

UNIVERSITY OF RWANDA

Kigali Campus

College of Business and Economics

MASTER OF BUSINESS ADMINISTRATION (MBA)

**THE ROLE OF INTERNAL CONTROL SYSTEM ON
FINANCIAL PERFORMANCE IN PUBLIC INSTITUTIONS IN
RWANDA
CASE STUDY OF RWANDA ENVIRONMENT MANAGEMENT
AUTHORITY**

A thesis submitted to the College of Business and Economics in partial fulfillment of the requirements for the award of the degree of **Master of Business Administration** by the University of Rwanda

By MUTESI Joselyne, PG112001046

Supervisor: Dr. M.S.A BAIG

Kigali, July 2016

DECLARATION

I, Joselyne MUTESI, declare that this dissertation is my own work, and that it has never been presented for a degree award to any university.

Signature.....

Joselyne MUTESI
Candidate

Date.....

DEDICATION

To my creator, GOD,

To my beloved husband and children,

To my late parents,

To my brothers and sisters,

ACKNOWLEDGEMENT

I would like to extend my sincere gratitude and appreciation to all those who assisted me in making this research a success. First and foremost, I thank the Almighty God for being a source of inspiration and for providing me with wisdom and the grace to complete this research.

I owe most profound thanks and recognition to Dr. M.S.A Baig, my supervisor, who sacrificed his time to carefully supervise and guide this work. It is his continuous professional advice, guidance, ideas and critical reactions that made this work a success. May the almighty God bless him abundantly in his endeavors. I am grateful to all my postgraduate lecturers for adding value to my career. I am equally indebted to my colleagues and classmates of MBA who helped me in one way or another. These include Madame INGABIRE Chantal and NDAYISENGA Jean Bosco. Dear friends, may the Almighty God bless you abundantly. I wish to thank Rwanda Environment Management Authority (REMA) for granting access to their documents and providing the necessary information for this research.

On a special note, I would like to thank my husband Mr KAYIRANGA Didace for his invaluable contribution towards my postgraduate education. His patience, understanding and sacrifice made it possible for me to attain good education. I record my appreciation for the encouragement of my beloved brothers. Thanks go to my relatives and friends in one way or another for the successful completion of this work. My classmates with whom we shared academic experience for more than a year are highly acknowledged.

LIST OF ABBREVIATIONS

ACCA:	Association of Chartered Certified Accountant
AICPA:	American Institute of Certified Public Accountants
CICA:	Canadian Institute of Chartered Accountants
COSO:	Committee of Sponsoring Organization
MINIRENA:	Ministry of Natural Resources
REMA:	Rwanda Environment Management Authority
SPIU:	Single Project Implementation Unit

LIST OF TABLES

Table 4.1: Gender characteristics of respondents	21
Table 4.2: Education characteristics of respondents.....	22
Table 4. 3: Position held in the organization	22
Table 4.4: Functionality of Control Environment	23
Table 4.5: Internal audit analysis.....	26
Table 4.6: Financial performance	31

LIST OF FIGURES

Figure 1.8: Conceptual Framework	4
Figure 2.1: framework adapted from COSO 1992	8

ABSTRACT

This study focused on the role of internal control on financial performance in public institutions in Rwanda with reference to Rwanda Environment Management Authority (REMA). The specific objective was to establish the relationship between internal control systems and financial performance in public institution in Rwanda. Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities whereas Financial performance focused on Accountability and Reporting as the measures of Financial performance. Conceptually, a framework was developed by the researcher from the available literature relating the internal control and performance. The Researcher set out to establish the causes of persistent poor financial performance from the perspective of internal controls.

The research was conducted using the entire population (Census method) because the finance department, audit, coordination of projects & finance department of the Single Project Implementation Unit (SPIU) is composed by a small number of staff which is ten. They have been selected basing on the role they play on internal controls and financial performance. Data was collected using Interview guide as well as review of available data.

Data were analyzed using the COSO Internal control integrated framework, a model that was instrumental in evaluating the current situation of internal control system. The study found that management of the institution is committed to the control systems, actively participates in monitoring and supervision of the activities of REMA, all the activities of the Institution's activities are initiated by the top level management.

The study found that the internal audit doesn't conduct regular audit activities and doesn't produce regular audit reports.

The study established a significant relationship between internal control system and financial performance. The study recommends competence profiling which should be based on what the organization expects the internal audit to do and what appropriate number staff would be required to do this job.

TABLE OF CONTENTS

DECLARATION.....	i
DEDICATION	ii
ACKNOWLEDGEMENT.....	iii
LIST OF ABBREVIATIONS.....	iv
LIST OF TABLES	v
LIST OF FIGURES.....	vi
ABSTRACT.....	vii
TABLE OF CONTENTS	viii
CHAPTER ONE:	1
INTRODUCTION.....	1
1.1. Background of the study.....	1
1.2. Problem statement	2
1.3. Objective of the study.....	2
1.4 Research questions	3
1.5 Research methodology	3
1.4. Importance of the study.....	3
1.5. Scope of the Study.....	4
1.6. Theoretical Framework	4
1.7. Organisation of the Study.....	5
CHAPTER TWO:.....	6
LITERATURE REVIEW	6
2.1. Introduction.....	6
2.2. Internal Control system	6
2.3. Internal Controls systems and financial performance	9
2.3.1. Internal Audit and Financial performance.	11
2.3.2. Control Activities	13
2.4. Financial performance	14
2.4.1. Accountability	15
2.4.2. Reporting.....	16
2.5 Conclusion.....	16

CHAPTER THREE:.....	18
METHODOLOGY.....	18
3.1. Introduction.....	18
3.2. Sampling design of the study.....	18
3.3. Methods of data collection and analysis.....	18
3.4. Research limitations.....	19
CHAPTER FOUR:.....	20
DATA PRESENTATION, ANALYSIS AND INTERPRETATION.....	20
4.1. Introduction.....	20
4.2. REMA mission and objectives.....	20
4.3. Mission of REMA.....	20
4.4. 4.2.2 Objectives of REMA.....	20
4.3 Data interpretation and analysis.....	21
4.3.1 Gender characteristics and experience of respondents.....	21
4.3.3 Description of the Positions of respondents in the Institution.....	22
4.3.4 Examining the functionality of Internal Control systems.....	23
4.3.5 Examining the financial performance of public institutions in Rwanda.....	31
4.4 Interview guide data presentation.....	34
4.4.1 The position of officers interviewed.....	34
4.4.2 Effectiveness of Systems of Internal control.....	34
4.4.3 Measures of financial performance.....	36
4.4.4 Accountability procedure.....	36
4.4.5 Reporting procedure.....	36
4.4.6 Relationships between internal control systems operated by REMA and its financial Performance.....	37
CHAPTER FIVE:.....	38
SUMMARY FINDINGS, CONCLUSION AND RECOMMENDATION.....	38
5.1 Introduction.....	38
5.2 Summary findings.....	38
5.2.1 Effectiveness of the internal control system.....	38
5.2.2 The financial performance of the Institution.....	39
5.2.3 Internal control system and financial performance.....	39

5.2 Conclusions	40
5.3 Recommendations	40
5.4 Suggestions for further research	41
REFERENCES.....	42
APPENDICES.....	45

CHAPTER ONE: INTRODUCTION

1.1. Background of the study

Today, in businesses worldwide, the internal control system is becoming very important for achieving the objectives of any organization. In recent years, Rwanda has recognized the importance of the internal control system and its use has been in public organization (ROR, 2000). Raising productivity is one of key government objectives to achieve a sustainable development (ROR, 2000). To achieve the targeted organization's goals, it is crucial for managers at all levels to monitor if organizations expenses are done for planned activities in order to achieve set objectives.

