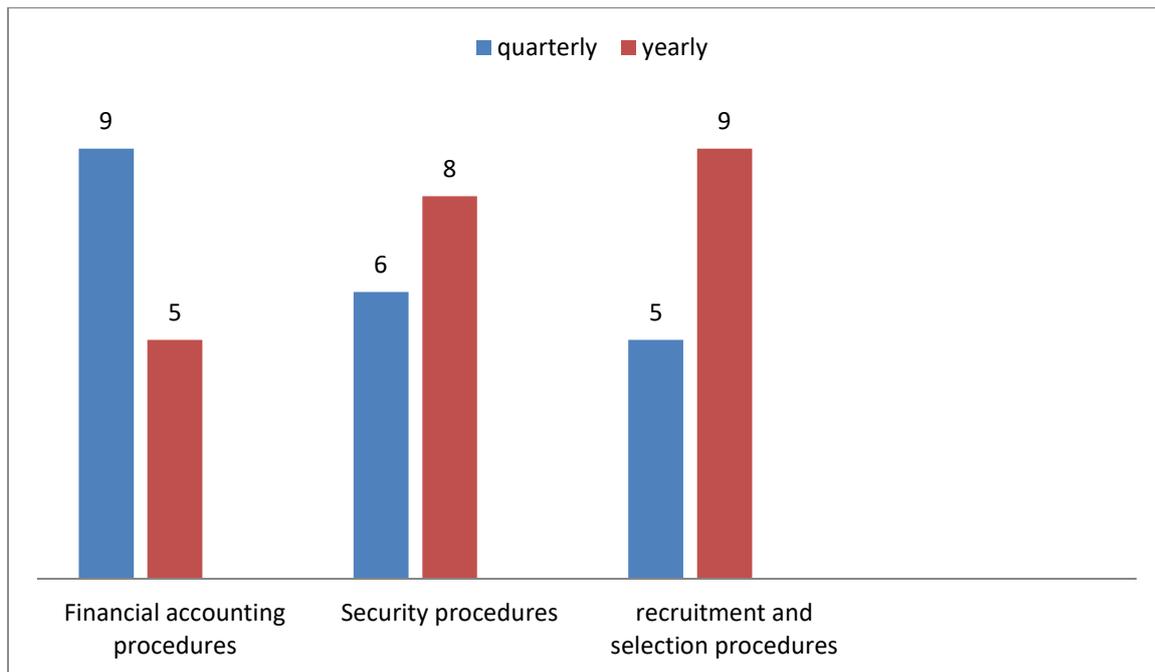
4.6 Accountability of internal controls



Source: Primary data

The purpose of the above question was to ask the respondents who in their organization are in charge for implementing, monitoring and controlling internal controls. 50% percent of the respondents highlighted that the senior management is responsible for the internal controls, 29% said the supervisors are responsible for the internal controls systems and 21% said that everyone is responsible. The results are in line with the internal control and risk management (2006) which emphasized that, the senior management is in charge of ensuring that the organization keeps an effective internal control system to safeguard the shareholders reserves.

