

**AN EVALUATION OF EFFECTIVENESS OF INTERNAL
CONTROL SYSTEM IN SELECTED DISTRICT
COUNCILS IN THE CENTRAL REGION
OF MALAWI**

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APPROVAL SHEET

This thesis entitled **AN EVALUATION OF EFFECTIVENESS OF INTERNAL CONTROL SYSTEM IN SELECTED DISTRICT COUNCILS IN CENTRAL REGION MALAWI**, written and submitted by Marie Zanele Maseko in partial fulfilment of the requirements for the degree of Master of Business Administration (Accounting), is hereby accepted and approved

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ABSTRACT

This study evaluated the effectiveness of internal control system and the level of accountability in selected district councils in the central region in Malawi using the committee of sponsoring organization of the Treadway commission (COSO) internal control framework. The COSO internal control framework consist of five interrelated elements which include: control environment, risk assessment, control activities, information and communication, and monitoring. The variables in the study were internal control and accountability. The variables under accountability focused on the internal control objectives which included safeguarding of assets, reliability in financial reporting and effectiveness and efficient operations. The research was a case study design, and it used descriptive and correlational methods. The study also used regression to find the best predictor of accountability of the five components in the COSO internal control framework. Data was collected using questionnaires. Respondents were 101 out of 105 accountants and internal auditors of the selected district councils. The study used the SPSS in the analysis of the data collected. The findings from this study demonstrated ineffectiveness in the internal control system of the selected district councils. The study also demonstrated there is a significant relationship between accountability and internal control activities. The study findings indicated that information and communication and control environment are the best predictors of accountability. The study concluded that an ineffective internal control system results in realizing poor accountability. It was recommended that the local government authority should find effective ways to eliminate potential of fraud and misuse of council resources such as encouraging people to report such practices when they occur. The council management should be committed to integrity and ethical values and that should be emphasized to the rest of the employees.

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DEDICATION

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LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|---------|---|
| (AICPA) | American Institute of Certified Public Accountants |
| (BCOBS) | Basle Committee on Banking Supervision |
| (CHRAJ) | Commission on Human Rights and Administrative Justice |
| (COSO) | Committee of Sponsoring Organizations |
| (COCO) | Criteria of Control |
| (CICA) | Canadian Institute of Chartered Accountants |
| (FIU) | Financial Intelligence Unit |
| (MASAF) | Malawi Social Action Fund |

CHAPTER ONE

INTRODUCTION

This chapter discusses the background of the study and other issues related to the problem. It also discusses the theoretical framework that serves as the foundation of the study.

Background of the Study

Corruption and fraud has increased the risk of business failure. The report of the nations on occupational fraud and abuse (2016), global fraud study, reported 1038 cases of fraud in the United States, 208 cases of fraud in Europe, and 364 cases of fraud in Africa, just to mention a few (Association of Certified Fraud Examiners, 2016). The report shows how frequent fraud cases happen in both private and public sector organizations. Such cases of fraud are a trigger to the need for proper maintenance of an effective internal control system in every organization. The evaluation of internal controls helps the organization to determine if there are any weaknesses in the internal control system preventing it from achieving the internal control objectives which include: safeguarding of assets, reliable financial reports, operational efficiency, and compliance to regulations (COSO, 2010). According to the COSO (2010) internal control framework, an internal control system consists of five elements which include: the control environment, risk assessment, control activities, information and communication, and monitoring. The Accounting Dictionary (2017), describes internal control as a procedure or policy set by the management organization to safeguard assets, promote accountability, increase efficiency, and stop fraudulent behaviour. The main objectives of an internal control is to achieve, safeguarding of assets, reliability in financial reporting, effectiveness and efficiency

operations and compliance to regulations. Despite the existence of internal controls, however, over the years there have been worldwide known collapses of companies due to fraud and theft like Enron, WorldCom, Ahold, Parmalat, Wells Fargo, and others in the USA (Lakis & Girinus, 2012). As a result of these cases, the United States of America and countries in Europe have encouraged nations and corporate organizations to place more emphasis on their internal control systems, internal auditing functions, and risk management, to help mitigate such illegal practices (Mercer University, 2016).

Malawi has a single tier of local government comprising four city councils, 28 district councils, two municipal councils and one town councils. Responsibility for local government rests with the Ministry of Local Government and Community Development (MLGCD). In the district councils the district commissioner is the chairman appointed by the MLGCD. District councils are required to appoint committees for finance, development, education, works, health and environment, and human resources. As planning authorities, councils are required to prepare district development plans. These plans must explicitly take into account the national development framework as outlined in the central government's Vision. (Local District councils as responsible for the overall development of their areas, they are required to engage local communities and other interest groups such as the private sector and NGOs government system of Malawi, 2014). The district councils in Malawi monitoring system under the Local Government Act 1998, the accounts of a district council must be submitted to the national Local Government Finance Committee allocations (LGFC) of funds are also approved by the LGFC. The local government finance committee checks the council's performance. This system is

intended to secure the formulation of realistic budgets by the councils. The objectives of all these control procedures is to ensure public accountability.

The above discussion has clearly outlined what internal controls are supposed to achieve in a public organization which is basically accountability. The discussion it has confirmed the internal control governs the functions of the district councils. Apart from the presence of internal controls in the district councils they are also organizations like Malawi social action fund (MASAF) who's function is to improve good governance in the government institutions (World Bank, 2010). The government has also made an initiative to create an independent body The Malawi Anti-Corruption Bureau, financial intelligence unit (FIU).The body is established to be the lead institution in the fight against corruption and misuse of government resources in Malawi in order to enhance the well-being of the public (Nampota, A. E, 2008). As properly discussed internal controls are supposed to protect an organization from facing a loss from theft, fraud in any organization however in Malawi, corruption and fraud cases in public sector institutions continues to increase (Chauwa, 2015). The district councils in Malawi which is a government institution designed to provide health, education, safety services to the district community (Hussein, 2003).It is of great concern to the citizens of Malawi that the districts councils continue to appear in the newspapers on issues of corruption and fraud. The high cases of fraud and corruption have increased failure in service delivery to the public which has decreased the quality of life of the people and there continues to be lack of accountability in failure of projects (Chiweza, 2010). According to reports by BBC word news (2014), it says that the Malawi government was defrauded of around \$32million by the government authorities in the council, almost 1% of Malawi's annual gross domestic product (GDP), in just six months. This has puzzled every citizen of Malawi,

regulators and donors as to how such cases can happen in government institutions which are the most regulated organizations. Which brings to the immediate need to evaluate the effectiveness of the internal control system in the district council so as to establish the cause of the high cases of fraud and corruption in the district councils.

The internal control system is meant to provide assurance that the operations of the organization are conducted in accordance with the organizations objectives and protecting the organizations resources from loss or fraud. This study therefore not only focused on the evaluation of effectiveness of the internal control system in the selected central region district councils in Malawi but also evaluated the results or objectives that an effective internal control system is supposed to achieve which is accountability.

Statement of the Problem

An internal control system provides reasonable assurance that assets are safeguarded, it promotes accountability, increases efficiency and stop fraudulent behaviour. The Malawi government apart from the internal controls also established bodies like the Malawi anti-corruption bureau the financial intelligence unit to fight against corruption (Nampota, A. E, 2008). In addition they are other non-governmental bodies like the Malawi social action fund (MASAF) have been formed to promote honest and effective governance (World Bank, 2010). The Malawi government has focused on increased legislation on the proper finance management in public organizations through the internal controls just like other countries in the world. Despite the efforts of government to fight against, fraud, corruption and efforts to promote good governance in the district council. It is of great concern that the district councils have been crowned with high cases of theft, fraud and corruption. In recent reports by Chiweza (2010), in his article he stated that Local government

financial reports and budget information continue to be inaccessible to most citizens. In addition another report by O’Neil, T. D. Cammack (2014), he stated that there is a lack of accountability and failure to complete projects in the district councils. He further said that local authorities are dysfunctional and that service provision is failing. In additions to the above cases the most recent fraud scandal is cash gate scandal involving government authorities and civil servants in the Lilongwe city council (BBC world news 2014). The independent audit report by a British accountancy firm, described the scale of the theft and how it operated. Drawing on a sample of 501 suspicious transactions between April and September 2013, the auditors found that around 6.1 billion kwacha (\$14.5m) had been paid out to 16 companies for services that had not been supplied. Payments with no further documents accounted for a further 4 billion kwacha. The auditors also found that supply contracts had been inflated by 3.6 billion kwacha. All told, the state was defrauded of around \$32million, almost 1% of Malawi’s annual gross domestic product (GDP), in just six months. The objective of this study therefore was to evaluate the effectiveness of internal control in the councils as deterrent of fraudulent activities or in safeguarding the council assets and ensure accountability to the public.

Research Questions

This study aimed to answer the following questions:

1. How effective is the internal control in the selected district councils in Malawi in terms of control environment, risk assessment, control activities, information and communication, and monitoring?
2. What is the level of accountability in the district councils?
3. What is the relationship between the level of effectiveness of internal control and the level of accountability in the councils?

4. Which of internal control activities best determines higher level of accountability?

Hypothesis

The following is the hypothesis that was tested:

Ho1: There is no significant relationship between the level of effectiveness of internal control and the level of accountability in the councils.

Significance of the Study

This research is of substantial benefit not only to the researcher but also to others in various ways. The research will be beneficial to the district councils as they could use the findings of the study to determine the effectiveness of the internal control system in the councils.

Secondly, the findings of the study will guide the district councils in Malawi and other organization to decide whether to maintain or change their current internal control system. In addition conducting this research aims to increase more knowledge in the field of accounting in particular public sector accounting and auditing. The study is also significant because most studies that have been done have focused mainly on the evaluation of the internal controls only and not the results that an effective internal control system is supposed to achieve. This research aimed to add more knowledge to literature.

Justification of the Study

This research is justified as internal controls are key to safeguarding the assets of an organization, checking accuracy and reliability of accounting data, and, most importantly, providing reasonable assurance that management utilizes the organization's resources to achieve its objectives (California State University Sacramento, 2012). A study done by Mercer University (2015) says that

management's role is to provide leadership that the organization needs to achieve its goal and objectives thus internal control is a technique used by managers to help an organization achieve these objectives. The research intends to investigate the effectiveness of internal controls system in district councils (local government) and encourage further studies on other government institutions and also on a national level. Other related studies done in relation to the proposed research dealt with decentralization process in districts councils, demand for good governance in district councils and service delivery in Malawi. Therefore the purpose of trying to investigate the effectiveness of internal controls was the main focus of this research.

The study used COSO model because it describes a general view of what an organizations effective internal control system should have. Some of the models are more specific to a particular organization like BCOBS is more focused on the banks. In addition COCO model basically originated from COSO which means the concept is similar. Never the less COSO has the most important elements when it comes to internal controls which are the control activities. Every organization should have the ability to prevent and detect fraud and any misappropriations of funds in the organization through the internal control system.

According to Abbas and Iqbal (2012), financial experts from all over the world have learnt that the incidents of corporate scandals are due to the failure of internal control system. In addition according a study by J.O'S, economist article (2014), the central element of fraud in the cash gate scandal was the manipulation of government software system which was supposed to help control spending. Thus the evaluation of the effectiveness of internal control system in the selected central region district councils in Malawi were the variables of interest in this research.

Theoretical Framework

One of the most important theories regarding internal control is the internal control integrated theory. COSO (2015), states that it was actually the committee of sponsoring organizations of the Treadway commission (COSO), who devised one such model the integrated framework in the year 1992 last updated in 2013, which has an international recognition as a useful standard. COSO (2010), describes internal control as consisting of five essential components which include control environment, risk assessment, control activities, information and communication, and monitoring. The study by Beasley (2007), says that this framework has become the most widely used internal control framework in the U.S. and has been adopted by numerous countries and businesses around the world in assessing the effectiveness of an internal control system.

Further according to the institute of internal auditor's article (2008), states that the criteria of control (CoCo) framework is another internal control framework that was developed by the Canadian Institute of Chartered Accountants (CICA) in 1995 and is now an international standard. According to the institute of internal auditors (2008) this model builds on COSO and is thought by some to be more concrete and user-friendly. CoCo describes the internal control as consisting of five components which include purpose, commitment, capability, monitoring and learning and each part of these components is seen as part of a learning process that lifts an organization to a higher dimension (Putra, 2009).

Basle Committee On Banking Supervision (BCOBS) is another framework, this committee reflects the work on internal controls for banking organizations developed by the Basle committee on Banking Supervision which is a committee of banking supervisory authorities established by the central bank governors of the group

of ten countries in 1975 (Putra, 2009). BCOBS describes internal controls as having five components which include management oversight and control culture, risk recognition and assessment, control activities and segregation of duties, information and communication, and monitoring activities and correcting deficiencies.

Internal control system is a very important part of an organization as it influences the organization one way or the other in its everyday activities. This is simply because the internal controls are design protect an organizations resources and also provide reasonable assurance that the organization meets its objectives and goals. The COSO, CoCo and BCOBS internal control theories come in the perspective that an internal control system must be designed and implemented in an effective way for it to achieve the objectives of the organization. All the theories cover the basic components of an internal control system.

Conceptual Framework

The conceptual framework underlying this study focuses on the relationship between level of effectiveness internal controls and the level of accountability.

Independent variable

Internal control

Dependent variable

Accountability

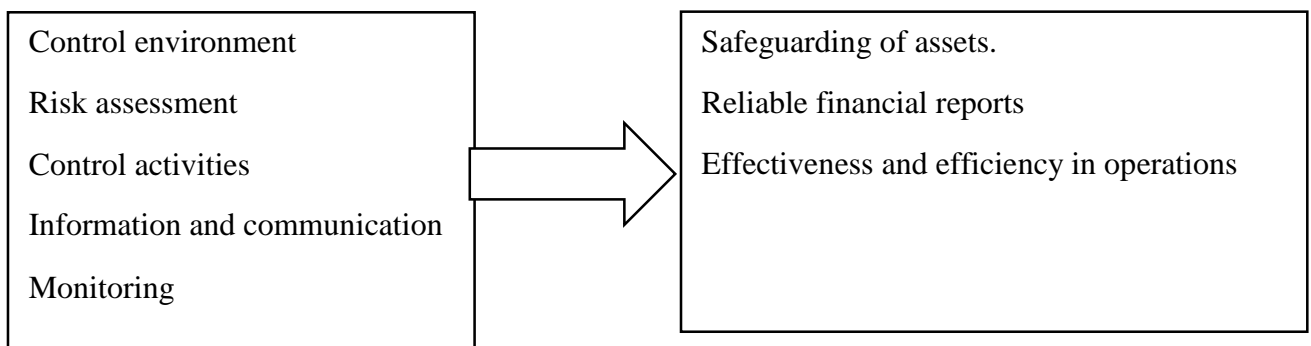


Figure 1. Conceptual frame work (self-developed from literature review)

Source: (COSO, Internal Control Framework, 2015)

The COSO model has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations evaluate the effectiveness of their systems of internal control in meeting the control objectives (Cruz, 2016). As discussed by Vaassen, Meuwissen and Schelleman (2009), together the components of internal control form a structure, the foundation of this structure is the control environment.