According to Miller (2003), poor internal controls lead to asset misappropriations, corruption, organizational fraud and fraudulent financial statements. Osmond (2011) indicates that organizations implement internal controls basing on the nature of their business and regularly audit them (internal controls) to ensure their adequacy. Osmond (2011) further relates safety of financial transactions and information to an organization's internal controls. Amudo & Inanga (2009) state that poor internal control system is usually responsible for organizations' failure to achieve efficiency and effectiveness, reliability of financial reporting and compliance with relevant laws and regulations.

. Internal control systems will be limited to the Control Environment, Internal Audit and Control activities whereas financial performance will look at basically from the two perspectives of Accountability and Reporting.

This study intends to contribute to the understanding of the role played by internal control systems on financial performance in public institutions in Rwanda; with a case study of Rwanda Environment Management Authority (REMA) with particular regards to the internal control systems.

1.2. Problem statement

There is a general perception that the institution enforcement and proper internal control systems will always lead to improved financial performance. It is also a general belief that properly instituted systems of internal control improve the reporting process and also give rise to reliable reports which enhances the accountability function of management of an entity Miller (2003).

In order to achieve its long term goals, the Government of Rwanda has decentralised the use of public funds by creating more public organizations that have a legal personality, administrative and financial autonomy. The lack of proper and systematic internal control is generally known as one of the causes of failure to achieve the organization goal. This is indicated by REMA Auditor General's report, (2012), where 117 million Rwandan francs were recorded in wrong account. This may lead to poor operational efficiency, unreliable financial information and poor recording and filing. Specifically, the problem that the researcher has examined is existence of the weaknesses in recording transactions in the internal control system of REMA and its effect in the organization's financial performance.

1.3. Objective of the study

The general objective of the study is to establish the relationship between internal control systems and financial performance in public organization in Rwanda.

The specific objectives will be:

- To examine the functionality of Internal Control systems in REMA
- To examine financial performance of REMA
- To examine the relationship between internal control systems and financial performance in REMA.

1.4 Research questions

- Is the internal control system strong and effective in REMA?
- What is the financial performance of REMA
- What is the relationship between internal control system and financial performance in REMA?

1.5 Research methodology

This research is a qualitative study of the internal control system in Rwanda Environment Management Authority (REMA). Qualitative data were collected for the analysis. Collection tools used includes interview and review of documentation such as audit reports, finance and administrative policies as well as manuals. The targeted population of this study is the employees of REMA in finance department, coordination of projects and finance of Single Project Implementation Unit (SPIU).

1.4. Importance of the study

The finding of this is study will contribute to the understand of the role of internal control system on financial performance of a public institution in Rwanda. Further, it help managers of the Rwanda Environment Management Authority (REMA) to strengthen their internal controls

to achieve the overall goals and performance. The methodology used in study can be applied also to assess the financial performance of other public organizations.

1.5. Scope of the Study

Geographical scope:

The study targeted a public institution. It was applied on REMA case to assess and analyze its internal control systems in relation to financial performance.

Conceptual scope:

The study covered the role of internal control system on REMA's financial performance.

Time scope:

This study is limited in terms of period since it will cover the period of two years from 2012 to 2013 using secondary data for that period and primary data obtained from people who deal with financial issues on a daily basis.

1.6. Theoretical Framework

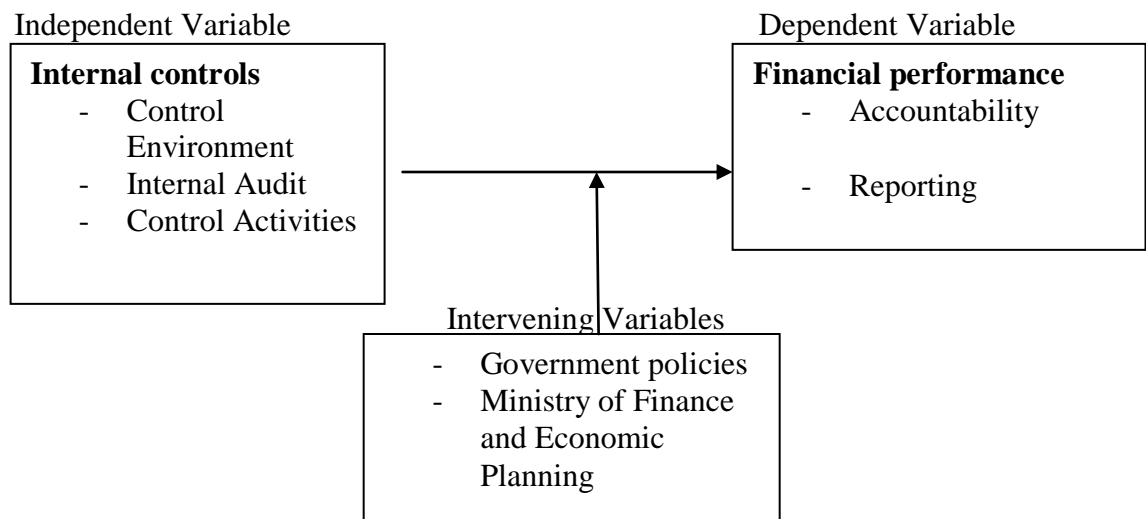


Figure 1.8: Conceptual Framework

Source: Self-conceptualization from the literature review

1.7. Organisation of the Study

The study present five chapters focusing on the following:

Chapter one present the background and definition of the problem to be studied, research objectives, research questions, methodology, the importance, delimitations of the study and conceptual framework.

Chapter explores the literature review of the internal control system and financial performance

Chapter three focuses on the research design and methodology, the data collection methods, tools and analysis.

Chapter four presents an analysis and interpretation of data collected.

Chapter five presents the conclusions, recommendations to the organization and suggestions for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

Internal control is one of subjects that has attracted the interest of many researchers. The literature reviewed in the study explored previous studies carried out on one or more variables in this study. The common question was to understand why the control has to be carried out.

Pickett (2005) states that internal controls are put in place to keep the company on course toward profitability goals and the achievement of its mission and to minimize surprises along the way. Controls enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations. Because internal control serves many important purposes, there are increasing calls for better internal control systems and report cards on them. Internal control is viewed more and more as a solution to a variety of potential problems.

2.2. Internal Control system

Price Water House Coopers (2011) states that an Internal Control System is a set of procedures, methods and control measures designed by the Board of Directors and executive management to ensure achievement of the organization's objectives. Amudo & Inanga (2009) indicates that Internal Control system is a contemporary issue after experiencing global fraudulent financial reporting and accounting scandals. According to Flick (2010), internal control system ensures proper organizational processes functioning, financial information reliability and applicable regulation compliance. Organizations implement internal controls to check fraud and abuse as

indicated by the Institute of Internal Auditors. Schaefer & Peluchette (2010) indicate that fraudulent financial statements are often avoided by an effective internal control system.