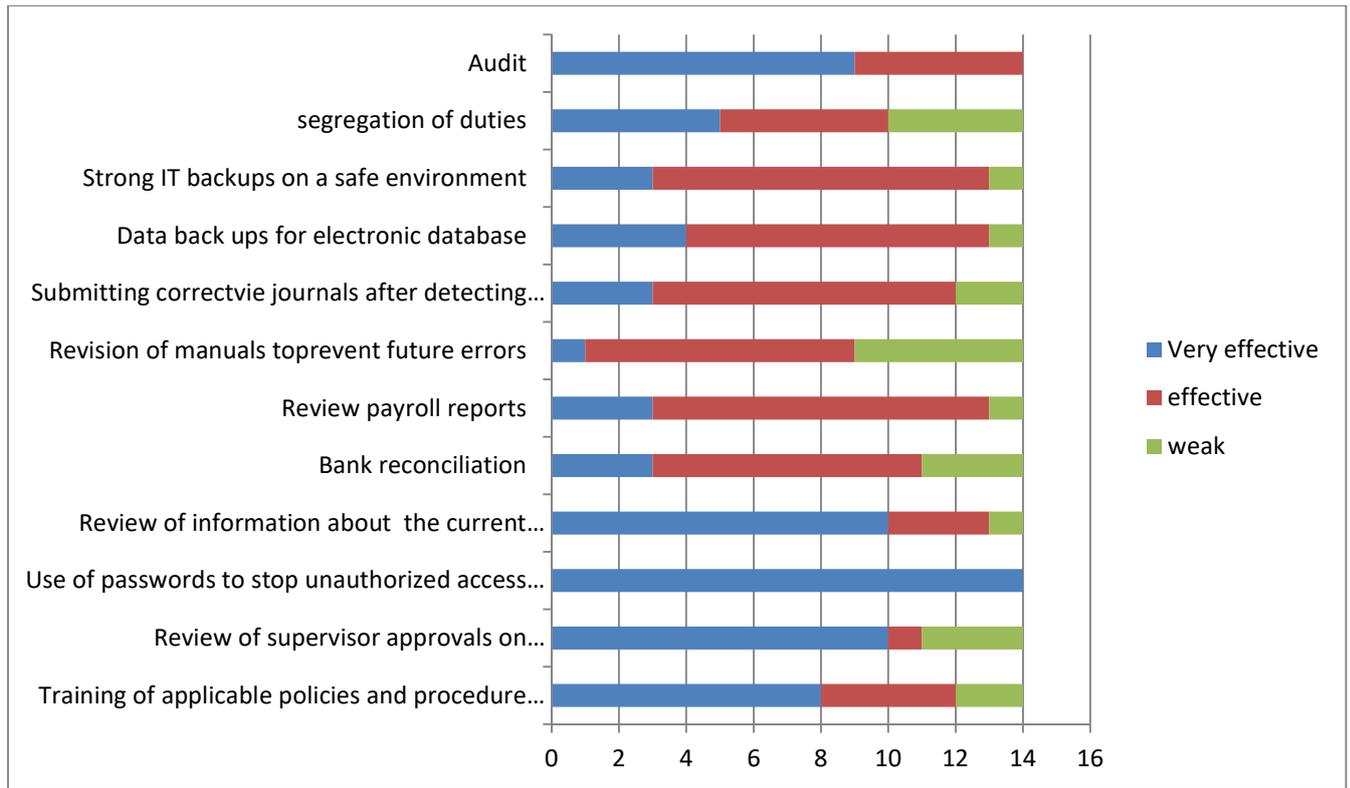
4.7 Frequency of periodic evaluations of procedures



Procedures	quarterly	Yearly
Financial accounting procedures	9	5
Security procedures	6	8
Recruitment and selection procedures	5	9

The main purpose of the question was to see how frequent periodic evaluations of procedures are being done. Frequency of periodic evaluations enables the researcher to know how long it takes to identify fraudulent activities being done. Findings from the research show that evaluations of financial accounting procedures are relatively being carried out quarterly while security procedures and recruitment and selection are being evaluated yearly.

4.8 Effectiveness of controls being used



	Very effective	effective	weak
Training of applicable policies and procedure department	8	4	2
Review of supervisor approvals on transactions or activities	10	1	3
Use of passwords to stop unauthorized access to systems	14	0	0
Review of information about the current expenditure to the budget	10	3	1
Bank reconciliation	3	8	3
Review payroll reports	3	10	1
Revision of manuals to prevent future errors	1	8	5
Submitting corrective journals after detecting an error	3	9	2
Data back-ups for electronic database	4	9	1

Strong IT backups on a safe environment	3	10	1
Segregation of duties	5	5	4
Audit	10	5	0

This question assesses the effectiveness of the current internal controls being used by parastatals. According to the data presented controls which include training of applicable and departmental procedures, review of supervisor approvals on transactions or activities, ,internal audit use of passwords to stop unauthorized access to system and review of information on the current expenditure to the budget were rated effective. Bank reconciliation, review of payroll reports, revision of manuals to prevent future errors, submitting corrective journals after detecting an error. Data back-ups for electronic and strong it backups of a safe environment were relatively effective