The framework shows the components of the internal control system which includes the control environment, risk assessment, control activities, information and communication and monitoring which measures an organizations internal controls to either be effective or not effective. This simply means that judgment as to whether an entity's internal control is effective is based on considering the extent to which the components are present and operating effectively. Effective functioning of all the components provides reasonable assurance as to achievement of the internal controls objectives which include safeguarding assets, accuracy and reliability of accounting data, operational efficiency and also to encourage adherence to prescribed managerial policies. The variables under the independent variable will measure the extent in which the internal control system has been effectively implemented in the district councils and the dependent variable will evaluate the output that an effective internal control system is supposed to achieve. According to the international organization of supreme audit institution (2001), it simply states that internal controls provide a foundation for accountability in government. Hence if the internal controls are implemented effectively in the council it will result in ensuring that the district councils is accountable in safeguarding assets, accuracy and reliability of accounting data and operational efficiency.

In measuring the variable under independent variable the principles under each component were used in the research instrument. The first component which is the control environment looked at how management has established the internal controls in the councils. In terms measuring risk assessment the study focused on specifying the objectives, identifying risk, assessing fraud. The sub-variables under control activities focused on procedures, policies and actions taken to address risks of achieving objectives an example of a control activity is adequate separation of duties in handling various activities of an entity (Mercer University, 2016). Thus the control activities is a very important component because it can help organizations prevent and detect illegal activities. Information and communication, the sub-variable measured, included communicating internal control information internally and externally in all the other components (COSO, 2015). In measuring monitoring the study focused on regular monitoring of the internal control system. The objective of the COSO internal control integrated framework therefore is to help organizations clarify the requirements for determining what constitutes effective internal control by using the principles of effective internal controls under each internal control component that have been discussed above.

Scope of the Study

This study evaluated the effectiveness of internal controls in the selected district councils. The variables in the study were mainly internal control and accountability. The study considered 8 selected district councils in the central region of Malawi. The councils under study were selected since it was a case study also due to time and budget limitations of the research. The study used purposive sampling, the targeted population are the internal auditors and the accountant in the selected district

councils. The targeted population was chosen due to the fact that they would be able to understand the internal control factors.

Assumptions of the Study

The researcher hoped that the respondents gave honest, truthful, accurate, valid and reliable information about themselves and the area of study. The study assumed that the findings, conclusions and recommendations of the study would be used by local authorities in the district councils and also used in the filed in accounting to further understand the key concept of an effective internal control system. the study assumed that the effectiveness of an internal control lies on characteristics such as honest, capable employees, clearly defined formal plan of organization, separation of duties, a system of authorization, sound accounting practices, adequate physical control over asserts and records and independent checks on performance.

Operational Definition of Terms

Accounting controls: these are controls that deal with maintaining and safeguarding the assets of the organization by ensuring that all transactions that take place in the organization certainly occurred, properly authorized, recorded and properly presented in the financial statement.

Administrative controls: these controls mostly relate to management responsibility for running the business ensuring that everything is running efficiently and smoothly in the organization.

Accountability: Accountability means being able to provide an explanation or justification and accept responsibility for events or transactions and one's own actions in relation to these events or transactions. Accountability was measured using the

internal control objectives which include safeguarding of assets, effective and efficient operations and reliable financial reporting.

AICPA: American Institute of Certified Public Accountants, it is basically the world's largest member association representing the accounting profession it sets, ethical and auditing standards.

Accuracy and liability of accounting information: accounting information should not contain any material misstatements.

COSO: it is a committee of sponsoring organizations of the Treadway Commission that helps organizations in designing and implementing internal control system.

Control environment: the control environment is basically the foundation of setting the tone of the internal controls in an organization.

Control activities: organization sets control activities in order to ensure that the internal controls are being followed.

Compliance to regulations: every organization has rules and regulations that employees follow in performing different activities.

Effectiveness and efficiency operations: The ability to achieve organizational objectives with the available resources

Effectiveness: effectiveness simply means successfully meeting desired results.

Effectiveness of internal controls: Effectiveness of internal controls deals with the degree to which objectives are achieved and how problems are attacked and solved. The determination as to whether the internal controls are effective is basically based on taking into consideration of the extent to which the five internal control components (control environment, risk assessment, control activities, information and communication and monitoring) are present operating effectively.

Internal control system: Internal control these are procedures, rules, restrictions, designed and implemented by the management to assure operation efficiency and effectiveness and also to protect the resources of the organization from loss or waste by making sure that all resources are allocated properly in accordance with the objectives of the organization.

Information and communication: This deals with how well informed are the employees and people outsiders about the internal controls.

Monitoring: Monitoring involves assessing the quality of internal controls from time to time and making changes were necessary.

Risk assessment: This basically involves determining some of the risk that are associated to an organizations achieving its objectives and how they can be controlled and managed.

Reliability of financial reporting: This deals with the trustworthiness of financial reports.

Safeguarding assets: The ability of an organization to protect its assets from any loss or illegal use.

Evaluation: Evaluation is the process management uses to assess whether an organization's operations are effective in achieving its mission.

CHAPTER TWO

REVIEW OF RELATED LITERATURE AND STUDIES

This chapter discusses the related literature and studies. It consists of the concepts from literature that are related to the study on evaluation of the effectiveness of internal controls and level of accountability in the selected central region district councils in Malawi. Literature review helps the researcher in addressing the problem for the research and also assist the researcher to discover important variables (Ridley, 2012). The study discussed the concept on internal controls as the independent variable, the chapter looked at types of internal controls, the objectives of internal controls. Further the components of internal control by COSO which was used in the analysis of the effectiveness of the internal controls in the councils. The chapter also discussed accountability which was the dependent variable of the study. The chapter also looked limitations of internal controls and empirical studies related to the study.

The Concept of Internal Control

Razek and Hosch (1990) state that internal control is the plan of organization and measures adopted to safeguard the assets, check accuracy and reliability of accounting data, promote operational efficiency and encourage adherence to managerial policies. According to this definition it simply shows that internal controls are not just designed to protect assets but also increasing efficiency and also encouraging compliance to those controls. Arens, Elder and Beasley (2010), provide their definition which says that the system of internal control consist of policies and producers designed to provide management with reasonable assurance that the company achieves its objectives and goals. This definition describes how the controls are designed to make sure that everyone in the organizations works towards achieving

the set of goals and objectives of an organizations. Further a study by Rittenberg, Johnstone and Gramling (2011), it explains that COSO defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories, reliability of financial reporting, compliance with applicable laws and effectiveness and efficiency of operations. Nevertheless, Florida Gulf Coast University (2007) defines internal control as 'such as reviews, checks and balances, and methods and procedures instituted by an organization to conduct its business in an orderly and efficient manner, safeguard its assets and resources, deter and detect errors, fraud, and theft, ensure accuracy and completeness of its accounting data, produce reliable and timely financial and management information, and ensure adherence to its policies and plans'.

Lee (1971), argues that that the first signs of internal control can be found in the records of the early Mesopotamian civilization - the Sumerians - around 3600 to 3200 B.C. He quotes Kenneth S. Most as saying that it was customary for summaries to be prepared by scribes other than those who had provided original lists of payments. Further, the documents of the period reveal tiny marks, dots, ticks and circles at the side of the figures, indicating that checking had been performed. Thus, the business managers of the time appear to have had a firm idea of control through an adequate division of accounting duties, and this is more easily seen in the description by Richard Brown of the activities conducted within the treasury of the Egyptian Pharaohs. An interesting study by Lee (1971) further explains that nothing was given out of the treasury without a written order. Reports on the part of the workmen was provided against by the records of one official checking those of another. When the corn was brought to the storehouses each sack was filled in the sight of an overseer

and noted down, and when the sacks were carried to the roof of the storehouse and emptied through the receiving opening the scribe stationed there recorded the number received. It is from this period therefore that internal controls have evolved to this present day. Rittenberg, Johnstone and Gramling (2011), explains that internal controls exist to mitigate risk to achievement of objectives and that a control becomes a key control when it is the one of the most effective controls the organization has in mitigating relevant risk.

According to Razek and Hosch (1990), internal control can be compared to the preventive maintenance of a motorist gives his or her automobile. Razek and Hosch (1990), further explained that a person for example, checks the automobile oil in order to prevent a breakdown, not because of the breakdown. Similarly the management of an organization installs a system of controls in order to prevent defalcations and bad management not to catch thieves or poor managers. The system operates on the premise that people are basically honest and want to do their jobs effectively. A good system of internal controls can act as a strong deterrent to crime and poor management by removing the temptation to steal or engage in lax practices. If an employee knows, for example that the probability of being caught stealing is very high that person will probably never consider such an act. and if the employee knows that laxness on his or her part will soon be discovered or even better if the nature of working environment is such that it is impossible to be lax on the job, that person will probably perform with much greater care (Zhang and Hongtao, 2010).

Classification of Internal Controls

For operational purposes, internal controls are classified into the following:

Accounting controls: Razek and Hosch (1990), defined accounting controls as the controls that deal with matters that have direct impact on the organization's

financial statements. the accounting controls are the ones that safe guard the assets, ensure reliable accounting data and also enable the management of the organization to ascertain that the expenditures are properly authorized and made in accordance with appropriate laws and regulation . In other words the accounting controls deal with management responsibility for maintaining the assets entrusted to it and for providing information on the financial condition and results of the organizations operations.

Administrative controls: according to Razek and Hosch (1990), in their study it stated that administrative controls are those controls that deal with matters that have an indirect impact on the financial statements. They are the ones that promote operational efficiency, encourage adherence to prescribed management policies. In other words administrative controls deals with management responsibility in running the business in a smooth and efficient manner.

Internal Control Objectives

Internal Control objectives are desired goals or conditions for a specific event cycle which, if achieved, minimize the potential that waste, loss, unauthorized use or misappropriation will occur (Mercer University, 2016). They are conditions which we want the system of internal control to satisfy. For a control objective to be effective, compliance with it must be measurable and observable. (Mercer University 2016)

Reliability of financial reporting: Arens, Elder and Beasley (2010), explains that management is responsible for preparing statement for investors, creditors and other users of the financial statement information. Management has both a legal and professional responsibility to be sure that the information is fairly presented in accordance with reporting requirements such as general accepted accounting principle.

Efficiency and effectiveness of operations: according to Arens, Elder and Beasley (2010), controls within a company encourage efficient and effective use of its resources to optimize the company's goals. An important objective of these controls is accurate financial and non-financial information about the company's operations for decision making.

Compliance with laws and regulations: Beasley (2007), states that section 404 requires all public companies to issue a report about operating effectiveness of internal controls over financial reporting. In addition public, private and non-profit making organizations are required to follow many laws. Some relate to accounting only indirectly, such as environmental protection and civil rights laws. Others are closely related to accounting such as income tax regulations and anti-fraud legal provision (Arens, Elder & Beasley 2010).

Management and Auditor Responsibility for Internal Control

As discussed by Rittenberg, and Gramling, (2011), in their completed interesting study responsibilities for internal controls differ between management and the auditor, management is responsible for establishing and maintaining the entity's internal controls. Management is also required by section 404 to publicly report on the operating effectiveness of those controls. The management has to assess the internal controls over financial reporting by evaluating the design of the internal control whether the internal controls are designed and put in place to prevent or detect material misstatement in the financial statement (Arens, Elder & Beasley 2010). In addition management must test operating effectiveness of the controls, the testing objective to determine whether the controls are operating as designed and whether the person performing the controls possesses the necessary authority and qualification to perform the controls effectively. In contrast the auditor's responsibility include

understanding and testing internal control over financial reporting by focusing the effectiveness the controls over the reliability of financial reporting and controls over classes of transactions .

The auditor is also required by section 404 to issue an audit report on the operating effectiveness of those controls (Arens, Elder and Beasley 2007).

Management, not the auditor, must establish and maintain the internal controls.

According to Arens, Elder and Beasley (2010), this concept is consistent with the requirement that management not the auditor is responsible for preparation of financial statements in accordance with the generally accepted accounting principles.

There are two concepts that underline management design and implementation of internal controls, and they are discussed below.

Reasonable assurance: a company should develop internal controls that provide reasonable assurance that the financial statements are fairly stated. According to Vaassen, Meuwissen, and Schelleman, (2009), it explains that internal controls are developed after considering the cost and benefits of controls. The concept of reasonable assurance allows for only a remote likelihood that the material misstatement will not be prevented or detected on a timely basis by the control (Mercer University, 2016)

Inherent limitations: According to Mercer University (2016) it states that internal controls can never be completely effective regardless of the care followed in their design and implementation. Even if the systems personnel can design an ideal system, its effectiveness depends on the competency and dependability of the people using it. Thus, management has to identify a framework to use for evaluating the effectiveness of the internal controls.

Components of Internal Control System

Rittenberg, Johnstone and Gramling, (2011), state that the internal control process is continuous; management identifies and assesses risks to the accomplishment of its objectives, implements a control environment and control activities that reduce the risks to an acceptable level, develops effective information and communication processes, and monitors the effectiveness of the overall internal control system. Government institutions, when designing and administering or carrying out self-audits, must consider a wide variety of factors in internal control systems. Only by being comprehensive will these systems operate effectively and achieve the desired effects. Internal control system components were unveiled in 1992 by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, and included: Control Environment, Management's Risk Assessment, Information and Communication, Control Activities, and Monitoring, which have been shown in the diagram below and discussed in detail.