Price Water House Coopers (2009) state that companies face a big challenge in relation to monitoring and reviewing activities and that auditing standards in several countries are not flexible to suit all their clients' needs. Whereas many authors like Price Water House Coopers (2011) underscore the fact that internal controls are designed for the achievement of company objectives, other authors like Flick (2010), indicate that internal controls ensure proper organizational processes functioning, financial information reliability and applicable regulation compliance. Though authors state different purposes of designing internal controls, the end result is to achieve company objectives. The Committee for Sponsoring Organisations (COSO) of the Treadway Commission launched its Internal Control-Integrated Framework in 1992. Internal Controls (ICs) have been broadly defined 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:

- Effectiveness and efficiency of operations: This category deals with primary business aims and objectives which include both business performance and profitability, as well as effective utilizations of resources.
- Reliability of financial reporting: This category includes all the objectives that are related to preparation of financial statements and presentation of reliable accounting information to be published periodically. The entity is obligated to report external stakeholders and disclose relevant and reliable information to public".

Compliance with applicable laws and regulations: in this category, sound financial statements and effective utilizations of resource are possible if an entity complies with imposed laws and regulations. Basically, it deals with complying entity's policies and procedures.

The above objectives are recognized as professional objectives of internal control system by several Accountant Institutes like CICA Criteria of Control Board (CoCo) and American Institute of Certified Public Accountants (AICPA).

COSO Internal Control Framework



Figure 2.1: framework adapted from COSO 1992

2.3. Internal Controls systems and financial performance

According to Rick Hayes et al., (2005) internal control comprises five components; the control environment, the entity's risk assessment process, the information and communication systems, control activities and the monitoring of controls. However, for the purposes of this study, the research will narrow down to only three components of the internal control system. These are; the control environment, internal audit and control activities. It seems that; properly instituted systems of internal control will ensure completeness of all transactions undertaken by an entity, that the entity's assets are safeguarded from theft and misuse, that transactions in the financial statements are stated at the appropriate amounts, that all assets in the company's financial statements do exist, that all the assets presented in the company's financial statement are recoverable and that the entity's transactions are presented in the appropriate manner according to the applicable reporting framework (ACCA- Audit and Assurance Services)

Internal control is the term generally used to describe how management assures that an organization does meet its financial and other objectives.

Michael Hitt, Hoskisson, Johnson, and Moesel (1996) argued that there are two types of major internal controls associated with the management of large firms, particularly diversified firms, which have an important effect on firm innovation, these are; strategic controls and financial controls. Strategic controls entail the use of long-term strategically and relevant criteria for the evaluation of business-level managers actions and performance. The use of strategic controls requires that corporate managers have deep understanding of business-level operations and markets. The goal of financial control requires accurate information for internal decision because management has a legal and professional responsibility to ensure that information is prepared fairly in accordance with applicable accounting standards. Organizations are equally

required to comply with many laws and regulations including company laws, tax laws and environment protection laws.

O. Ray Whittington and Pany (2001) note that the control environment sets the tone of the organization by influencing the control consciousness of people. They further assert that control environment is viewed as the foundation for all the other components of internal control. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees especially the extent of their independence from management, experience & stature), management philosophy and operating style (in terms of their aggressiveness or conservativeness which determine may the level of risk they may take on), and Organizational structure (which may be well organized structure that provides for proper planning, directing and controlling operations or a disorganized structure that may only serve to confuse the key players by creating unclear roles). Control environment has several factors, however, for purposes of this research, the review will focus on Management philosophy and operating style, the integrity and ethical values of personnel that create and administer controls.

Whittington and Pany also believe that these factors set a basis upon which the other internal control components can be built. They also provide a framework within which the other components operate. However, these assertions not have always held true, since management in organizations has always overridden these controls, the lack of mentoring has always led to collapse of controls. The independence of audit committee has largely been theoretical in most organizations. Boards of directors have on several occasions had very little time for company affairs, implying that their supervisory role has always been wanting. It is equally worth noting

that most of the board members' selection is largely political and a reflection of the political allegiance. They most of the cases lack the experience and exposure to determine the strategic direction of the organization. Board of directors, ought to supervise the management of an entity, but it has always turned out that Board members merely implement recommendations of the management committee of an institution.

Goodwin-Stewart & Kent (2006) provided evidence that the existence of an internal audit function is related to the level of commitment to risk management. Recent case studies on internal auditing in Belgium illustrate the importance of the control environment when studying internal auditing practices. Sarens & De Beelde 06a, (20 2006b) found that certain control environment characteristics (e.g., tone-at-the-top, level of risk and control awareness, extent to which responsibilities related to risk management internal and controls are clearly defined and communicated) are significantly related to the role of the internal audit function within an organization.

2.3.1. Internal Audit and Financial performance.

O. Ray Whittington & Pany (2001) suggest that internal auditing is performed as part of the monitoring activity of an organization. It involves investigating and appraising internal controls and the efficiency with which the various units of the organization are performing their assigned functions. An Internal Auditor is normally interested in determining whether a department has a clear understanding of its assignment, is adequately staffed, and maintains good records, properly safeguarding cash, inventory & other assets cooperate harmoniously with other departments. The internal auditor normally reports to the top management. The objective of internal audit is to assist members of the organization in the effective discharge of

their responsibilities. According to Gupta “the scope of internal audit is determined by management”. This may however, impair the internal auditor’s objectivity and hampers his independence, it is quite hard to report negatively on someone who determines the scope your work.

Sebbowa, 2009 defines “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes”. He further mentions the principles of Internal auditor to include; Integrity, Objectivity, Confidentiality and Competency. However, given that internal Auditors are appointed by management, report to management, and are employees of an organizations, their objectivity is usually highly compromised.

Woolf (1992) says an internal auditor is an employee of the enterprise and cannot therefore be independent of it, he should be able to plan and carryout his work as he wishes and have access to the highest level of management. However, Millichamp (1993) says, effective internal audit should be carried out by an independent personnel though they are employees appointed by management, for them to work efficiently, they should have scope to arrange priorities and activities have un restricted access to records, assets and personnel According to Subrimaniam 2006, Internal Auditing is an independent appraisal function established within an organization to examine and evaluate the effectiveness, efficiency and economy of managements control system. Its objective is to provide management with re-assurance that their internal control systems are adequate for the need of the organization and are operating satisfactorily (Reid & Ashelby, 2002). It is a component of the internal control system set-up by management of an

enterprise to examine, evaluate and report operations of accounting and other controls. The quality and effectiveness of internal audit procedures in practice are necessary since internal auditors cover a wide variety of assignments, not all of which will relate to accounting areas in which the external auditor is interested. For example, it's common these days for internal auditor to undertake the extensive and continuous task of setting management goals and monitoring its performance (Woolf, 1992).