4.9 Summary

This chapter analysed and presented the different views and opinions of respondents. Overallly the researcher found out that the internal controls are essential in the mitigation of theft and fraud. In the next chapter, the researcher makes conclusions and recommendations based on the research findings.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

In this chapter conclusion are made basing on the results or findings of the research obtained from the primary and secondary sources and recommendations are made to address the effectiveness of internal control systems in mitigate theft and fraud

5.1 Conclusions

This research was carried out to examine why the performance of parastatals is still poor in spite of the procedures that have been made to enhance and facilitate the application of internal controls within the parastatals. Parastatals in Zimbabwe still face the problem of mismanagement that has led to the occurrence fraud cases. The main purpose of this research is to give a comprehensive understanding into the problem of weak internal control systems that have been persevering the parastatals.

a) Current internal controls being employed by parastatals

A good number of Parastatals in Zimbabwe use preventative controls which includes use of password to stop unauthorized access to systems and training of department procedures of applicable policies. They also employ detective controls for example bank reconciliation and they make use of a little bit of corrective controls such as revision of manual to eliminate future errors. Brewer and List(2004) emphasized that corrective controls is important to those events that have already took place and invoke proper actions to mitigate the situation

b) Effectiveness Internal control systems

The internal control systems being used by most parastatals are not very effective.. The management and employees commit fraudulent activities get away with it and some of the activities are realized after a long period of time. According to COSO(1992) the COSO framework is a basis for prevention and exposure of fraud and its application is one of the best tools to reduce the occurrence of fraud

c) Regular evaluations of policies and procedures

Most parastatals make regular evaluations of their policies and procedures but some rarely conduct regular evaluations. According to COSO(1992) regular evaluations must be done periodically to ensure that policies and procedures are appropriate.

d)Impact of fraud on parastatals

Fraudulent activities affect parastatals to a larger extent. Lack of attention to information security leads to security breaches and illegal transactions or misappropriation of assets by employees. Most parastatals are in debt and some are operating below their capacity due to fraudulent activities.

5.2Recommendations

a)Adoption of the New Zimbabwe Cooperate Governance

Zimbabwean Parastatals must switch from King III to the New Zimbabwe Code of Cooperate governance (Zim Code).The code is appropriate to all organizations and it gives generalized principles of good cooperate governance and recommendation to be implemented by board of directors and directors of organizations to attain an operative and sustainable cooperate governance. Lack of active approach by the regulatory appeared to have encouraged poor corporate governance and internal controls. This Zim Code was set to ensure that organizations operate more efficiently, mitigate risks and safe guards against mismanagement The Zim code(2015) emphasizes that directors must have knowledge of risk ,how it can be measured, improved, eliminated or controlled and an orderly , documented and formal risk assessment must be carried out annually.

b)Initiation of collective fraud policies

Parastatals must establish corporate fraud policies to help manage fraud. Instituting corporate fraud policies enables the development of preventive and detective controls .A fraud policy outlines the duty of the managing personnel and staff of the organization in relation to the formation and maintenance of an effective system of internal controls. The management comes up with the suitable system of antifraud procedures and incorporate adequate internal controls into the organization processes and to protect the organization assets and resources.

c)Segregation of duties

Parastatals can meaningfully strengthen their internal controls by segregating duties. One employee at work should not have the authority to initiate a transaction, authorize or approve a transaction and complete the transaction without the appropriate sign of processes and differing level of management approval. This is supported by Horngren(2012) who stated that segregation of duties makes it difficult for an employee to be in a position to commit and cover errors in the normal course of his duties. Lack of proper segregation of duties is more often the root cause of many fraud and theft event in parastatals without a strong control in this area.

d)Imbedding risk management and internal controls in the operations of the organization and form its culture

The risk management and internal control system must be set into the operations of the organization and be capable of react quickly to the ever-changing business risks. Despite the fact that business risks emerge within the organization or from the business environment, these system should not be perceived as a periodic compliance practice but as a vital part of the day to day business processes.