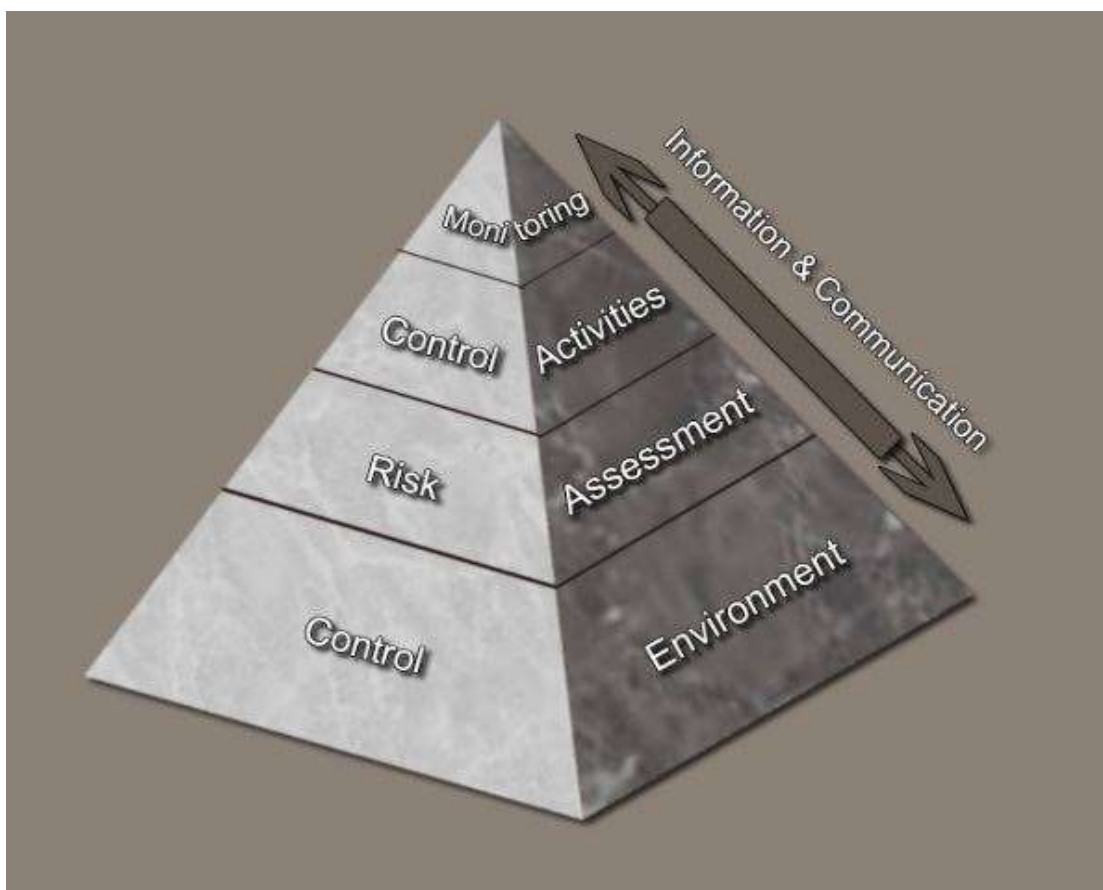


Figure 2, COSO internal control integrated framework.

Source : (COSO, 2010)

Control Environment: The control environment starts with the board of directors, audit committee and management. Together this group constitutes the leadership of the organization and sets the tone for acceptable conduct through policies, codes, ethics and commitment to hiring competent employees, developing reward structure that promote good internal and reliable financial reporting and effective governance (Rittenberg, Johnstone & Gramling, 2011). The study by Beasley (2007) states that the control environment is the foundation of all the other components in the framework. Weaknesses of tone at the top have been associated with most financial fraud during the past decade (Vaassen, Meuwissen, & Schelleman, 2009). Thus, the control environment must establish and reinforce the organization's commitment to strong internal control. In essence, a good control environment is the

one where people in the organization are aware of the importance of internal control and behave accordingly.

According to Beasley (2007), the control environment influences control consciousness of the people in the organization. COSO has identified the underlying principles of an effective control environment, which are discussed below.

Integrity and ethical values: According to Arens, Elder, and Beasley (2010), integrity and ethical values are the product of the entity's ethical and behavioral standards, as well as how they are communicate and reinforced in practice. These include management actions to remove or reduce the incentives and temptations that might prompt the personnel to engage in dishonest, illegal, or unethical acts. They include the communication of the entity values and behavioral standards to personnel through policy statements, codes of conduct.

Commitment to competence: competence is the knowledge and skills necessary to accomplish tasks that define an individual's job (Rittenberg, Johnstone Gramling, 2011). COSO (2015) says that the most important element of internal control is personnel. Organizations need to establish policies and procedures for hiring, training, supervision, evaluating, counseling, promoting, compensating, and taking remedial action regarding its employees. If employees are competent and trustworthy, other controls can be absent and effectiveness in operations, financial reporting, and compliance will still result

Board of directors and the audit committee: the members of the board of directors is essential for effective corporate governance because it has ultimate responsibility to make sure for effective corporate governance because it has ultimate responsibility to make sure management implements proper internal controls for financial reporting and operations to (Arens, Elder & Beasley,2010). According to

According to Rittenberg, Johnstone and Gramling (2011), an effective board is independent of management will be actively involved and will function as to check against a potentially dishonest in management activities. According to Rittenberg, Johnstone and Gramling (2011), it states to assist the board in its oversight most board will have subcommittees like the audit committee, the compensation committee and the nominating governance committee.

Arens, Elder and Beasley (2010) states that the audit committee that is charged with oversight responsibility for financial reporting. The audit committee is responsible for ongoing communication with both external and internal auditors, including the approval of audit and non-audit services done by auditors for public companies. The audit committee's independence from management and knowledge of financial reporting issues, enables it to effectively evaluate internal controls and financial statements prepared by management. The nominating and governance committee identifies independent directors who will serve the stockholders interests and develop charters that spell out the responsibility of the board and its subcommittees.

Organizational structure: Rittenberg, Johnstone and Gramling (2011), says that well-controlled organizations have clearly-defined lines of responsibility, authority, and accountability. Internal audit is often considered an integral part of good organizational structure because it provides management with independent assessment of other controls as well as the effectiveness of the organization's risk management, governance, knowledge, management's philosophy, and operating style as part of the organizational structure. Arens, Elder and Beasley (2010) says that management, through its activities, provides clear signals to employees about the importance of internal control. For example does management take significant risk or

risk averse? Can management be described as fat and bureaucratic, lean and mean, dominated by one or a few individuals or it is just right? Understanding these and similar aspects of management philosophy and operations style give a sense of understanding of management's attitude about internal control.

The authority and responsibility are also intertwined with the organization's structure. Everyone in the organization has some responsibility for effective operation of internal control. COSO (2015), has identified considerations such as the board overseas financial reporting responsibility, which is done by overseeing the management process for defining responsibilities for key financial reporting roles. Further another consideration is defined responsibility, which means assignments of responsibility and delegation of authority are clearly defined for all employees involved in financial reporting (Rittenberg, Johnstone & Gramling, 2011). The last consideration is limit of authority which implies that assignment of authority and responsibility includes appropriate limitations COSO (2015). The discussion on the control environment has clearly laid out the foundation of the internal control system. The discussion has confirmed to the researcher that this component should be established on a strong foundation in order to make the rest of the components effective.

Risk assessment: Every entity faces a variety of risks from external and internal sources that must be assessed. It is important to know the risk first in order to determine the control. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed (COSO 2015). Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

Basically in risk assessment it involves the principles such as, the organization specifying objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives. In addition the organization looks at the risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed. The organization also considers the potential for fraud in assessing risks to the achievement of objectives. Further the entity identifies and assesses changes that could significantly impact the system of internal control. The principles are discussed in detail below.

Clear objectives specified: A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Objectives should always be in line with the mission and vision of an organization. COSO states a categories of objectives which include;

Strategic business objectives: these are goals deemed most important to the current and future health of a business. Objectives are prioritized by an organization through a thorough analysis of business practices such as a SWOT analysis. SWOT stands for strengths, weaknesses, opportunities and threats. Though prioritization of strategic objectives is unique to each business, common objectives exist. Six of the most common areas to focus strategic business goals are in the areas of market share, financial resources, physical resources, productivity, innovation and action planning (COSO, 2015)

Operational objectives: These are daily, weekly or monthly project benchmarks that implement larger strategic objectives. Operational objectives, also called tactical objectives, are set out with strategic objectives in mind and provide a means for management and staff to break down a larger strategic goal into workable tasks. For example, achieving the strategic goal of a 25 percent increase in sales

revenue requires the completion of the operational objective to develop and execute an effective advertising strategy along with other operational objectives. As with strategic objectives, operational objectives also should be measurable and specific, though their focus is narrower (Arens and Beasley, 2007).

Reporting objectives: it involves safeguarding of assets of the organization and it emphasize reliable, timely and relevant reporting of financial statement in accordance with the generally accepted accounting principles. Further it also involves analyzing the risk in across transitional flows making sure that they meet that five assertions that are made by management (Mercer University, 2016)

Compliance objectives: basically involves making sure that the activities that are performed in the organization are in line with the laws and regulations of the organization. This simply means that employees and management have to act according the order, set of rules of the organization. Organization should be able recognise any risk of compliance difficulties on the internal controls that may arise and resolve them (COSO, 2015)

Identify and analyze risks across the entity: this principle deals with identifying the risk of achieving the objectives across the various levels of the entity. The principle answers questions like what is the likelihood of a specific risk occurring? How severe could it be? How quickly will it affect the company and for how long? The principle looks at ways on how this risk can be managed in a case of occurrence how will the organization will respond if faced with such a risk.

Assess fraud risk: This principle looks at how fraud could prevent the entity from achieving the objectives as stated in the first principle. The assessment management performs with respect to this principle considers fraudulent reporting, possible loss of assets and corruption resulting from the various ways that fraud and misconduct can

occur. COSO has issued offer helpful recommendations that firstly organizations should conduct a fraud risk assessment to identify the various ways fraud risk can occur. The management should consider:

- The degree of estimates and judgments in external financial reporting
- Methodology for recording and calculating certain accounts, like inventory
- Fraud schemes and scenarios common to the industry sector and markets where the company operates
- The geographic regions where the company does business
- Nature of automation
- Unusual and complex transactions subject to significant management influence
- Last-minute transactions

Secondly, organizations should consider approaches to how individuals in the firm might circumvent or override fraud controls. In addition management should consider fraud risk in the internal audit plan. The organization should review pressures and incentives in compensation programs for management and employees to commit fraud

Identify and assess significant change: This principle requires an assessment of change in the organization on an ongoing basis both externally and internally that could affect risk. External changes include those in the economic, regulatory and physical environment. Internal changes include those in company's business lines and operations, overseas markets and operations, new technologies, as well as changes in leadership and company philosophy. The discussion above has highlighted the most difficult part that every organization would not want to face which is risk. Every organization faces risk and the most important part that has been discussed is how to mitigate such risk which bring to the control. According to the

researchers understanding the risk assessment is a foundation of controls activities. It is only after assessing the risk that an organization can establish the control activities to mitigate the risk.

Control activities: Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives.

Management can implement controls by using a combination of preventive and detective controls (Arens, Elder & Beasley, 2010).

Preventive controls: Preventative controls are designed to keep errors or irregularities from occurring in the first place. They are built into internal control systems and require a major effort in the initial design and implementation stages. However, preventative controls do not require significant ongoing investments (Arens, Elder & Beasley, 2010).

Detective controls: Detective controls are designed to detect errors and irregularities, which have already occurred and to assure their prompt correction. These controls represent a continuous operating expense and are often costly, but necessary. Detective controls supply the means with which to correct data errors, modify controls or recover missing assets (Arens, Elder & Beasley, 2010).

Categories of Control Activities

Control activities occur throughout the organization, at all levels and in all functions the controls. They include a range of activities as segregation of duties, authorization procedures, adequate documentation, physical controls to safe guard assets and reconciliations.

Segregation of duties: the concepts underlying segregation of duties is that individuals should not be in situation in which they could both perpetrate and cover

up fraudulent activity. Proper segregation of duties requires that at least two or more employees be involved in so that it's not just one person handling all the responsibilities. This prevents someone from authorizing a fictitious or illegal transaction and then covering up through the accounting (COSO, 2015).

COSO describes four general guidelines for adequate separation of duties to prevent both fraud and errors which are discussed below.

Separation of the custody of assets from accounting: to protect a company from embezzlement, a person who has temporary or permanent custody of an asset should not account for that asset. Allowing one person to perform both functions increases the risk of that person disposing of the asset for personal gain and adjusting the records to cover up the theft. For example let's say a cashier receives cash and is also responsible for data entry for the cash receipts and sales that person could pocket the money received and not record the sale or make a fictitious credit to the account.

Separation of the authorization of transactions from the custody of related assets: it is desirable to prevent persons who authorize transactions from having control over the related asset to reduce the likelihood of embezzlement. For example the same person should not authorize the payment of vendors invoice and also sign the check in payment of the bill (Mercer University, 2015).

Separation of operational responsibility and from record-keeping responsibility: in order to ensure unbiased information, record keeping is typically included in a separate department under the controller. Let's say for example if a department prepares its own records or reports it might change the results.

Separation of IT duties from user department: as the level of complexity of IT systems increases, the separation of authorization, record keeping, and custody often becomes blurred. Thus, companies should make sure that the responsibility for

designing and controlling accounting software programs that contains the sales authorization and posting should be under the authority of IT, whereas the ability to update information in the master file of the customer credit limits should rest in the hands of the organization's credit department, outside the IT function (COSO, 2015).