2.3.2. Control Activities

O.Ray and Pany (2001) also mention control activities as another component of Internal controls system. They note that control activities are policies and procedures that help ensure that management directives are carried out. Controls activities in an organization basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing (necessary to check accuracy, completeness and authorization of transactions), physical controls (necessary to provide over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end).

The last component of internal control according to O. Ray and Pany is monitoring. This is aimed at ensuring that the internal controls continue to operate as intended. This can be achieved through ongoing monitoring or separate evaluations. Separate evaluations are non routine monitoring activities such as period audits by the internal auditors.

According to Houtven (2002), in order for public organizations have a strict internal control, the following standard must be in place; Control environment, risk assessment, control activities, information and communication and monitoring. These standards define the

minimum level of quality acceptable for internal control in government and provide the basis against which internal control is to be evaluated. These standards apply to all aspects of an agency's operations: programmatic, financial, and compliance. However, they are not intended to limit or interfere with duly granted authority related to developing legislation, rule-making, or other discretionary policy-making in an organization. In implementing these standards, management is responsible for developing the detailed policies, procedures, and practices to fit their organization's operations and to ensure that they are built into and an integral part of operations.

2.4. Financial performance

According Anderson & all (1995), performance is measured by how efficient the enterprise is in use of resources in achieving objectives. It is the measure of attainment achieved by an individual, team, organization or process.

Michael Hitt, et al (1996) believes that many firms' low performance is the result of poorly performing assets (businesses). Appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Control system is a set of mechanisms that are designed to increase the probability of meeting organizational standards and goals. Daft (1991), states that organizational internal control is the systematic process through which managers regulate organizational activities to make them consistent with the expectations established in plans, targets and performance standards.

According to Daft (1991), based on the definition of organizational control, a well-designed control system consists of four key steps, which are described below:

Establish standards of performance with in the organization's overall strategic plan, managers define goals for organizational departments in specific, operational terms that comprise a standard of performance against which to compare organizational activities.

Measure actual performance, many organizations develop quantitative measurements of performance that can be reviewed on daily, weekly, or monthly basis. Compare performance to standards. The third step is the explicit comparison of actual activities to performance standards. Managers take time to read computer reports or walk through the plant (field) and there by compare actual performance to standards.

Take corrective action. Corrective action is follow up to change work activities in order to bring them back to acceptable performance standards. In additional top down control approach, managers exercise their formal authority to make necessary changes.

2.4.1. Accountability

According to Hayes, et al., 2005, Managers need regular financial reports so as to make informed decisions. Reporting (particularly financial reports) is one way through which managers make accountability for the resources entrusted to them. Emasu (2007) asserts that Accountability can be political, social or financial accountability. In all of the available literature on the subject of accountability, no common definition or view of accountability can be found. This lack of commonality is due partly to the fact that the concept of accountability especially in the government settings is just coming the forefront. Below are different views of accountability:

- Accountability is an obligation to answer for the execution of one's assigned responsibilities. In simpler terms, accountability is reporting. People account, or report, to

other people. Therefore, it is useful to consider accountability in the context of the relationships between the organizations involved (Auditor General of Alberta 1997).

- Accountability means being able to provide an explanation or justification, and accept responsibility, for events or transactions and for one's own actions in relations to these events or transactions (Government of New South Wales, Australia 2000).
- Accountability is a relationship based on the obligation to demonstrate and take responsibility for performance in light of agreed expectations (Office of the Auditor General of Canada 1998).

2.4.2. Reporting

O.Ray Whittington & Pany (2001), talk about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that "Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization".

John J. Morris (2011) believes that Enterprise Resource Planning systems provide a mechanism to deliver fast, accurate financial reporting with built-in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

2.5 Conclusion

According to Manasseh (1990), internal control system plays an important role within any organization for its effectiveness and efficiency in the operations. He asserted that accounting controls comprises the plan of organization and all methods and procedures that are concerned

mainly with and relate directly to, safeguarding of assets and reliability of the financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and internal auditing. Here the performance covers the function of an organization's ability to meet its goals and objectives by exploiting the available resources in an efficient and effective manner and the ability to serve and produce market demands at a particular time and meeting the objectives at the lowest possible cost with the highest possible benefit (Brown, 1998). This has led the researcher seek to determine to what an internal control system has a vital role in every organization to achieve their management objectives

According to the literature review, it has been observed that internal control system plays a very important role in any type of organizations and is affirmed as the most important means of safeguarding public funds. Several researchers concur that there is a relationship between Internal Control Systems and financial performance of an organization. These conclusions will however be confirmed after empirical evidence has been obtained from the research.

CHAPTER THREE: METHODOLOGY

3.1. Introduction

This chapter covered the research sampling design, sample size, data collection, data processing and analysis. This guided the researcher in thinking about which instruments to be used in data collection that ensures relevant information to the research. The qualitative method was used to investigate the main factors governing internal control. A structured guide of interview was used for collecting from financial and audit department. This method is instrumental in gathering an in-depth understanding of the role of internal control on financial performance in public institution.

3.2. Sampling design of the study

According to Grinnell and Williams (1990), a sample is a subset of population under study; the author argues that the results obtained from this sample are considered the same as those that would have been obtained if the study had been administered to the whole population.

Sampling is the process of selecting elements from the total population. For the purpose of this research, the entire population (Census method) was used because the finance department, audit, coordination of projects & finance department of the SPIU finance department is composed by a small number of staff which is ten. They have been selected basing on the role they play on internal controls and financial performance.

3.3. Methods of data collection and analysis

This research is a qualitative study of the internal control system in REMA. Data were collected using both primary and secondary data collection techniques. Primary data were gathered basically through structured questionnaires and interviews with all staff involved in finance and audit. Secondary data on the other hand were gathered through review of available

documentation such as audit reports, finance and administrative procedures and policies manuals, text books, reports as well as journals. The research also used a combination of structured questionnaires and interviews. Questionnaires are a data collection technique in which the respondents give answers on a number of items in writing. Interviews were an other data collection technique used in this research. They were used as a way of supplementing the questionnaires already filled and at the same time, enabling the researcher to examine further into the responses given in the questionnaires especially considering the importance of the research and the specialized nature of the topic of this study. The COSO Internal control integrated framework model was used in evaluating the current situation of internal control system.

3.4. Research limitations

This study was carried out in Rwanda Environment Management Authority. Although the rules and regulation governing public expenditure has communalities; the internal control system can vary from an institution to another, the finding may not be applied to all public institution in Rwanda. It will be only limited to the current situation of REMA.

CHAPTER FOUR:

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter deals with the presentation of results related to the study. In trying to assess the effect of Internal Control systems on financial performance in public organization, the researcher conducted a number of interviews with the staff working involved in finance and audit. These included top level, middle level and lower level management members. The population in this study was limited to ten members of the finance department, audit, coordination of projects & finance department of the SPIU. They have been selected based on the role they play on internal controls and financial performance. Results of the questionnaire and interview are summarized below under different components. .

4.2. REMA mission and objectives

4.3. Mission of REMA

To promote and ensure the protection of the environment and sustainable management of natural resources through decentralized structures of governance and seek national position to emerging global issues with a view to enhancing the well-being of the Rwandan people.