c)Training of management and employees

Training contributes to the implementation of the accepted culture and behavior in the organization. To come up with an organization culture that identifies and deals with risks, it is vital that the risk management and internal control systems to take into account the expectations of the board and these expectations must be must be communicated to the staff and what training is to be done. Periodic training programs must be done by the organization for all employees and management so as to improve their skills and knowledge for execution of internal controls. According to Kreitner (2008), employees are motivated by being well educated on the internal controls procedures and also giving them incentives that will help them to build their ego and make them give out their best all the times.

d)Bring about the concept of wide enterprise risk management into the organisation

To add more to the above recommendations, Parastatals must practise enterprise risk management to make sure that all risk they face together with fraud risk are managed in a holistic and organized manner. Enterprise wide management allows the organization to

manage all risks it is facing with jointly than managing each risk individually. NIVRA (2007) stated that internal control and enterprise risk management form an essential part of enterprise risk management.

5.3 Summary

In this chapter the researcher presented the research findings and made some conclusions about the effectiveness of the internal controls systems currently being employed by parastatals in Zimbabwe. The researcher also made some recommendations to improve and enhance the control systems in order to mitigate fraud in parastatals.

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APPENDIX 1

MIDLANDS STATE UNIVERSITY

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Zimbabwe

FACULTY OF COMMERCE

DEPARTMENT OF INSURANCE AND RISK MANAGEMENT

Date..../..../2017

To Whom It May Concern:

Dear Sir/Madam

Ref: Request for information for a research

My name is Tsitsi G. Takavingofa (Registration Number – R137173T); I am a student at the Midlands State University studying for a Bachelor of Commerce Honours Degree in Insurance and Risk Management. I am currently undertaking a research project for my final year entitled **“THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS BEING USED BY PARASTATALS IN REDUCING THE RISK OF FRAUD”**. To this end, I intend to collect data by use of the attached questionnaire and interviews. I kindly ask you to complete the questionnaire. I assure you that all information will be used for purely academic purposes and confidentiality shall be maintained.

Should you require more details about the researcher, you are free to contact the Chairperson of the Department of Insurance and Risk Management; Mr. F Makaza on his mobile number, 0774 620 669 or email makazaf@msu.ac.zw.

Your co-operation will be profoundly appreciated.

Yours sincerely

.....

Tsitsi Gelia Takavingofa

0774 633 920

tsitsigelia@gmail.com

APPENDIX 2
Questionnaire:

Kindly tick or fill in the correct answer.

SECTION 1: RESPONDENT DETAILS

Appendix B

1) Do you have a risk management department in your organisation?

YES NO

2) Who do you think is responsible for the internal control systems in your organization?

Senior management Supervisors Everyone

3) Which of the following types of fraud mostly affects your organization?

Misappropriation of assets Fraudulent statements Skimming Inventory fraud

4) What is the frequency of fraudulent activities in your organization?

Weekly Monthly Yearly

5) In your own opinion, to what extent do fraudulent activities affect the performance of your organization ____?

No Effect Moderate Effect Affect to a large extent

6) Are the policies regarding the importance of internal control and appropriate conduct communicated to all employees?

Everyone None Senior employees

7) Does your organization periodically review the following procedures to ensure that proper controls have been instituted?

Procedures	Quarterly	Yearly
Financial accounting procedures		
Security procedures		
Recruitment and selection		

8) In your opinion how effective are the internal controls currently being used in your organization. Indicate in the box below

Preventative	Weak	Effective	Very effective
training of applicable policies and department procedures			
Review of supervisor approvals on transactions or activities			
Use of passwords to stop unauthorized access to systems			
Segregation of duties			

Detective controls	Weak	Effective	Very Effective
Review of information about the current expenditure to the budget			
Bank reconciliation			
Review payroll reports			
Audits			

Corrective controls	Weak	Effective	Very effective
Revision of manuals to prevent future errors			
Submitting corrective journals after detecting an error			

Recovery Controls	Weak	Effective	Very effective
Data back-ups for electronic database			
Storing IT backups on a safe environment			