Proper authorization of transactions and activities: Every transaction must be properly authorized if controls are to be satisfactory. Authorization can be either general or specific. Under general authorization, management establishes policies, and subordinates are instructed to implement these general authorizations by approving all transactions within the limits set by the policy. Specific authorization, on its part, applies to individual transactions; for certain transactions management prefers to authorize each transaction individually. An example is the authorization of sales transaction by a sales manager. COSO has defined some guidelines that an organization should use in authorization, and one of them is that authorization should be clearly spelled out, documented, and communicated to all affected parties within the organization. Communication is very important so that everyone is aware of what is required and accepted in their respective responsibilities. Further, another important guideline is blanket authorizations. For example, computer-generated transactions should be periodically reviewed by supervisory personnel to determine compliance with the authorization procedures. In addition, authorization should be limited to departments that are assigned responsibilities for a particular function. For example, the credit department - not the sales department - should have the authority to extend credit to customers (Rittenberg, Johnstone, & Gramling, 2011)

Adequate documentation: documents should exist to provide evidence of authorization of transactions, the existence of transactions, support of journal entries, and financial commitment made by the organization. COSO has defined some of the

important guidelines for effective documentation. The first guideline is that documents should be pre-numbered. This facilitates the control of and accountability for transactions, and is crucial to the completeness assertion. Another important guideline in adequate documentation is timely preparation of documents. This improves the creditability and accountability of the documents, and decreases the rate of errors on all documents (Mercer University, 2015)

Physical controls to safeguard assets: physical controls are necessary to protect and safeguard assets from accidental or intentional destruction and theft. Examples of physical controls include security locks to limit access to computer facilities, inventory warehouse with fences, and careful key distribution. More examples of physical control include physical segregation and custody to limit access to records, using safes to limit access to cash, other liquid assets, and documents to those authorized, and security controls regarding access to computer systems (COSO, 2015).

Reconciliations: reconciliation controls operate by checking for agreement between the submitted transaction and processed transactions. Also you check the detailed subsidiary accounts with the corresponding control account. In addition you look at the physical control of assets with the recorded. It is important that reconciliation be performed by someone other than the person originally recording the transaction, the individual with custody for the transaction and individual with ability to authorize the transaction. (COSO, 2015).

The above discussion on control activities has clearly stated the controls that an organization can use to detect and prevent any risk to the achievement of objectives. This component is another very important part of the internal controls

because it can stop fraud before it occurs and in the researchers opinion should be the strongest in terms of functionality.

Information and communication: Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. The underlining principles of information and communication include obtaining quality information and using it throughout the organization. As illustrated by the COSO framework diagram it is very important that information and communication should also exist in the other four components of the internal control system which include the control environment, risk assessment, control activities and monitoring. Further the internal control information needs to be communicated internal as well as external environment of the organization (COSO, 2015).

Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders (Applegate & Wills, 1999)..

Monitoring: Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties (Wang and Jun, 2009). The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board (Arens, Elder, and Beasley, 2010).

The Concept of Evaluation of Internal Controls

Evaluation is defined as a process or ongoing activity that managers use to determine whether an organizations operations are being conducted effectively and efficiently towards meeting the organizational goals and objectives (Business Dictionary, 2017). Basically an evaluation of internal control is conducted to see if the present internal control system is working as intended and see if there are any areas lacking that require improvement. In simple terms an evaluation simply provides an assurance that things are running smooth in the organization Bierstaker and Thibodeau, (2006). They further explain that the five components of internal control are considered to be the criteria for evaluating the effectiveness of internal controls.

Effectiveness of Internal Controls

Effectiveness deals with the degree to how specifies objectives are achieved and how problems are attacked and solved (Business Dictionary, 2017). The determination as to whether the internal controls are effective is basically based on taking into consideration of the extent to which the five components (control

environment, risk assessment, control activities, information and communication and monitoring) are present operating effectively (COSO, 2010).Zhang and Hongtao (2010) argued that the effectiveness of internal control should be defined as “internal control provides assurance for compliance objectives, reporting objectives, and business objectives and strategies goals. The higher the internal controls provides assurances for achieving the targets, it means the internal control is more effective.” Wang Hailin (2009) believes that the reason why the current evaluation of internal control is not fitted for the reality is because that internal control mostly focused on the implementation of the results of the evaluation of internal control, while internal control evaluation should include evaluation of the results of the implementation and the process. Thus an effectiveness of an internal control system should result in safety of assets, reliability in financial reporting, operational efficiency and compliance. Hence the organization given the available resources will be able to produce a desired output in its every day operations. Further the primary responsibility of directors and officers is to ensure that the organization is accountable for its programs and finances to its contributors, members, and the public and government regulators. The development and maintenance of effective controls helps to ensure accountability (INTOSAI, 2001).

Accountability

Accountability is the liability that one assumes for ensuring that an obligation to perform a responsibility is fulfilled. Accountability means being able to provide an explanation or justification and accept responsibility for events or transactions and one’s own actions in relation to these events or transactions (Mtongo, 2012). In the public sector, accountability is meant the imperative to make public officials answerable for their behaviour and responsive to the entity from which they derive

their authority. Accountability also means establishing criteria to measure the performance of public officials, as well as oversight mechanisms to ensure that standards are met.

In the public sector organizations the roles of internal control is to support the system stability at the same time fostering the decision makers accountability (Aziz and Rahman, 2015). However failure to establish a reliable and dependable system could harm the organization in many ways while exposing the risk to the efforts of nurturing accountability in the public sector. Higher dependency on the control system is constantly associated with higher expectation on enhancing the accountability in the organization (Aziz and Rahman, 2015). This therefore draws to the point that internal control enhances accountability. An effective internal control is a mechanism to ensure accountability of public organizations ensuring safety of assets, reliability of financial reports and operational efficiency. This means enhancement of accountability through the internal controls helps to achieve the internal control objectives. However fraud, may occur even with effective internal control system due to collusion, management overriding and so on. According to Kempe (2014), in his article he described as to why corruption and fraud continues to persist in Kenya he said one of the causes is personalized power which confirms to management overriding the internal control system for their own benefit. This is a similar case in Malawi there is no clear distinction between a party in power and government activities because the party in power calls itself government (Kainja, 2015). He further said that collusion in government departments he went further to say that most government contracts go to those who relate with management not the best bidders for personal benefits.

According to the article by Australian council of auditors general it explains six principles of accountability. The first principle says that, in the theoretical Westminster model of government, for example, public sector accountability can be thought of as a linked chain of participants each with unique accountability functions. Secondly objectives are specified for each participant and participants are aware or what is required of them. Thirdly to each participant resources would be given to achieve objectives effectively and efficiently. Fourthly each participant in the chain of accountability would specify the reporting requirements which are to apply in respect of the responsibilities, authorities and resources which have been assigned or delegated by it. Further each participant would have the right to verify the information supplied to it in discharge of a reporting requirement. Lastly each participant would have the authority and responsibility to judge the performance of those to whom responsibilities, authorities and resources have been assigned or delegated and to impose any sanctions penalties or rewards which may flow from such judgement.

Limitations of Internal Controls

The study by Kansas State University (2015) indicates that no matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved. Some limitations are inherent in all internal control systems. These include the following:

Judgment: The effectiveness of controls will be limited by decisions made with human judgment under pressures to conduct business based on the information at hand (Mercer University, 2016). According to Lannoye (1999), effective internal control may be limited by the realities of human judgment. Decisions are often made within a limited time frame, without the benefit of complete information, and under time pressures of conducting agency business. These judgment decisions may affect

achievement of objectives, with or without good internal control. Internal control may become ineffective with management fails to minimize the occurrence of errors for example misunderstanding instructions, carelessness, distraction, fatigue, or mistakes.

Breakdowns: according to Kansas State University (2015), even well-designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems. Other causes of a breakdown also include, a culture that does not reinforce the value of internal controls and also the staff carelessness, poor judgment or lack of knowledge. In addition the staff may take short-cuts instead of following procedures and the staff can also fail to recognize or act on unusual transactions.

Management Override: According to Mercer University (2016), high-level personnel may be able to override prescribed policies and procedures for personal gain or advantage. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes.

Collusion: Control systems can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems (Arens, Elder & Beasley, 2010).

Staff size: According to Kansas State University (2015), staff size limitations may obstruct efforts to properly segregate duties, which requires the implementation of compensating controls to ensure that objectives are achieved.

Cost: The cost of implementing a specific control should not exceed the expected benefit of the control. (Kansas State University, 2015)

Empirical Studies

Douglas (2011) conducted a study in Ghana to determine internal control and its contributions to organizational efficiency and effectiveness using Ecobank Ghana Limited as a case study. The problem of the study was that internal controls can only provide reasonable assurance not absolute assurance. This is because the people who operate the internal control system can cause failure in achieving internal control objectives. The objective of the study was therefore to assess the extent of failures caused by humans to the internal controls and effectiveness of internal controls in risk management in financial institutions, with a particular reference to Ecobank. The variables used in the study were internal controls and organizational efficiency and effectiveness. In measuring the variables the study used the five components of an internal control (COSO model) to determine how each component has been implemented in order to establish the efficiency and effectiveness.

The study used a survey method in collecting data in the 12 branches of Ecobank through the use of a questionnaire. In analyzing the data, frequency tables were used as the analytical techniques. The finding of the study revealed that an internal control system is present in the bank and is established by management and everyone conscious of the internal control system. The findings also revealed that the bank has set control activities to safeguard its assets and monitoring of the internal controls is only the responsibility of the auditor. The conclusion made was that the internal controls do exist in the Ecobank but they are not effective since monitoring by the auditors is less effective. The study recommended that Ecobank Ghana Limited should set internal audit units for each branch across the country, so that there shall always be the availability of internal audit personnel's to ensure compliance to the internal controls that exist in their organization.

Kitundu (2013) conducted a study on the assessment of the effectiveness of financial internal control systems in public organizations in Tanzania; he did a case study on Morogoro sub-treasury. What puzzled Kitundu in this study was that, despite the existence of financial controls in organizations, the problem of misuse of finances was increasing in many organizations. There was evidence of auditors/controllers complaining of facing impediments when they are in the process of financial internal operations control. The study used a descriptive research design, and the main variables in the study were financial internal controls and factors affecting its effectiveness. The variables were measured by simply asking question to respondents and get their perception on the matter using a questionnaire. The data collected were analyzed qualitatively and quantitatively. The findings revealed that most of all financial internal controls conducted at Morogoro Sub Treasury are not effective in sense that most of errors especially in terms financial-related matters were not discovered in the year 2012 a financial internal control must have the ability to detect errors in the organization. The study concluded that conduct of internal control is not fully effective at Morogoro. On factors affecting financial internal control process the study concluded that it is affected by people, management, organizational structure, and work environment. The study recommended that management of Morogoro Sub Treasury is herein recommended to offer support to internal controllers so as to allow the detection, prevention and disclosing of any errors, mistake, safe guard the assets of the organization.

Public Sector Organizations

In general terms, the public sector consists of governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver public programs, goods, or services. The public sector basically consists of an

expanding ring of organizations, with core government at the center, followed by agencies and public enterprises. Malawi is a democratic republic with two spheres of government: national and local. The central government comprises the head of state the president, followed by the vice president, cabinet ministers and members of the national assembly or parliament. Malawi has three administrative regions the north, central and south region. Local government of Malawi is enshrined in Chapter XIV of the Constitution^{4a}. Article 146(3) states that ‘parliament shall, where possible, provide that issues of local policy and administration be decided on at the local level under the supervision of local government authorities. The principal relevant legislation is the Local Government Act 1998^{4b}. This provides a framework for decentralization, establishing the councils and providing for their composition, powers, functions and financing. The objectives of local government are ‘to further the constitutional order based on democratic principles, accountability, transparency and participation of the people in decision-making and development process. (Local government system of Malawi, 2014)

Local Government of Malawi

Malawi has a single tier of local government comprising four city councils, 28 district councils, two municipal councils and one town councils. Responsibility for local government rests with the Ministry of Local Government and Community Development (MLGCD). In the district councils they have an executive post known as district commissioner who is the chairman appointed by the MLGCD. The district commissioner exercises executive responsibilities, supported by district consultative committees (DCCs), area development committees (ADCs) and village committees (VCs). District councils are required to appoint committees for finance, development, education, works, health and environment, and human resources. As planning

authorities, councils are required to prepare district development plans. These plans must explicitly take into account the national development framework as outlined in the central government's Vision. (Local government system of Malawi, 2014).

District councils as responsible for the overall development of their areas, they are required to engage local communities and other interest groups such as the private sector and NGOs in the preparation of their three-year rolling district development plans. To support this process the councils may establish area-wide, ward or village committees. The special interests represented on the council also serve to broaden democratic participation. All council meetings, together with committee, sub-committee and joint committee meetings, are open to the public, subject to advance application to attend. The councils have a duty to publish information relating to local government and the services available within their areas (Local government system of Malawi, 2014).

Internal Control and Accountability in the Local Government of Malawi.

Government internal Control system refers to measures, arrangement and devices built-in into government's financial system to ensure the proper use of public funds. (Walker, 1999). When looking at the soundness of internal control in the public sector, it is imperative to recognize the context within which public organizations operate and their characteristics. The district councils in Malawi monitoring system under the Local Government Act 1998, the accounts of a district council must be submitted to the national Local Government Finance Committee (LGFC), which then forwards them for audit by the auditor general, who may also carry out surprise audits and other investigations. After considering the findings of any report the LGFC has powers to disallow any expenditure contravening the provisions of local government

legislation and to surcharge those responsible. The audit report is also sent to the council and the Minister of Local Government. Under the new legislation, local councils are required to submit their annual estimates of revenue and expenditure to the LGFC for approval, with supplementary estimates following the same procedure. No expenditure may be incurred which has not been included in the approved estimates. The LGFC may, however, approve reallocations. This system is intended to secure the formulation of realistic budgets by the councils, so that they do not generate losses, but create investment opportunities. All council budgets are consolidated by the LGFC and presented to the national assembly as a local government budget for noting (Local government system in Malawi, 2014). Thus from the discussion in evaluating internal control in the public sector, an understanding of factors such as, the public organization focus on meeting social or political objectives and use of public funds and importance of budget cycle. In addition, it is necessary to consider complexity of their performance (that calls for a balance between traditional values like legality, integrity and transparency and modern, managerial values like efficiency and effectiveness) and the correspondingly broad scope of the public accountability.

The above discussion has clearly outlined what internal controls are supposed to achieve in a public organization which is basically accountability. The discussion it has confirmed the internal control that govern the function of the district councils

Summary of Literature

From literature review it be noted that although numerous studies have attempted to evaluate the effectiveness of internal controls in Kenya, Tanzania, America, and Asia, among many other countries in the world, most of the studies only evaluated the implementation of internal controls but they did not include evaluation

of the results of effectiveness of an internal control system using the internal control objectives which include safeguarding assets, operational efficiency, reliability in financial reporting and compliance to laws . In this study, the main aim is to fill this research gap by evaluating the effectiveness of internal control system in district councils in Malawi and evaluating the extent in which it achieves the internal control objective.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter discussed the methodology that the researcher used when collecting data, in order to answer the research questions. The chapter explained in detail the research design, population and sampling techniques, research instruments, validity and reliability, methods of data collection, statistical treatment of the data and ethical consideration.