4.4. 4.2.2 Objectives of REMA

REMA has a key role to play towards the achievement of the national goal of sustainable development as set out in the National Development Vision 2020. The Authority aims at ensuring that there is:

- Integration of environmental concerns into national and sectoral policies and legislation, plans, programmes and projects;

- Coordinated oversight of environmental management of country's natural resources;
- Improved documentation and dissemination of environmental information;
- Enhanced compliance with and enforcement of environmental guidelines, standards and regulations;
- Improved coordination and implementation of multilateral environmental agreements (MEAs) and other national commitments to regional and international agreements;
- Increased awareness and public participation in environmental conservation and management.

4.3 Data interpretation and analysis

The background information of respondents was deemed necessary because the ability of the respondents give satisfactory information on the study. The background information of respondents solicited data on the samples and this has been presented below categorized into; gender, education and position held in the organization.

4.3.1 Gender characteristics and experience of respondents

The study examines and describes the gender details of respondents in this study and details of their respective gender is presented in table 4.1 below

Table 4.1: Gender characteristics of respondents

Gender	Frequency	Less than 5 years of experience	More than 5 years of
Male	4	2	2
Female	6	1	5

Source: Primary data

According to the table 4.1 above, it reveals that 60% of the respondents were female and 40% were male. It shows that the policy of gender balance and gender empowerment was considered. Seven staff out of ten working in finance department have more than five years

of working experience. This may have an impact on performing duties related to finance.

4.3.2 Education characteristics of respondents

Details about the education levels of respondents were obtained and the results are revealed in table 4.2 below;

Table 4.2: Education characteristics of respondents

Qualification in finance and related fields	Frequency	Percent
Diploma	0	0
Bachelor	8	80
Masters	2	20
Total	10	100

Source: Primary data

The table 4.2 above reveals that the majority of respondents involved in internal control system in REMA hold bachelor degree, followed by masters in finance and accounting, in the orders of 80% and 20% respectively. This means that the respondents are adequately academically qualified in the field of finance.

4.3.3 Description of the Positions of respondents in the Institution

The study sought and obtained details about the positions held by the respondents in the Institution for the purposes of understanding their respective roles in the variables of study.

Details of the respondents and their positions are shown in table 4.3 below;

Table 4. 3: Position held in the organization

Position held	Frequency	Percent
Director of finance and administration	2	20
Coordinator of project	3	30
Internal auditor	1	10
Accountants	4	40
Total	10	100

Source: Primary data

The analysis results presented in table 4.3 show that the the majority of respondents in this study are accountants (4), followed by coordinators of project (3), then directors of finance and administration (2), and internal audit (1). These represent 40%, 30%, 20% and 1% respectively. From the above description, it can be revealed that the majority of the respondents in this study are those directly responsible for or directly involved in the implementation of the Internal Control System. Therefore, their responses are deemed to reflect what actually takes place in the institution.

4.3.4 Examining the functionality of Internal Control systems

This section answers objective one of the researcher. The study sets one of its objectives to critically analyze and reveal how the Internal Control Systems of the Institution actually perform, and details are presented in the table 4.4 below;

4.3.4.1 Effectiveness of Internal Control systems.

Table 4.4: Functionality of Control Environment

Control environment	Disagree	Agree	Total	Frequency	Percentage
Our institution has an accounting software and financial management system	0	10	10	10	100
Management is committed to the operation of the system	2	8	10	8	80
Management closely monitors implementation of internal control	3	7	10	7	70
Management provides feedback to the junior officers about the operation of the system	1	9	10	9	90
Appropriate measures are taken to correct misfeasance in operation of our accounting & Finance Management System	1	9	10	9	90

Management acts with a great degree of integrity in execution of their roles	1	9	10	9	90
--	---	---	----	---	----

Source: Primary data

In table 4.4 are details of the measures of effectiveness of the control environment under different key statements obtained from the respondents. The statements have been ranked in terms of their importance as to deduce meaning out of the results. Therefore, the details of the table are discussed under sub headings of the corresponding statements tested.

4.3.4.1.1 Accounting and Financial management system

The study (as reflected in table 4.4.) found that all respondents agree that the institution has an accounting and financial management system in place. This shows that they generally agree about the existence of accounting softwares and finance management system.

4.3.4.1.2 Management commitment on the operations of the system

From the table 4.4 above, respondents agree that management is committed to the operation of the Accounting and Financial management system as reflected by the 80% of the respondents. However, 20% suggests varied responses regarding management's commitment to the Accounting & Financial management system. Management commitment to the operations of the Accounting and financial management system rhymes with Whittington and Pany (2011) assertion of the control environment setting the tone of the organization and influencing the control consciousness of everyone in the organization. It supports the assertion by Whittington and Pany that control environment (especially management philosophy and operating style) is the foundation for all other components of internal control.

4.3.4.1.3 Monitoring implementation of Internal Control system

In the results presented in Table 4.4 above, respondents provided their understanding in regard to how the management closely monitors the implementation of the controls and their perceptions show 70% , implying that they agree with the statement. But another good portion of respondents (30%) suggests significant differences in responses with regards to management's monitoring of implementation of internal control system.

The finding is in line with Sarens & De Beelde (2006) who advocates for management (control environment) as the cornerstone for an effective internal control system. They emphasize the “tone at the top, the level of risk and control awareness” as critical to the success of an internal control system.

4.3.4.1.4 Provision of feedback to junior officers

The results reflected in table 4.4 show a percentage of 90% of respondents agree with the statement regarding feedback to junior officers regarding the operation of the system. The results are at odds with Whittington and Pany (2001)'s requirement for management to include programs for preparing, verifying ,distributing reports and analyses to various level of management to enable them maintain control over a variety of activities.

4.3.4.1.5 Measures taken to correct errors in Accounting and Financial management system

The results of the survey in table 4.4 suggest that respondents agree that appropriate action is normally taken by the management to correct misfeasance in the operations of the system,

although the percentage of 10% of respondents suggests that they possess varied understanding about the aspect of the measures taken to correct any weaknesses in the controls. This could also imply that measures taken are sometimes, not communicated using normal procedures. Management’s action to correct misfeasance in the system should be an indication of management’s commitment to the operation of the internal control system.

4.3.4.1.6 Management Integrity

The results of the survey revealed by Table 4.4 suggest that management acts with Integrity. This is evident because 90% of respondents agree with the statement. Nevertheless, the 10% of respondents had a significant variation in responses on management integrity in the execution of their role. However, this could also be construed to imply that respondents might not have clearly understood the dimensions of integrity in this context. The results in this section are in tandem with Whittington and Pany (2001)’s assertion where they talk of the control environment to include factors like integrity and ethical values of persons responsible for creating, administering controls.