Research Design

According to Gorard (2013), in his study defines a research design as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Further a research design provides a framework for the collection and analysis of data and choice of research design reflects decisions about priorities given to the dimensions of the research process (Gorard, 2013). The researcher used the correlational study design to determine if there is a relationship between the level of effectiveness of internal control system and the level of accountability in the council. In other words the correlational helped establish whether the two variables are correlated or not. The study used regression analysis to determine the best predictor of accountability. Descriptive study design also used to obtain in depth information from the sample population in relation to the researcher's objectives. The researcher used purposive sampling technique since the study is more specific to a particular area which is internal controls.

Population

Malawi is divided into three regions with a total of 28 districts. The Malawi regions include the northern region, which comprises of six districts, the central region which has nine districts, and the southern region, which comprises of 13 districts. The three regions comprise 28 district councils, including 4 city councils - one in the north, one in the central, and two in the south region.

The research targeted 8 selected district councils namely A, B, C, D, E, F, G, H, of nine councils in central region of Malawi. One council of the nine was used for the pilot study plus another council in the south region in order to increase the number respondents for the pilot study. The total population for the pilot study was 30 respondents. The target population was purposively chosen from two clusters of respondents - accountants and internal auditors - because they are best to evaluate the effectiveness of the internal control and the level of accountability of the councils. According to the records there is a total of 9 internal auditors and 96 accountants in the 8 selected district councils total is 105. The study used 100% of population of accountants and internal auditors in the district councils. According to Sekaran (2003) sample sizes between 30 and 500 are considered to be reasonable number for a research. Table 1 below shows how the total number of respondents was arrived at.

Table 1

Population

| <u>Name of District Council</u> | <u>Number of Auditors</u> | <u>Number of Accountants</u> | <u>Total</u> |
|---------------------------------|---------------------------|------------------------------|--------------|
| A | 2 | 16 | 18 |
| B | 1 | 13 | 14 |
| C | 1 | 6 | 7 |
| D | 1 | 11 | 12 |
| E | 1 | 14 | 15 |
| F | 1 | 12 | 13 |
| G | 1 | 15 | 16 |
| H | 1 | 9 | 10 |
| Grand total | 9 | 96 | 105 |

Source: (*Records of the 8 councils, 2017*)

Research Instrument

The research instrument that was used in collecting data was a self-constructed questionnaire which composed of close ended questions. The questionnaire was formulated after a proper conceptualization of review of literature. Each research question and variable was considered in the questionnaire. The questionnaire used because the respondents possibly had greater confidence in their anonymity and feel free to express views they fear might be disapproved or might get them into trouble (Andale, 2016). In addition the questionnaire made it much easier as to administer to a large number of individuals simultaneously plus it did not require much skill to administer and data was easily analyzed statistically. The questionnaire had different sections which enabled the researcher to obtain the information on the effectiveness of internal controls in the selected district councils. The questionnaire used a 4-point scale mainly strongly agree is 4, agree is 3, disagree is 2 and strongly disagree is 1. The questionnaire were coded A.B.C.D.E.F.H.I to identify the districts.

Validity of the Questionnaire

According to Andale (2016), validity is the extent to which the research instrument actually and accurately measures the concept to which it has been assigned. Andale (2016), in his research study, says validity tries to ascertain the consistency of an instrument thus to assess if the items in the questionnaire represent the interest of the research. In order to establish the validity of the questionnaire the purpose being to assess whether the items adequately represent a construct of specific interest the researcher consulted expertise and supervisors to verify whether questionnaire was valid to get the intended results from what was supposed to test.

Reliability of Questionnaire

Andale (2016) in his thesis he explains that reliability is a concept to evaluate quality in quantitative study with an aim of explaining, while the concept of quality in qualitative study aims at generating understanding. Gorard (2013) in his completed interesting study he explains that reliability is the extent of accuracy, stability or repeatability of measurement in other words it is the degree to which individuals' deviation scores remain relatively consistent over repeated administration of the same test or alternate test form. To determine the reliability of the items in the questionnaire they were consistent to measure the variables being studied which are internal control and accountability, the researcher conducted a pilot study at councils I and K the number of respondents was 30. The acceptable Cronbach's alpha coefficients obtained from the questionnaire for each section of the questionnaire were as follows: 0.637 for the control environment, 0.648 for risk assessment, 0.776 for the control activities, 0.730 for information and communication, 0.783 for monitoring, 0.735 for accountability. The questionnaire was considered reliable for the final data collection.

Data Gathering Procedures

After the validation and reliability was established and before the researcher collected data the researcher got an approval letter from UEAB Research Review Committee and from the Graduate Studies' Director introducing the researcher to the central region district council commissioner with request to be granted permission to collect data from the accountants internal auditors of the councils. After getting the authorization from the District Commissioner to collect data from respondents, the researcher was responsible in administering the questionnaire to the accountants and internal auditors in all the districts with the help of the director of finance in the councils. The questionnaire was formulated clearly and simple for the respondents to easily understand. The researcher provided enough time for the respondents to respond since they are employees they did not have a lot of free time those who could not respond the same day were given extra time. The study managed to collect data of 101 out of the 105 due to other limitations. The data collected was analyzed using SPSS.

Statistical Treatment of Data

The data obtained in this study was analyzed using descriptive statistics. Sanders and Smith (2000) stated that charts, tables and summary measures such as averages are used to describe the basic structure of the study/subjects. Inferential statistics was used to draw meaningful conclusion from the empirical data using Pearson product-moment correlation coefficient to establish relationship between the variables. The regression analysis was used to determine the best predictor of accountability. The independent variable was the internal control and the dependent variable was accountability. The internal control components were used to measure effectiveness of the internal control. Safeguarding of assets, reliable financial

reporting and operational efficiency was used in measuring the dependent variable which was accountability. Data analysis therefore was done using Statistical Package for Social Sciences (SPSS) Software.

Ethical Consideration

The researcher is made sure that ethical principles of informed consent, privacy and confidentiality, intellectual property, and legal consent were met in the whole process of the research project.

Informed Consent

The researcher asked the respondents to freely choose whether to participate in the research or not. The prospective respondents were told in advance of the nature of the research, the researcher provided all the information in relation to making the decision to participate and allowed the respondents decide at their own comfort. Clear and simple language was used in the questionnaire for easy understanding and quick response and where clarification were required the researcher provided interpretation.

Privacy and Confidentiality

The participants were not required to write their names when responding to the questionnaire. This was done to make sure that the identities and information acquired in the process of research are kept secure from interception or appropriation by unauthorized persons. The researcher established procedures to minimize any risks physical, psychological, social, or cultural attendant on participation by individuals or groups or communities in a research project. Thus Participants were given the opportunity to raise any concerns about the research process at any time before, during, or after the research. The researcher made sure that issues of power and control are identified and discussed in regard to the power differentials that may exist between the researcher and the research participants. The Participants needed to be

confident that their participation or non-participation in a project would not affect them in an adverse manner, nor advantage them in any way. The researcher promoted this by informing the respondent that any information given would be treated with confidentiality and for academic purpose only and the respondents were asked not to write their names on the questionnaire.

Respect of Intellectual Property

The researcher has acknowledged the great works and studies from authors of articles, journals, magazine, websites, news, theses and published books used in this research project. In addition all the individuals and institutions that played a role in this project were acknowledged for their contribution to the research. In order to ensure that the respect of intellectual property is adhered, a copy of the research was submitted to the Baraton Research Review Committee for a careful review.

Legal Consent

The researcher requested permission to carry out the research in the district councils. With recommendation from supervisors and UEAB research review committee and the Director of Research and Graduate Studies, that made it possible for the researcher to carry out the research.

CHAPTER FOUR

PRESENTATION OF FINDINGS, ANALYSIS AND INTERPRETATION

This chapter contains the presentation, analysis and presentation of results in line with the research objectives. The chapter discusses the descriptive statistics of the items under study and the inferential statistics comprising of correlation and regression results for the variables under study statistical tools such as tables showing, frequencies and percentages were used to summarize the findings. The findings have been discussed and interpreted based on the research questions.

Demographic Profile of Respondents

With regard to the respondents profile the following aspects were used: gender, level of education and position.

Gender

Table 2

Analysis of Gender of Respondents from the District Councils

| | Frequency | Percentage |
|--------|-----------|------------|
| Male | 63 | 62.4 |
| Female | 38 | 37.6 |

Source: Research data (2017)

Table 2 shows that males were the majority of respondents constituting 62.4% as compared to the females who were 37.6% of the respondents. This shows that both genders participated in responding to the research instrument.

Education Level

The table below discusses the level of education of respondents and they have been grouped as follows.

Table 3

Education Level of Respondents

| | Frequency | Percentage |
|-------------|-----------|------------|
| High School | 29 | 28.7 |
| Diploma | 43 | 42.6 |
| Degree | 24 | 23.8 |
| Masters | 5 | 5.0 |

Source: Research data (2017)

The respondents from the district councils were asked to disclose their level of education in order to establish the education qualification attained by the accountants and internal auditors in the councils. The table shows that 28.7% of respondents had high school, 42.6% had diploma, 23.8% had bachelor's degree, and 5% had a master's degree. This is important because it gives evidence that the respondents were well knowledgeable to the subject in question and as a result they were able to make informed decisions.

Position

The table below describes the positions held by the respondents and they have been grouped as follows.

Table 4

Positions Held by the Respondents

| | Frequency | percentage |
|-------------------|-----------|------------|
| Accountants | 93 | 92.1 |
| Internal Auditors | 8 | 7.9 |

Table 4 show that 92.1% of the respondents were accountants and 7.9% were internal auditors.

Internal Controls

The section shows the extent that internal controls have been implemented in the district councils. The aim was to determine the effectiveness of the internal control system in the district councils.

Research Question 1. How effective is the internal control in selected district councils in Malawi in terms of control environment of internal control systems, b) risk assessment of an internal control system, c) control activities of internal control systems, d) information and communication, and e) monitoring of internal control systems?

In scale of interpretation there are certain values associated with a certain degree of agreement such as:

3.50 to 4.00 = agree, 2.50 to 3.50 = tend to agree, 1.50 to 2.49 = tend to disagree, 1.00 to 1.49 =disagree.

Source: (Sauro, 2011)

Control Environment

Table 5

Control Environment

| | N | Minimum | Maximum | Mean | Std. Deviation |
|--|------------|-------------|-------------|---------------|-------------------|
| The council has written codes of ethical behaviour required of all employees. | 101 | 1 | 4 | 3.22 | .832 |
| The codes of ethics are enforced by management. | 101 | 1 | 4 | 3.01 | .843 |
| The council management recruits competent employees. | 101 | 1 | 4 | 2.75 | .654 |
| The council operations are regularly audited by external auditors. | 101 | 1 | 4 | 2.90 | .911 |
| The council has an independent audit committee which reviews financial statements regularly. | 101 | 1 | 4 | 2.78 | .769 |
| Recommendations from audit committee and auditors are implemented immediately. | 101 | 1 | 4 | 2.90 | .700 |
| Employees are encouraged to report suspected improprieties to management. | 101 | 1 | 4 | 2.95 | .669 |
| The council management takes corrective measures when necessary. | 101 | 1 | 4 | 3.09 | .709 |
| | 101 | 1.75 | 3.63 | 2.9505 | .40700 |

The items in this section was used to evaluate the control environment in the councils. In the study by Beasley (2007), states that the control environment is the foundation of all the other components in the internal control system. Weaknesses of

tone at the top negatively affects the other components (Vaassen, Meuwissen, 2009). The key factor was to establish the organization commitment to integrity and ethical values. This table shows all the items in relation to extent that the control environment has been implemented the overall mean is 2.9505 and standard deviation of 0.40700 which means most of the responses tend to agree which is a weak agreement.

The first item with the highest mean of 3.22 and standard deviation of 0.832 was the council has written codes of ethical behaviour required of all employees which confirms that the responses tend to agree which is a weak agreement and responses are clustered further away from the mean. The item second to the highest with a mean 3.09 and standard deviation 0.709 confirming that responses tend to agree and responses clustered away from the mean. The item with the lowest mean of 2.75 and standard deviation .654 which means responses tend to agree which is a weak agreement and responses are heterogeneous.

The mean of 2.90 and standard deviation 0.911 indicates that responses tend to agree that the council operations are regularly audited by external auditors which is which a weak agreement and the responses are heterogeneous. The mean 2.78 and standard deviation 0.769 confirms that responses tend to agree that the council has an independent audit committee which reviews financial statements regularly which a weak agreement and the responses are clustered way from the mean. The items in the control environment required absolute agreement not tend to agree to indicate there is effective implementation of the control environment.

Risk Assessment

Table 6

Risk Assessment

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|------------|-------------|-------------|---------------|----------------|
| The council has specific objectives and strategies on how to achieve objectives. | 101 | 1 | 4 | 3.25 | .537 |
| The council monitors its performance periodically. | 101 | 1 | 4 | 2.92 | .578 |
| The council identifies risks that can threaten achievement of its objectives. | 101 | 1 | 4 | 2.82 | .607 |
| There is an elaborate risks management strategy to mitigate the risks identified. | 101 | 1 | 4 | 2.78 | .672 |
| The district council periodically performs assessment of its exposure to fraudulent activities, | 101 | 1 | 4 | 2.63 | .703 |
| | 101 | 1.60 | 3.80 | 2.8812 | .40118 |

The items in the second table were used to evaluate risk assessment in the council. According to COSO (2015) it is important to first know the risk in order to determine the control. In other words once an organization is able to identify risk that can affect the achievement of its objectives they can be able to come able with strategies that can manage such risk. The key factors were to establish the council's ability to specify objectives and strategies to achieve those objectives and its ability to assess risk such as fraud and other to the achievement of objectives.

The table 6 shows a cumulative mean 2.8812 and standard deviation 0.40118 which indicates that most of the responses tend to agree which is a weak agreement. The item with the highest mean of 3.25 and standard deviation of 0.537 confirms that responses tend to agree that the council has specific objectives and strategies on how to achieve objectives which is a weak agreement, and the responses are heterogeneous. The item with the lowest mean 2.63 and standard deviation 0.703 confirms that responses tend to agree that the district council periodically performs assessment of its exposure to fraudulent activities which is not a weak agreement and the responses are clustered away from the mean. The item with a mean 2.78 and standard deviation 0.672 confirms that responses tend to agree which is a weak agreement and responses are clustered away from the mean.

Control Activities

The items in this section evaluated control activities in the councils. The control activities are placed to eliminate and manage risk in the organization (COSO 2010). According to Arens, Elder and Beasley (2010) good control activities should allow an organization to prevent illegalities and detect illegalities when they occur. The key element was establishing the organizations selection and development of control activities that contribute to mitigate risk such as fraud, theft to the achievement of objectives.

The table 7 shows a cumulative mean 3.1327 and standard deviation 0.34702 this indicates that the most of the responses tend to agree. The item with the highest mean 3.59 and standard deviation 0.494 confirms that responses agree that the transactions are approved by responsible persons before they are recorded which is a strong agreement and this is how it is supposed to be. The item with mean 3.23 and standard deviation 0.631 confirms that responses tend to agree that recorded

Table 7

Control Activities

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|------------|-------------|-------------|---------------|-------------------|
| The transactions are approved by responsible persons before they are recorded. | 101 | 3 | 4 | 3.59 | .494 |
| No valid transaction is omitted from accounting records. | 101 | 1 | 4 | 3.18 | .623 |
| Recorded transactions accurately represent actual event which occurred | 101 | 2 | 4 | 3.23 | .631 |
| Recorded transactions are lawful. | 101 | 1 | 4 | 3.17 | .567 |
| Any errors detected in records are corrected promptly. | 101 | 1 | 4 | 3.19 | .595 |
| Duties and responsibilities are segregated and assigned to different people to ensure that not all transactions are executed by one person. | 101 | 1 | 4 | 3.11 | .760 |
| Access to council resource's and records is limited to authorized individuals who are accountable to their custody or use. | 101 | 2 | 4 | 3.05 | .623 |
| There is adequate documentation of transactions across all levels in the council. | 101 | 1 | 4 | 2.95 | .606 |
| The council management has physical controls necessary to protect and safeguard assets from theft. | 101 | 1 | 4 | 2.89 | .720 |
| The records are reconciled with appropriate documents on regular basis. | 101 | 1 | 4 | 2.97 | .608 |
| | 101 | 2.30 | 4.00 | 3.1327 | .34702 |

transactions accurately represent actual event which occurred which is a weak agreement and their responses were heterogeneous. The mean 3.11 and standard deviation 0.760 confirms that responses tend to agree that duties and responsibilities are segregated and assigned to different people to ensure that not all transactions are executed by one person which is a weak agreement and their responses were clustered away from the mean. The mean 3.05 and standard deviation 0.623 indicates that responses tend to agree that access to council resource's and records is limited to authorized individuals who are accountable to their custody or use which is a weak agreement and their response were clustered away from the mean. The item with the lowest mean 2.89 and standard deviation 0.720 confirms that responses tend to agree that the council management has physical controls necessary to protect and safeguard assets from theft which is not a strong agreement and their response are clustered away from the mean. The items in the control activities required absolute agreement because it is a very important element in the control activities.

Information and Communication

The items in the table evaluated the information and communication in the district councils. An effective information and communication must have the upstream flow in all the levels of the components of the internal control system. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders as stated by Arens, Elder & Beasley (2010). The key elements were to establish the councils generation and use of relevant information to support the functioning of other components and the council's flow of information internally and externally regarding matters of the internal controls, development plans and its performance.

Table 8

Information and Communication

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|------------|-------------|-------------|---------------|----------------|
| The council engage the public in the overall development plans of the area to seek their views. | 101 | 1 | 4 | 3.04 | .662 |
| The council communicates its development plans to the public | 101 | 1 | 4 | 3.10 | .557 |
| Internal control information is communicated to the external stake holders and the public. | 101 | 2 | 4 | 2.83 | .601 |
| the council communicates to the public regularly on its performance | 101 | 2 | 4 | 2.76 | .619 |
| The council financial reports are communicated to all its stake holders regularly. | 101 | 1 | 4 | 2.95 | .654 |
| | 101 | 2.00 | 4.00 | 2.9366 | .44446 |

Table 8 has a cumulative mean 2.9366 and standard deviation 0.44446 this means that most of the responses tend to agree on this particular item. The item with the highest mean of 3.10 and standard deviation 0.557 confirms that responses tend to agree that the council communicates its development plans to the public which is a weak agreement the responses are clustered away from the mean. The mean 3.04 and standard deviation 0.662 confirms that responses tend to agree that the council engage the public in the overall development plans of the area to seek their views which is a weak agreement and responses are clustered away from the mean. The item with mean 2.83 and standard deviation 0.601 confirms that the responses tend to agree that internal control information is communicated to the external stake holders and the public which is a weak agreement and their responses are heterogeneous. The lowest

mean of 2.76 and standard deviation 0.619 confirms that the responses tend to agree that the council communicates to the public regularly on its performance which is a weak agreement and their response are clustered away from the men.

Monitoring

Table 9

Monitoring

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|------------|-------------|-------------|---------------|----------------|
| The council frequently monitors the internal control system to ensure that they are effective. | 101 | 1 | 4 | 2.83 | .649 |
| The controls are modified if they are not effective. | 101 | 1 | 4 | 2.83 | .664 |
| The council has a system which regularly monitors its operations to ensure that its goals and objectives are met. | 101 | 2 | 4 | 3.03 | .591 |
| The council regularly monitors expenditure against budgets | 101 | 1 | 4 | 3.06 | .661 |
| Actions are taken to immediately correct any irregularities identified during monitoring. | 101 | 1 | 4 | 2.98 | .529 |
| | 101 | 1.40 | 4.00 | 2.9465 | .45422 |

The items in the table evaluated monitoring in the councils. According to Beasley (2007), internal control systems need to be monitored, a process that helps assess the quality of the system's performance over time. This is accomplished through ongoing monitoring activities. The key factors dealt with the council develops and performs ongoing/separate monitoring of operations and to ascertain whether the internal control components are present and are functioning.

The table 9 has a cumulative mean 2.9465 and standard deviation 0.45422 this indicates that most of the responses tend to agree which is a weak agreement and their response are heterogeneous. The highest mean of 3.06 and standard deviation 0.661 confirms that the responses tend to agree that the council regularly monitors expenditure against budgets which is a weak agreement and their responses are clustered away from the mean. The mean 3.03 and standard deviation 0.591 confirms that the responses tend to agree that the council has a system which regularly monitors its operations to ensure that its goals and objectives are met which is a weak agreement and their responses are clustered away from the mean. The lowest mean of 2.83 and standard deviation 0.649 confirms that responses tend to agree that the council frequently monitors the internal control system to ensure that they are effective which a weak agreement and the responses are heterogeneous. The mean 2.83 and standard deviation 0.664 indicates that the responses tend to agree that the controls are modified if they are not effective which a weak agreement and the responses are heterogeneous.

Accountability

This section discusses the results of the level of accountability in the council. In measuring the level of accountability the perception of respondents on safeguarding of assets, reliable financial reporting, effectiveness and efficiency operations were the aspects that were used to determine the level of accountability.

Research Question 2: What is the level of accountability in the district councils?

Level of Accountability

Table 10

Level of Accountability

| | N | Minimum | Maximum | Mean | Std. Deviation |
|--|------------|-------------|-------------|---------------|-------------------|
| The council financial reports are reliable. | 101 | 1 | 4 | 3.22 | .593 |
| Financial reports of the council are accessible to the public. | 101 | 1 | 4 | 2.86 | .775 |
| The resources of the council managed in the best interest of the public. | 101 | 1 | 4 | 2.71 | .753 |
| There is minimum waste of council properties. | 101 | 1 | 4 | 2.78 | .576 |
| There is minimum loss and theft of council resources. | 101 | 1 | 4 | 2.50 | .626 |
| Intended projects of the council are completed as planned. | 101 | 1 | 4 | 2.31 | .703 |
| The council delivers effective and efficient services to the public. | 101 | 1 | 4 | 2.54 | .700 |
| | 101 | 1.29 | 4.00 | 2.7030 | .42218 |

The items in the table were used to evaluate the level of accountability in the council. The development and maintenance of effective controls helps to ensure accountability (INTOSAI, 2001). According to INTOSAI (2001), it states that an internal control system is the foundation of accountability. Internal control system enhances accountability. The key elements focused on minimum loss of council resources to theft or fraud, reliable financial reporting, reports are accessible to the public just to mention a few.

Table 10 has a cumulative mean 2.7030 and standard deviation 0.42218 confirms most responses tend to agree in the items related to accountability which is weak agreement and the responses are clustered away from the mean. The highest

item with a mean of 3.22 and standard deviation 0.593 confirms that responses tend to agree that the council financial reports are reliable which a weak agreement and the response is heterogeneous. The mean of 2.86 and standard deviation confirms that responses tend to agree that financial reports of the council are accessible to the public this is not a weak agreement and clustered away from the mean.

The item with mean 2.54 and standard deviation 0.700 confirms that tend to agree that the council delivers effective and efficient services to the public which is a weak agreement and the responses are clustered away from the mean. The mean of 2.50 and standard deviation 0.626 confirms that the responses tend to agree that there is minimum loss and theft of council resources which is a weak agreement and the responses are heterogeneous. The item with the lowest mean 2.31 and standard deviation 0.703 confirms that responses disagree that Intended projects of the council are completed as planned which is a disagreement and responses are clustered away from the mean.

The Relationship between the Level of Effectiveness of Internal Control and Accountability in the Councils

Research Question 3. Is there a significant relationship between the level of effectiveness of internal control and the level of accountability in the councils?

The correlations of a certain value are associated with a certain degree of Relationship such as:

0.81 to 1.0 = Strong 0.30 to 0.80 = Moderate 0.0 to 0.29 = Weak

Table 11

Correlation Coefficient between Internal Control Activities and Accountability

| | | Accountability |
|----------------------------------|---------------------|----------------|
| Control | Pearson correlation | .370 |
| Environment | Sig (2-tailed) | .000 |
| | N | 101 |
| Risk | Pearson Correlation | .161 |
| Assessment | Sig (2-tailed) | .108 |
| | N | 101 |
| Control activities | Pearson correlation | .314 |
| | Sig (2-tailed) | .001 |
| | N | 101 |
| Information and Communication | Pearson correlation | .406 |
| | sig (2-tailed) | .000 |
| | N | 101 |
| Monitoring | Pearson correlation | .283 |
| | Sig (2- tailed) | .004 |
| | N | 101 |

** . Correlation is significant at the 0.01 level (2-tailed).

The respondents were asked to what extent is the level of effectiveness of internal control in the district councils in terms of the control environment, risk assessment, control activities, information and communication and monitoring. They were also asked on the level of accountability in the council. The correlation relations between the internal controls and accountability show the following:

- i. There is a positive moderate correlation of .370 and significant relationship between the control environment and accountability in terms of the level of implementation.

- ii. There is no significant relationship between risk assessment and accountability in terms of the level of implementation.
- iii. There is a positive moderate correlation of .314 and a significant relationship between control activities and accountability in terms of the level of implementation.
- iv. There is a positive moderate correlation of .406 and there is significant relationship between information and accountability in terms of the level of implementation.
- v. There is a positive weak correlation of .283 and a significant relationship between monitoring and accountability in terms of implementation.

Generally the results have shown that the level of implementation of internal control activities influence the level of accountability. Councils with effective implementation of the internal controls will result in accountability.

The decision of the null hypothesis are as follows.

Ho1: there is no relationship between the level of implementation of internal controls and the level of accountability in the councils. With reference to table 10 the results indicate that the all internal control activities are significantly related to accountability except risk assessment. Therefore we reject Ho1.

Control Components which Best Determine the Level of Accountability

Research Question 4. What internal control activities best determine higher level of accountability?

With two independent variables (information and communication and control environment) X the prediction of Y dependent variable (accountability) is expressed by the following equation: $Y'_i = b_0 + b_1X_{1i} + b_2X_{2i}$.

The "b" values are called regression weights and are computed in a way that minimizes the sum of squared deviations as illustrated in the equation below.

$$\sum_{i=1}^n (Y_i - \bar{Y})^2$$

Table 11

Regression Analysis

| Model | R | R Square | adjusted R | std. of the estimate |
|-------|------|----------|------------|----------------------|
| 1 | .406 | .165 | .156 | .38782 |
| 2 | .472 | .223 | .207 | .37596 |

a predictors: (constant), information and communication

b predictors : (constant), information and communication

Control environment of internal control system

Tables 11 and 12 address the influence that information and communication and control environment have on the dependent variable. The correlation of the control activities with the dependent variable are as follows:

The results show that information and communication is significant in predicting accountability. The information and communication significantly predicated 15.6% of accountability (adjusted R-square .156). This means 84.4 % of variations in accountability is are predicted by other variables. In addition the table 12 information and communication (beta .298, sig = .001) was the most predictor of accountability. This means that a positive change in information and communication leads to 0.406 similar change in accountability. The results in table 11 also revealed that control environment significantly predicted 5.1% of accountability (adjusted R-

Table 12

Regression Analysis

| Model | unstandardized coefficients B | standard coefficients std. error | standard coefficients Beta | t | sig |
|---------------------|----------------------------------|-------------------------------------|-------------------------------|-------|------|
| (Constant) | 1.571 | .259 | | 6.063 | .000 |
| Information | .385 | .087 | .406 | 4.417 | .000 |
| Communication | | | | | |
| (Constant) | 1.037 | .319 | | 3.248 | .002 |
| Information | .298 | .091 | .314 | 3.295 | .001 |
| Communication | | | | | |
| Control | .268 | .099 | .258 | 2.709 | .008 |
| Environment | | | | | |
| Of internal control | | | | | |
| System | | | | | |

a .Dependent variable accountability

square .207 -15.6). This means that 94.9% is predicated by other variables including information and communication. In addition, the table 12 control environment (beta .268, sig =.008) was also a significant of accountability were a positive change in control environment leads to .258 similar change in accountability.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMENDATIONS

The chapter basically discusses the of the main findings of the study and further presents the conclusion drawn based research questions and the research hypothesis and therefore presents the main recommendations to the problem of the study and possible future studies related to this study.