4.3.4.2 Functionality of Internal Audit.

Table 4.5: Internal audit analysis

Internal audit	Disagree	Agree	Total	Frequency	Percent
Our institution has an internal auditor	0	10	10	10	100
Our internal audit is sufficiently staffed	9	1	10	1	10
Internal audit staff conduct regular audit activities in our institution	8	2	10	8	80

Internal audit report address weaknesses in our internal control system	2	2	10	8	80
Internal audit reports are produced regularly	9	1	10	90	20
Management discusses internal audit reports frequently	1	9	10	9	90
Internal auditor makes appropriate recommendations for management to improve	1	9	10	9	90
Internal auditor performs his duties with a greater degree of autonomy and independence from management	1	9	10	9	90

Source: Primary data

Table 4.5, was set out to examine the internal audit function (another component of the internal control system) as a way of examining the functionality of the internal control system. The details of the survey in this regards are discussed under the sub headings of the corresponding statements tested as follows:

4.3.4.2.1 Existence of internal audit officer

It can be seen from the table 4.5, that respondent were almost in total agreements to the existence of the Internal audit function in the Institution as reflected by 100%.

Virtually all the writers (reviewed) underscore the importance of an internal audit department in helping an organization achieve its objectives. Notable among these are Subramaniam, (2006), Reid & Ashely, (2002) and Millichamp (1993) among others. Therefore the finding is in tandem with the reviewed literature.

4.3.4.2.2 Internal Audit sufficiently staffed

Results of the survey in table 4.5 shows a percentage of 10 % which is low and this suggests that respondents don't believe that the internal department is sufficiently staffed. However, a percentage of 90% suggests varied responses as to whether the internal audit department is understaffed.

From the results of the survey in table 4.5, 90 % of respondent stated that the internal department is insufficiently staffed. Referring to the REMA control system activities which are performed in steps, as described below:

- Establish standards of performance
- Measure actual performance
- Compare to standards of performance if adequate provide reinforcement and if inadequate take corrective measure.

It seems that weaknesses in financial activities which are supposed to be revealed by the internal audit will not be addressed on time.

4.3.4.2.3 Internal auditor conducts regular internal audit activities in the Institution

From the results of the survey as reflected by Table 4.5, respondents disagree as to whether the Internal audit staff conduct regular internal audit activities. This is revealed by a percentage of 80% of respondents. However, a percentage of 20% suggests a significant variation in the responses generated by the respondents. This means that the internal auditor's role of examining and evaluating the effectiveness, efficiency and the economy of the management control system as advocated by Subramaniam, (2006) may not be achieved.

4.3.4.2.4. Internal audit report addresses weaknesses in the internal control system

Results of the survey reflected in table 4.5 suggest that respondents agree that the Internal audit reports address weaknesses in the internal control system which can be shown as below:

- Posting errors within different general ledger accounts
- Weaknesses revealed in management of REMA stock
- Store cards not updated

This is revealed by a percentage of 80%, although the percentage of 20% suggest variation in the responses generated for the test. This therefore confirms Whittington and Pany (2001)'s suggestion that "internal auditing is performed as part of the monitoring activity of an organization". This is also in line with Gupta (2001) assertion that "the objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities".

4.3.4.2.5 Internal audit reports are produced regularly

Results of the study in table 4.5 suggest that staffs are not sure as to whether internal audit reports are produced regularly. This is revealed by a percentage of 20%. This could imply that the staffs might not be aware of audit reporting schedule since they are submitted directly to the director general or the board of directors. The finding does not augur well with Sebbowa (2009)'s suggestion that internal auditing is a consulting activity designed to add value and improve an organization's operations.

4.3.4.2.6 Management discusses internal audit reports frequently

From the survey, as reflected in table 4.5, it can be deduced that respondents agree that management discusses internal audit reports frequently, this is revealed by a percentage of 90%, although the 10% under the same test revealed a variations in responses generated. Management discussing internal audit reports is an indication of management commitment. This is also in line with Earnest and Young (1995)'s statement that the work of the internal auditor should appear to be properly planned, controlled, recorded and reviewed.

4.3.4.2.7 Internal auditor makes appropriate recommendations to management

From table 4.5 above, respondents marginally agree with statement regarding internal audit recommendations to management regarding improvement in system of control as reflected by the percentage of 90%. However, a significant percentage of 10% reveals varied responses from the respondents on the same, implying that they have different opinions about this role played by internal auditor. This could also infer as to whether the internal auditor makes appropriate recommendations for management to improve. For the Posting errors within different general ledger accounts, there is a risk of misstatement of balance recorded in the book of accounts; they recommend a review of transactions to avoid misleading users of financial statements including management in decision making. Weaknesses revealed in management of REMA stock there is a risk of those materials may be stolen, it is better to keep all environmental promotion materials into REMA stock. The store cards of all environmental promotion materials kept in REMA stock were not updated; those store cards highlight the highest number of environmental promotion materials compared to the current count situation.

The wrong information about the number of stock items may be reported Staff responsible for stock management must remember to fill/update stock cards while the stock out occur.

4.3.4.2.8 Degree of independence of internal audit department

The results of the survey as reflected in table 4.5, respondents agree with statement regarding the internal auditor’s independence from management. This is revealed by a percentage of 90%. This is also in line with Millichamp (1993) and Sebbowa (2009) who advocate form independence of the internal auditor in the execution of his/her duties.

4.3.5 Examining the financial performance of public institutions in Rwanda

This section answers objective two of the study. Financial performance of public institutions in Rwanda was examined by analyzing data collected under dimensions of financial performance of the responses to the statements categorized accountability and reporting. Details of these analyses are shown in table 4.6 below;

4.3.5.3 Functionality of Financial Performance

Table 4.6: Financial performance

Financial performance	Disagree	Agree	Total	Frequency	Percent
A budget is produced and followed every year	0	10	10	10	100
The Financial transactions (incomes and expenditures) are recorded on a daily basis	1	9	10	9	90

A payment voucher is signed or a receipt is asked for whenever money is spent	2	8	10	8	80
Ledgers are used for recording financial transactions	1	9	10	9	90
The organization always achieve the intended targets from the minimum resources possible	2	8	10	8	80
It is a policy for management to prepare periodic reports	1	9	10	9	90

Source: primary data

4.3.4.5.1. Accountability

From the information revealed by table 4.6, respondents believe that the Institution have enough budget to meet its obligations effectively. This is revealed by a percentage of 80%. Respondents believe also that the financial transactions (incomes and expenditures) are recorded on a daily basis. This is revealed by a percentage of 90%. Respondent are agree that a payment voucher is signed or a receipt is asked for whenever money is spent. This is revealed by a percentage of 80%. According to Hayes, et al., 2005, Managers need regular financial reports so as to make informed decisions. Reporting (particularly financial reports) is one way through which managers make accountability for the resources entrusted to them.

4.3.4.5.2. Reporting

According to table 4.6, it clear that respondents believe that ledgers are used for recording financial transactions. This is revealed by 90% the respondents that the organization always achieve the intended targets from the minimum resources possible. The respondents are agreeing that it is a policy for management to prepare periodic reports. This is revealed by a

percentage of 90%. According to O.Ray Whittington & Pany (2001), talk about the comprehensiveness of internal controls in assessing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that “Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization”.

4.6 Relationship between Internal Control systems and financial performance

This section answers objective three of the study. The relationship between internal control systems and financial performance in a public institution in Rwanda was investigated using control environment, internal audit and control activities as dimensions for internal control systems while accountability and reporting were for financial performance. The respondents gave their opinion on the relationship between Internal Control systems and financial performance supported their position by citing some key examples which are presented below; they believe that all the dimensions relate positively.