Summary

The main objective of the study was to evaluate the effectiveness of the internal control system in selected district councils in the central region Malawi. The problem of this study mainly concern the high cases of fraud, poor services, lack of feedback, failure to complete projects in the district councils. To investigate as to why such a government institution with many rules and regulations would be subjected to so many financial illegalities. The research aimed to establish the extent that the internal controls activities has been implemented in the district councils. This aimed to evaluate the effectiveness of the internal control system helped to establish whether the internal controls contained some weaknesses or not. This was very important because it would give answers to the problem stated. The study also aimed to establish the level of accountability in the councils. This was important because not only did the study aimed it evaluate the effective implementation of internal controls in the councils but also the study evaluated the results of the implementation and the process. The research also aimed to establish the possible relationship between the independent and dependent variable and this was to clarify whether if accountability is influenced by the level of implementation of internal control activities. Through the questionnaires distributed to all the population accountants and auditors in selected

district councils in the central region of Malawi. The research managed to collect data of 101 out of 105 of the population due to limited time and uncertainties. The researcher was able to analyze data collected using descriptive statistics such as frequencies, percentages, means, standard deviations and Pearson product-moment correlation coefficient by the usage of SPSS program.

Summary of Findings

After analysis and interpretation of data, the following findings were established:

How effective is the internal control in the selected district councils in Malawi in terms of the internal control components.

1. The findings in control environment

There was an average mean 2.9505 and standard deviation of 0.40700 of responses from the district councils. The responses indicated that the control environment has not been effectively implemented by council's management. The control environment serves as a foundation for the four components which basically involve setting the tone of the internal control environment. This is to say that without an effective control environment the other four are unlikely to result in effective internal control regardless of their quality in essence the effectively controlled organization lies in the attitude of its top management. Basically from the results this means the control environment in the district councils has not been established at strong grounds which indicates weakness and has a possible negative impact on the other components.

2. The findings in risk assessment

There was a cumulative mean 2.8812 and standard deviation 0.40118 which indicates that response from the accountants and internal auditors rated the risk

assessment in the council as not effective. This means that there is a weak implementation of risk assessment in the councils. Risk assessment basically involves setting objectives and setting strategies, assessment of the risk relating to the objectives such as fraud and any risk to the achievement to the objectives in order to determine a control. This therefore means that a weakness in the council's ability to effectively implement risk assessment can cause failure in achieving its objectives.

3. The findings in control activities

There was a cumulative mean 3.1327 and standard deviation 0.34702 this indicates that the internal auditors and accountants rated the control activities as not effective because the responses were tend to agree which is not a strong agreement. It is very important for the council to have effective control activities that can prevent and detect illegal activities this can help prevent such cases of fraud and theft as explained in the problem which the council controls have failed to prevent over the years.

4. Information and communication

There was a cumulative mean 2.9366 and standard deviation 0.44446 this means that the responses rated the information and communication as not effective. The results of the study confirms that there no effective flow information and communication externally and internally on council's activities and performance.

5. The findings in monitoring

There was a cumulative mean 2.9465 and standard deviation 0.45422 this indicates that the respondents rated the monitoring of internal controls as weak. Internal control systems need to be monitored a process that assesses the quality of the system's performance over time. The council would have been able to recognize weaknesses in their internal control system if they had an effective monitoring system

which would have avoided some of the problems that have been addressed in the problem statement.

The results have indicated that the internal control activities such as control environment, risk assessment, control activities, information and communication and monitoring are present and but not effectively implemented in the district councils. This confirms to the argument that determination as to whether the internal controls are effective is basically based on taking into consideration of the extent to which the five component are present and operating effectively.

The findings therefore indicates that the internal controls system is not effective in the district councils because the five components of an internal control system are not operating effectively in the district council. This brings as to the reason why they are so many high cases of fraud, corruption, theft and lack of accountability because the internal controls in the council have are not effective. In other words the district council's internal controls fails to function as a deterrent of fraudulent activities or in safeguarding the council assets and ensure accountability to the public.

6. The findings in the level of accountability in the district councils

There was a cumulative mean 2.7030 and standard deviation 0.42218 this indicates that the respondents rated the level of accountability as not effective. The results from the responses have indicated that there is theft, projects are not completed as planned, ineffective service delivery which confirms to the present reports and complaints of the citizens of Malawi as stated in the problem. This means that the internal control in the councils has not served its purpose as a foundation of accountability. An effective internal control system is able to realize better accountability. In other words internal controls enhance accountability to ensure the safeguarding of assets, effective and efficient operations, reliable financial reporting.

This therefore as indicated by results means that ineffective internal control system has realized ineffective accountability in the district councils.

7. The relationship between the level of effectiveness of internal control and the level of accountability in the councils

There is a significant relationship between level of implementation of internal controls activities and the level of accountability in the councils in terms of the level of implementation. The findings confirm to the view that that internal control is a management function that is critical for accountability. Accountability for projects, money and other resources of an organization is very important. This can only be made possible with an effective internal control system which is not the case in the district councils that is why there is lack of accountability in the council's.

8. Internal control components best determine higher level of accountability

There is a significant relations between control environment, information and communication and accountability in terms of the best influence on the dependent variable. The results have indicated information and communication (beta .406, sig = .000) was the most predictor of accountability. This means that a positive change in information and communication leads to 0.406 similar change in accountability. The results also indicated that control environment (beta .258, sig =.008) was also a significant of accountability were a positive change in control environment leads to .258 similar change in accountability.

Conclusions

On the basis of the results of the study, the researcher was able to draw the following conclusions on the evaluation of the effectiveness of internal control system in selected central region district councils in Malawi.

1. The majority indicated that the control environment is not effective which makes one think that the control environment has not been established on strong grounds as the foundation of the internal control system
2. There is ineffective risk assessment which leads to the conclusion that there is lack of control of risk and management of risk to achieving objectives
3. The control activities had a higher rate than the other components and that's how it's supposed to be. However it was not absolute agreement because most of the responses tend to agree which was a weak agreement to the items related to control activities.
4. The information and communication is not effective there is no proper flow of information about the internal controls and the council's development plans to the public
5. The monitoring in the council is not effective, results showed that there is no regular monitoring of the internal control system and operations in the council.
6. The level of accountability is not effective in the councils results have shown that there is theft, loss of council resources and projects are not completed as planned.
7. According to the results in this study there is a significant positive relationship between accountability and internal controls which means that with an ineffective internal control system the district council is not able realize better accountability. This means accountability has not increased in terms of safeguarding of assets, effectiveness and efficiency operations and reliable financial reporting.

Therefore the study concludes that the internal control system is not effective in the district councils this is because the internal control components are not

operating effectively to achieve the internal controls objectives which is accountability. This result confirms why they have been so many high cases of corruption, fraud, theft, misallocation of resources and lack of accountability in the district councils in Malawi. All these problems have happened because of the weaknesses in the internal control system as indicated in the findings

Recommendations

Based on the findings and conclusion of this study the researcher recommends that the local government authority and councils should pay more attention to the district councils internal control system to make it effective and below are the recommendations:

1. Control Environment

The local government should make sure that the councils control environment is established on a strong foundation and that means the council management should be committed to integrity and ethical values and that should be emphasized to the rest of the employees. The local government should also particular make regular external audits in the councils as a priority, researcher's observation and oral interviews with respondents have indicated a lack of regular external audits. During the data collection process the researcher observed the presence of external auditors in all the councils, to the researcher's surprise the audit was based on 2012/2013 and 2014/2015 financial year. This clearly indicated lack of regular external audits in the councils. As such regular audits will help to add value to the financial statements and also eliminate the common practices that result in illegal activities in the district councils in return enhancing higher level of accountability.

2. Risk Assessment

The council should improve on risk assessment in particular the council should periodically performs assessment of its exposure to fraudulent activities so that they can be able to know any potential risk that can stand in the way of achieving their objectives. This will help them to find controls that can manage or mitigate such risk to the achieving of goals.

3. Control Activities

In overall I should recommend the council for maintaining on the control activities and this is how it should be. The control activities are the most important part because they help to prevent and detect illegal activities as such the council needs to make sure that the control activities are functioning effectively in particular physical controls to protect and safeguard assets, adequate documentation/evidence of transactions that occurred.

4. Information and Communication

The council needs to improve on the information and communication internally and externally on the internal controls and also on the regular performance, finances and activities such as development plans. This will improve transparency activities that concern the community in the council this can improve service delivery because the people know what they are entitled to receive.

5. Monitoring

The council should take monitoring as a priority because it will help them to assess the quality of the internal control system. Monitoring will help assess the effective functioning of all the components and make modifications in case of any ineffectiveness in any of the components.

6. Accountability

The local government should from time to time check the progress of projects to make sure that actual progress are in line with the initial plan this will promote accountability and projects will be completed as intended and at the specified time hence effective and efficient service to the community. Further the council should also regularly inform its stakeholders on its projects and finances from time to time hence increasing transparency. The council should also find other effective ways to eliminate potential of fraud and misuse of council such as encouraging people to report such practices when they occur.

Recommendation for Further Studies

Since the study covered 8 selected district councils, other research studies can cover all the district councils in Malawi and other government departments.

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APPENDICES

A. Questionnaire

Introduction

I am Marie Maseko, an MBA student at the University of Eastern Africa, Baraton, Kenya, majoring in Accounting. I'm conducting a study in partial fulfillment of the requirement for the degree of Master of Business Administration (MBA). The study is on the evaluation of the effectiveness of the internal control system in selected central region district councils in Malawi. You have been selected as one of the 105 respondents in the study. The study is only meant for academic purpose. I humbly request for your assistance and participation in the study by giving honest information on the questions provided. The questionnaire is an important tool for collecting data which will be used to conduct research on the evaluation of effectiveness of internal control system in selected central region district councils. All information you give will be treated with confidentiality. Therefore, don't write your name on the questionnaire. Thank you.

Questionnaire

Section A: Background of Respondents

Instructions

Tick the box which best describes you

(1) Gender:

Male Female

(2) Educational attainment

High school Diploma Degree Masters PHD

Others (specify).....

(3) Position

Internal Auditor [] Accountant []

Instructions

In section B, C, D, E, F, D, G, circle the number in the box that best describes the extent to which you agree or disagree with the statements about the district council where you work using the following scales:

4 – Strongly agree 3-agree 2- disagree 1- strongly disagree

Section B: Control Environment of Internal Control Systems

| | | Strongly Agree | Agree | Disagree | Strongly Disagree |
|---|--|----------------|-------|----------|-------------------|
| 1 | The council has written codes of ethical behaviour required of all employees. | 4 | 3 | 2 | 1 |
| 2 | The codes of ethics are enforced by management. | 4 | 3 | 2 | 1 |
| 3 | All jobs are given on competency basis | 4 | 3 | 2 | 1 |
| 4 | The council operations are regularly audited by external auditors. | 4 | 3 | 2 | 1 |
| 5 | The council has an independent audit committee which reviews financial statements regularly. | 4 | 3 | 2 | 1 |
| 6 | Recommendations from audit committee and auditors are implemented immediately. | 4 | 3 | 2 | 1 |
| 7 | Employees are encouraged to report suspected improprieties to management. | 4 | 3 | 2 | 1 |
| 8 | The council management takes corrective measures when necessary. | 4 | 3 | 2 | 1 |

Section C: Risk Assessment of an Internal Control System

| | | Strongly Agree | Agree | Disagree | Strongly Disagree |
|----|--|----------------|-------|----------|-------------------|
| 9 | The council has specific objectives and strategies on how to achieve objectives. | 4 | 3 | 2 | 1 |
| 10 | There are mechanisms in place to identify and react to changes that can have dramatic effects achievement of council objectives. | 4 | 3 | 2 | 1 |
| 11 | This council is kin in identifying risks | 4 | 3 | 2 | 1 |
| 12 | Risks are assessed in relation to changes in the operational environment | 4 | 3 | 2 | 1 |
| 13 | The district council periodically performs assessment of its exposure to fraudulent activities, | 4 | 3 | 2 | 1 |

Section D: Control Activities of Internal Control Systems

| | | Strongly Agree | Agree | Disagree | Strongly Disagree |
|----|---|----------------|-------|----------|-------------------|
| 14 | The transactions are approved by responsible persons before they are recorded. | 4 | 3 | 2 | 1 |
| 15 | No valid transaction is omitted from accounting records. | 4 | 3 | 2 | 1 |
| 16 | Recorded transactions accurately represent actual event which occurred | 4 | 3 | 2 | 1 |
| 17 | Recorded transactions are lawful. | 4 | 3 | 2 | 1 |
| 18 | Any errors detected in records are corrected promptly. | 4 | 3 | 2 | 1 |
| 19 | Duties and responsibilities are segregated and assigned to different people to ensure that not all transactions are executed by one person. | 4 | 3 | 2 | 1 |
| 18 | Access to council resource's and records is limited to authorized individuals who are accountable to their custody or use. | 4 | 3 | 2 | 1 |
| 20 | There is adequate documentation of transactions across all levels in the council. | 4 | 3 | 2 | 1 |

| | | | | | |
|----|--|---|---|---|---|
| 21 | The council management has physical controls necessary to protect and safeguard assets from theft. | 4 | 3 | 2 | 1 |
| 22 | The records are reconciled with appropriate documents on regular basis. | 4 | 3 | 2 | 1 |

Section E: Information and Communication

| | | Strongly Agree | Agree | Disagree | Strongly Disagree |
|----|---|----------------|-------|----------|-------------------|
| 23 | The council engage the public in the overall development plans of the area to seek their views. | 4 | 3 | 2 | 1 |
| 24 | The council communicates its development plans to the public | 4 | 3 | 2 | 1 |
| 25 | Internal control information is communicated to the external stake holders and the public. | 4 | 3 | 2 | 1 |
| 26 | the council communicates to the public regularly on its performance | 4 | 3 | 2 | 1 |
| 27 | The council financial reports are communicated to all its stake holders regularly. | 4 | 3 | 2 | 1 |

Section F: Monitoring of Internal Control Systems

| | | Strongly Agree | Agree | Disagree | Strongly Disagree |
|----|--|----------------|-------|----------|-------------------|
| 29 | Monitoring strategies are used at any time during monitoring process of the internal control. | 4 | 3 | 2 | 1 |
| 30 | The controls are modified if they are not effective. | 4 | 3 | 2 | 1 |
| 31 | The council s projects are monitored and reported as required of their monitoring and evaluation criteria. | 4 | 3 | 2 | 1 |
| 32 | The council regularly monitors expenditure against budgets | 4 | 3 | 2 | 1 |
| 33 | Actions are taken to immediately correct any irregularities identified during monitoring. | 4 | 3 | 2 | 1 |

Section G: Accountability

| | | Strongly Agree | Agree | Disagree | Strongly Disagree |
|----|--|----------------|-------|----------|-------------------|
| 34 | The council financial reports are reliable. | 4 | 3 | 2 | 1 |
| 35 | Financial reports of the council are accessible to the public. | 4 | 3 | 2 | 1 |
| 36 | The resources of the council managed in the best interest of the public. | 4 | 3 | 2 | 1 |
| 37 | There is minimum waste of council properties. | 4 | 3 | 2 | 1 |
| 38 | There is minimum loss and theft of council resources. | 4 | 3 | 2 | 1 |
| 39 | Intended projects of the council are completed as planned. | 4 | 3 | 2 | 1 |
| 40 | The council delivers effective and efficient services to the public. | 4 | 3 | 2 | 1 |

B. Reliability analysis

Reliability - CONTROL ENVIRONMENT OF INTERNAL CONTROL SYSTEMS

Reliability Statistics

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .637 | 8 |

Item-Total Statistics

| | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Cronbach's Alpha if Item Deleted |
|--|----------------------------|--------------------------------|----------------------------------|----------------------------------|
| The council has written codes of ethical behaviour required of all employees. | 20.39 | 8.779 | .229 | .635 |
| The codes of ethics are enforced by management. | 20.59 | 7.864 | .429 | .576 |
| The council management recruits competent employees. | 20.85 | 9.008 | .297 | .614 |
| The council operations are regularly audited by external auditors. | 20.70 | 8.771 | .185 | .653 |
| The council has an independent audit committee which reviews financial statements regularly. | 20.82 | 8.528 | .330 | .606 |
| Recommendations from audit committee and auditors are implemented immediately. | 20.70 | 8.851 | .303 | .613 |
| Employees are encouraged to report suspected improprieties to management. | 20.65 | 8.389 | .456 | .576 |
| The council management takes corrective measures when necessary. | 20.51 | 8.112 | .492 | .564 |

Reliability - RISK ASSESSMENT OF AN INTERNAL CONTROL SYSTEM

Reliability Statistics

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .648 | 5 |

Item-Total Statistics

| | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Cronbach's Alpha if Item Deleted |
|--|----------------------------|--------------------------------|----------------------------------|----------------------------------|
| The council has specific objectives and strategies on how to achieve objectives. | 11.16 | 3.475 | .130 | .701 |
| The council monitors its performance periodically. | 11.49 | 3.052 | .316 | .633 |
| The council identifies risks that can threaten achievement of its objectives. | 11.58 | 2.625 | .524 | .537 |
| There is an elaborate risks management strategy to mitigate the risks identified. | 11.62 | 2.337 | .600 | .487 |
| The district council periodically performs assessment of its exposure to fraudulent activities | 11.77 | 2.518 | .453 | .570 |

Reliability - CONTROL ACTIVITIES OF INTERNAL CONTROL SYSTEMS

Reliability Statistics

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .776 | 10 |

Item-Total Statistics

| | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Cronbach's Alpha if Item Deleted |
|---|----------------------------|--------------------------------|----------------------------------|----------------------------------|
| The transactions are approved by responsible persons before they are recorded. | 17.4667 | 8.533 | .309 | .773 |
| No valid transaction is omitted from accounting records. | 17.0667 | 7.720 | .517 | .747 |
| Recorded transactions accurately represent actual event which occurred | 17.2667 | 8.271 | .394 | .763 |
| Recorded transactions are lawful. | 17.3000 | 8.769 | .344 | .769 |
| Any errors detected in records are corrected promptly. | 17.1667 | 8.006 | .322 | .777 |
| Duties and responsibilities are segregated and assigned to different people to ensure that not all transactions are executed by one person. | 17.3333 | 6.713 | .733 | .711 |
| Access to council resource's and records is limited to authorized individuals who are accountable to their custody or use. | 17.5333 | 7.913 | .522 | .748 |
| There is adequate documentation of transactions across all levels in the council. | 17.2000 | 8.993 | .172 | .785 |
| The council management has physical controls necessary to protect and safeguard assets from theft. | 17.1000 | 7.403 | .511 | .748 |
| The records are reconciled with appropriate documents on regular basis. | 17.0667 | 7.306 | .584 | .737 |

Reliability - INFORMATION AND COMMUNICATION

Reliability Statistics

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .729 | 5 |

Item-Total Statistics

| | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Cronbach's Alpha if Item Deleted |
|---|----------------------------|--------------------------------|----------------------------------|----------------------------------|
| The council engage the public in the overall development plans of the area to seek their views. | 8.8000 | 3.200 | .230 | .778 |
| The council communicates its development plans to the public | 8.9333 | 2.823 | .555 | .662 |
| Internal control information is communicated to the external stake holders and the public. | 8.4667 | 2.464 | .737 | .587 |
| the council communicates to the public regularly on its performance | 8.4667 | 2.395 | .584 | .642 |
| The council financial reports are communicated to all its stake holders regularly. | 8.5333 | 2.878 | .409 | .714 |

Reliability - MONITORING OF INTERNAL CONTROL SYSTEMS

Reliability Statistics

| | |
|------------------|------------|
| Cronbach's Alpha | N of Items |
| .783 | 5 |

Item-Total Statistics

| | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Cronbach's Alpha if Item Deleted |
|---|----------------------------------|--------------------------------------|--|--|
| The council frequently monitors the internal control system to ensure that they are effective. | 11.90 | 3.310 | .604 | .726 |
| The controls are modified if they are not effective. | 11.90 | 3.350 | .562 | .742 |
| The council has a system which regularly monitors its operations to ensure that its goals and objectives are met. | 11.70 | 3.711 | .482 | .766 |
| The council regularly monitors expenditure against budgets | 11.67 | 3.402 | .541 | .749 |
| Actions are taken to immediately correct any irregularities identified during monitoring. | 11.75 | 3.628 | .621 | .728 |

Reliability - ACCOUNTABILITY

Reliability Statistics

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .735 | 7 |

Item-Total Statistics

| | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Cronbach's Alpha if Item Deleted |
|--|----------------------------------|--------------------------------------|--|--|
| The council financial reports are reliable. | 15.70 | 7.251 | .354 | .724 |
| Financial reports of the council are accessible to the public. | 16.06 | 6.716 | .353 | .730 |
| The resources of the council managed in the best interest of the public. | 16.21 | 6.366 | .474 | .698 |
| There is minimum waste of council properties. | 16.14 | 6.861 | .510 | .693 |
| There is minimum loss and theft of council resources. | 16.43 | 7.087 | .376 | .720 |
| Intended projects of the council are completed as planned. | 16.61 | 6.219 | .576 | .672 |
| The council delivers effective and efficient services to the public. | 16.38 | 6.397 | .521 | .686 |

C: Letters of Authorization



OFFICE OF THE DIRECTOR OF GRADUATE STUDIES AND RESEARCH

UNIVERSITY OF EASTERN AFRICA, BARATON

P. O. Box 2500-30100, Eldoret, Kenya, East Africa

May 3, 2017

Marie Maseko
University of Eastern Africa, Baraton
School of Business

Dear Marie,

Re: ETHICS CLEARANCE FOR RESEARCH PROPOSAL (REC: UEAB/6/5/2017)

Your research proposal entitled *“The Evaluation of Effectiveness of Internal Control System Selected Central Region District Councils in Malawi”* was discussed by the Research Ethics Committee (REC) of the University and your request for ethics clearance was granted approval.

This approval is for one year effective May 3, 2017 until May 3, 2018. For any extension beyond this time period, you will need to apply to this committee one month prior to expiry date. Note that you will need a clearance from the study site before you start gathering your data.

We wish you success in your research.

Sincerely yours,

Dr. Jackie K. Obey
Chairperson, Research Ethics Committee





**OFFICE OF THE DIRECTOR OF GRADUATE
STUDIES AND RESEARCH**

UNIVERSITY OF EASTERN AFRICA, BARATON
P. O. Box 2500, Eldoret, Kenya

30 April 2017

TO WHOM IT MAY CONCERN:

Re: PILOT STUDY OF RESEARCH INSTRUMENT

Marie Maseko is a graduate student pursuing the degree **Master of Business Administration (Accounting)** at the University of Eastern Africa, Baraton. She is currently writing her thesis entitled *Evaluation of the effectiveness of internal control system in selected central region district councils in Malawi*.

To establish the reliability of her research instrument, Marie is conducting a pilot study. Kindly allow her to administer her questionnaire to the internal auditor and accountants in your district council.

Any assistance you will grant her will be greatly appreciated. May God richly bless you in all your undertakings.

Sincerely yours,


Prof. Elizabeth M. Role, PhD
Director

Cc: Chair, Department of Management
Office File





**OFFICE OF THE DIRECTOR OF GRADUATE
STUDIES AND RESEARCH**

UNIVERSITY OF EASTERN AFRICA, BARATON
P. O. Box 2500, Eldoret, Kenya

08 May 2017

TO WHOM IT MAY CONCERN:

Re: REQUEST FOR PERMISSION TO GATHER RESEARCH DATA

Marie Maseko is a graduate student pursuing the degree **Master of Business Administration (Accounting)** at the University of Eastern Africa, Baraton. She is currently writing her thesis entitled *Evaluation of the effectiveness of internal control system in selected central region district councils in Malawi*.

Kindly allow her to administer her questionnaires to the internal auditor and accountants in your district council. She will gather her research data within this month of May 2017.

Any assistance you will grant her will be greatly appreciated. May God richly bless you in all your undertakings.

Sincerely yours,


Prof. Elizabeth M. Role, PhD
Director

Cc: Chair, Department of Management
Office File



F: Curriculum Vitae

Marie Maseko
C/O Mr. P Maseko
Private Bag 131,
Salima,
Malawi

A. PERSONAL DETAILS

Name: Marie Maseko

Telephone: (265) 88 429 9830

E-mail: mariemaseko7@gmail.com

Nationality: Malawian

Date of Birth: 27th August 1992

Gender: Female

Religion: Christian

Marital Status: Single

Address: P.O. Box 131, Salima, Malawi.

B. QUALIFICATIONS

PROFESSIONAL QUALIFICATIONS

Bachelor of Business Administration in Accounting, Malawi Adventist University,
Lakeview Campus, Ntcheu, an affiliate of University of Eastern Africa, Baraton,
Kenya. **November 2010-March 2013**

Masters in Business Administration in Accounting (on going), University of Eastern
Africa, Baraton, Kenya. **September 2015- July 2017**

▪ **Major Courses**

Intermediate Accounting (ACCT 311, 312,) Accounting Information Systems (ACCT 318), Advanced Accounting (ACCT 451, 452), Auditing (ACCT 461,462), Advanced financial management (BUAD 621), Accounting consultancy (BUAD 622), Operational and internal auditing (BUAD632).

▪ **Core Courses Done**

Fundamentals of Accounting (111,112), Principles of Micro Economics (ECON 210), Principles of Macro Economics (ECON 211), Money and Banking (ECON 328), Principles of Finance (FNCE 287), Introduction to Business Information Processing (INSY 118), Micro Computer Application (INSY 236), Business Math (111,112), Fundamentals of Management (MGMT 230), Business Law I & II (MGMT 241, 242), Principles of Marketing (MKTG 215), Managerial economics (BUAD 605), Management information and communication systems (BUAD 600), Operations and total quality management (BUAD 602), Managerial accounting and control (BUAD606), human resource management (BUAD 603).

ACADEMIC QUALIFICATION

January 2008-September 2009: Malawi School Certificate of Education

(MSCE) Kaphuka Private School, Box Lunzu, Blantyre, Malawi.

January2006-June2007: Junior Certificate of Education (JCE) Kaphuka

Private School, Box Lunzu, Blantyre Malawi

WORKING EXPERIENCE

Pothawira (Heaven) Christian Organization

August 2014 to present

Duties: Receptionist

ABILITIES

COMPUTER SKILLS:

Word, PowerPoint and Excel

COMMUNICATION SKILLS

Good Writing and Oral Communication

LANGUAGE SKILLS

Chichewa (mother tongue), English (Good)

HOBBIES

Watching TV shows and movies, cooking, reading, window shopping, and listening to radio programs and music.

D.REFEREES

i. Vice Chancellor, Malawi Adventist University

Mr. Kadyakapita

P.O Box 148

Ntcheu

Cell: +265 (0) 999 759 869.

ii. The Registrar of Malawi Adventist University

Mr. S.S.K Moyo

P.O. Box 148

Ntcheu,

Malawi.

Cell: +265 (0) 999 759 896.

iii. The Head of Business Department Malawi Adventist University

Malawi Adventist University

Mr. C.S.J Ngala

P.O Box 148,

Ntcheu, Malawi

Cell: +265 (0) 996 135 995 (0) 888 535 388.

Email: csjngala@mau.ac.mw

iii. Pothawila safe heaven Christian organization

The director of Pothawira

Mr. P. maseko

P. O. Box 131,

Salima, Malawi

Cell: +265 (0) 999 661 3

Pothawila chief accountant

Mrs. Harawa

P.O.BOX 131,

Salima, Malawi

Telephone: +265 (0) 999 672 83.

Iv. The University of Eastern Africa, Baraton

Dr. Allen C. Monta, CPA, MBA, DM

P. O. BOX 2500-30100,

Eldoret, Kenya

Email: allen.monta@yahoo.com

Telephone: +254 713911178

Mr. R. Mambo

P. O. BOX 2500-30100,

Eldoret, Kenya

Email: mambor@ueab.ac.ke

Telephone: + 254724782438

Prof. Elizabeth M. Role,

P. O. BOX 2500-30100,

Eldoret, Kenya

Email: bethrole@gmail.com