Management is committed to the internal control system; they give feedback to junior officers regarding the operation of the system, if weakness addressed to them; they take corrective action. Corrective action is follow up to change work activities in order to bring them back to acceptable performance standards. In additional top down control approach, managers exercise their formal authority to make necessary changes. Managers may encourage employee to work harder and redesign the production process.

This was also confirmed by Houtven (2002) who recommended in his research that performance evaluation and feedback, supplemented by an effective internal control system, should be designed to help employees understand the connection between their performance and the organization's success. He further noted that, program managers need both operational and financial data to determine whether they are meeting their agencies' strategic and annual performance plans and meeting their goals for accountability for effective and efficient use of resources.

4.4 Interview guide data presentation

In trying to assess the effect of Internal Control systems on financial performance in public Institutions, the researcher conducted a number of interviews with key informant members of the Institution. These included both top, middle level and lower management members. Results of the Interview are summarized below under the various questions asked.

4.4.1 The position of officers interviewed

This study conducted face-to-face interviews. Focus was put on the following positions; Internal auditor, Director of Administration and Finance, Coordinators of project, and finance officers. The management team constitutes top level, middle and lower level managers who are directly involved in implementation of the institution's internal control system.

4.4.2 Effectiveness of Systems of Internal control

The research examined and interviewed a number of key informants as to whether the organization operates systems of internal control and as to whether the Internal Audit supports

it. The respondents agree that management of the institution is committed to the controls of the organization and they actively participate in monitoring and supervision of the activities of the organization. The respondents are also agreeing that all the activities of the Institution are initiated by the top level management.

REMA has one internal audit officer. This could be one of the reasons for not producing more reports. The internal auditor role is supporting systems of internal control. They also concur that the internal auditor advises management.

They further give assurance to management that the systems of internal control put in place are functioning. Similarly, they believe that the Institution operates a system of internal control; implementing strategic plans and measuring actual performance against budgets, stating priorities and implementing them on an annual basis through the budgeting process, ensuring policies and procedures are followed in all financial operations of the organization, safeguarding assets through the maintenance of a fixed assets register and updating it regularly. They also note that they participate in the budgeting process. Additional support point that; the institution has the right people for the right positions to check accuracy, completeness and authorization of transactions.

There is a clear separation of roles, supervision of activities by senior staff; weaknesses that are realized are addressed and corrections measures are taken. This is aimed at ensuring that the internal controls continue to operate as intended.

4.4.3 Measures of financial performance

According Anderson & all (1995), performance is measured by how efficient the enterprise is in use of resources in achieving objectives. It is the measure of attainment achieved by an individual, team, organization or process. The staff believes that having balanced budget, discipline budget process, setting priorities and following them strictly, continuous budget reviews, proper accountability guidelines issued and monitored. This implies that a well use of the budget is a key instrument in determining the performance of the Organization. According the internal and external audit report for FY 2013-2012, 2012-2011 respectively, REMA has adequate systems of internal financial control and safeguarding the asset.

4.4.4 Accountability procedure

The respondents expressed their opinion on the effectiveness of the accountability procedure and supported their position by citing some key examples which are presented below; they believe that, the Accountability process is adequate and their reason being that staff take the process as a key principle to achieve the organization's goals. Managers noted that they have been asked for accountability for money given to them especially after implementing the activities. However, they equally support that other instances regarding accountability seem to be adequate and these include; transparency in the system, and procurement process.

4.4.5 Reporting procedure

The respondents believe that the institution has adequate reporting system because REMA report regularly on monthly basis, senior managers ask for reports from their juniors. Managers need regular financial reports so as to make informed decisions. Reporting particularly

financial reports is one way through which managers make accountability for the resources entrusted to them.

4.4.6 Relationships between internal control systems operated by REMA and its financial Performance

This section answers objective of the study. The relationship between internal control systems and financial performance of public institution in Rwanda was investigated using control environment, internal audit and control activities as dimensions for internal control systems while accountability and reporting were for financial performance. The respondents believe that all the dimensions relate positively. Result in table 4.4 indicates that management is committed to the operation of accounting and financial management as reflect by 80%. Result in table 4.5 indicates that internal auditor report address weaknesses to take corrective measure at the right time as reflect by 80%. Result in table 4.6 indicates that financial performance is attempt thought meeting its obligation effectively using record of transaction on daily basis and report regularly because managers need them to make decisions as reflect by 90%.

This means that good internal control is a measure of good financial performance in the organization and vice versa.

CHAPTER FIVE:

SUMMARY FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents summary of the study findings as per the study objectives, conclusions based on those findings and recommendations which are based on both the study findings and other relevant literature considered necessary and vital to be used in future to improve the study situation.

5.2 Summary findings

This part presents the summarized results and interpretation (findings) based on the study objectives as established at the beginning of the study.

5.2.1 Effectiveness of the internal control system

The study found out that the management of the institution is committed to the controls of the public organization and they actively participate in monitoring and supervision of the activities of the organization. The study also reveals that all the activities of the Institution are initiated by the top level management. On the effectiveness of the internal audit, the study found out the internal audit is not efficient, doesn't conduct regular audit activities and doesn't produce regular audit reports. They however, agree that the few reports that are produced by internal auditor address the weaknesses in the system as shown below:

- Posting errors within different general ledger accounts
- Weaknesses revealed in management of REMA stock
- Store cards not updated

The study also found that the internal audit office is understaffed and this could be one of the reasons for not producing expected reports. . As remedial measures to overcome those weaknesses in the system, I would suggest a clear separation of roles, supervision of activities by senior staff; a review of transactions to avoid misleading users of financial statements including management in decision making and the staff responsible for stock management must remember to fill/update stock cards

5.2.2 The financial performance of the Institution

The study found out that the Institution does have enough budget to meet its intended goals. (reference to table 4.6) The study further reveals that all revenues and expenditures are properly classified, and authorized. This shows a compliance with policy and safeguards the organization's assets.

5.2.3 Internal control system and financial performance

The study examined and established a significant relationship between internal control system and financial performance. This relationship was examined through the dimensions of internal control systems and that of the financial performance selected for this particular study. The dimensions of internal control systems (control environment, internal audit, and control activities) were linked to the dimensions of performance (accountability and reporting). Details show that that all the dimensions relate positively. This means that good internal control is a measure of good financial performance in the organization and vice versa.

5.2 Conclusions

Findings of the study the role of internal control system on financial performance in public institutions in Rwanda have shown that Rwanda Environment Management Authority has an effective internal control system. This is supported by clear separation of roles, supervision, training, and commitment of management. However, there are challenges in the implementation of controls especially considering that the audit function does not produce reports regularly.

On financial performance of the institution, the study concludes that the budget is available help the institution to meet its intended goals. The final conclusion of this study is that there is a significant positive relationship between internal control system (control environment, internal audit, and control activities) with financial performance (accountability and reporting).

5.3 Recommendations

Since it was evident in the study that the staffing level in the internal audit department is not adequate to cover the entire organization, reflected by not producing regular audits, not operating efficiently as well as their reports not being regular, the study therefore recommends competence profiling which should be based on what the organization expects the internal audit to do and what appropriate number staff would be required to do this job. Regular audit reports are necessary to minimise the errors during the budget execution of a fiscal year.

Internal control system is a very important factor with regard to protection of financial performance of any organization. Therefore organizations both private and public should always ensure that principles of good internal control are always adhered to enhance the value of their organizations and protect the legitimate interests of the shareholders.

5.4 Suggestions for further research

This research covered the relationship internal control system and financial performance of public organizations in Rwanda. Further research can be carried out on the influence of corporate governance on the effectiveness of internal control system.

REFERENCES

- ACCA (2009/2010) *Advanced Audit and Assurance* Kaplan, Publishing
- ACCA Text Books (1998). *Managerial Finance*. AT. Foulks Lynch. ISBN 13: 9780748337774
- Auditor's General report (2012). *Report of the auditor general to REMA*. Kigali, Rwanda
- Amudo, A. & Inanga, E.L. (2009).: "Evaluation of Internal Control Systems : A case study from Uganda" International Research Journal of Finance and Economics, ISSN 1450-2887 Issue 27
- Anderson, D., Francis, J. R. & Stokes, D. J. (1993), 'Auditing, directorships and the demand for monitoring', *Journal of Accounting and Public Policy*.
- B.K. Sebbowa Bamweyana, (2009). *The role of internal audit function in organizations*
- Bovens, M. (2009). *Analyzing and assessing public accountability*. A conceptual framework, European Government Papers No. C-06-01
- Brewer, D. & List, W. (2003). *Measuring the effectiveness of an Internal Control System*, Gamma Secure Systems Limited, 2004
- Brown Michelle (1998). *Work overload and performance appraisal processes*. University of Melbourne.
- COSO. (1994). *Internal Control - Integrated Framework* (Vols. 1994, July). Jersey City, New Jersey, U.S.: AICPA Publications Division.
- COSO. (2004). *Enterprise Risk Management — Integrated Framework: Executive Summary*. Jersey City, U.S.: AICPA Publications Division.
- COSO. (2006). *Internal Control over financial reporting - Guidance for smaller public companies* (Vol. 1). Jersey city, New Jersey, U.S.: AICPA Publications Division.
- COSO. (2009). *Guidance on Monitoring Internal Control Systems* (Vol. 1). Jersey Ciity, New Jersey, U. S.: AICPA.
- Daft S (1991), Principles of Managent, 2nd Ed, Dryden press
- Flick, S. (2010). "Policies and procedure for internal controls = success!" Accounting & Internal Control

- Goodwin-Stewart, J. & Kent, P. (2006), '*The use of internal audit by Australian companies*',
Managerial Auditing Journal
- Grinnell and Williams (1990): Periodicals, Inc. Published online in Wiley Inter Science
(www.interscience.wiley.com) accessed on 30th October 2012
- Houtven Leo Van, (2002). Governance of the IMF: *Decision Making, Institutional Oversight, Transparency, and Accountability*, Issues for the 1990s, Vol. IX (Geneva: United Nations Conference on Trade and Development).
- Inanga, A. A. (2009). Evaluation of Internal Control Systems: A Case Study from Uganda.
International Research Journal of Finance and Economics, 124-144.
- John J. Morris .2011). *The Impact of Enterprise Resource Planning (ERP) System on the Effectiveness of Internal Controls over Financial Reporting*
- Manasseh N. Paul (1990) *Principles of Auditing 1st Ed.* Strasmore publishers, Nairobi Kenya.
- Michael A. Hitt, Robert E. Hoskisson, Richard A. Johnson, Douglas D. Moesel. (1996).*The Market for corporate control and Firm Innovation*
- Miller, J. (2003), *Internal Control measures in Corporations*
- Millichamp, A.H. (1993). Auditing (6th ed.).
- Mulgan, R. (2008), *Holding power to account: Accountability in modern democracies.*
Palgrave Macmillan, Basingstoke, UK.
- O. Ray Whittington & Kurt Pany (2001).*Principles of Auditing and Other Assurance Services.*
Irwin/McGraw- Hill. New York
- Osmond, V. (2011), "Evaluation & Auditing Standards for Internal Control Over Financial Reports" Demand media
- Pickett S.H.K 2005a. The essential handbook of internal auditing. London: John Willey and Sons Ltd

Price Water House Coopers (2009). *An International Assurance Standard for Third Party Reporting. Advisory Services*. Third Party Assurance

Price water House Coopers (2011). *Internal Control system and risk management, Governance Risk and Compliance* White Paper.

Republic Of Rwanda (2000). *Rwanda Vision 2020*. Ministry of Finance and Economic Planning. Kigali.

Rick Hayes et al. (2005) *Principles of Auditing Pearson Education Limited*.

Sarens, G. & De Beelde, I. (2006b), 'The relationship between internal audit and senior management: an analysis of expectations and perceptions', *International Journal of Auditing*

Schaefer, J. & Peluchette J.V (2010). *Internal Control: Test Your Knowledge. Journal of Accountancy*, March 2010.

Stephen Emasu (2007) *public financial management – Concepts & Practices*

Subramaniam, N. (2006). *International Journal of Auditing*. Vol. 10

Woolf, E. (1992). *Auditing Today* (3rd ed.). Prentice Hall International (UK)

APPENDICES

UNIVERSITY OF RWANDA

Kigali Campus

College of Business and Economics

MASTER OF BUSINESS ADMINISTRATION (MBA)

Dear Respondent,

My name is **MUTESI Joselyne**. I am currently carrying out a study for the purpose of writing a dissertation as a requirement for the award of Master of Business Administration and Management of University of Rwanda. The topic of study is **the role of internal control system on financial performance in public institution in Rwanda. Case study of REMA**.

You have been selected to participate in this study due to the importance of your information in the study. The information you provide will only be used for the purpose of this study and will be treated with utmost confidentiality. Please feel free and answer all the questions truthfully.

Thank you for participating and making this study a success.

SECTION I

BACKGROUND INFORMATION

To help us form a picture of the background and experience of our informed respondents, please answer the following questions.

1. Sex:

a) Male b) Female

Experience: 1-3 years with the institution 3-5 years more than 5 years

2. Education level:

Masters and above

Degree

Secondary

3. What position do you currently hold in the Organization?

- 1. Director of finance and administration
- 2. Coordinator of project
- 3. Internal audit
- 4. Accountant

SECTION II:

To examine the role of internal control system in REMA

Please ranks the following statement on likert scale ranging from strongly disagree to strongly agree. Where;

1 = disagree

2= agree

Control environment	1	2
Our institution has an accounting software and financial management system		
Management is committed to the operation of the system		
Management closely monitors implementation of internal control		
Management provides feedback to the junior officers about the operation of the system		
Appropriate measures are taken to correct misfeasance in operation of our accounting & Finance Management System		
Management acts with a great degree of integrity in execution of their roles		
Internal audit	1	2
Our institution has an internal auditor		
Our internal audit is sufficiently staffed		

Internal audit staff conduct regular audit activities in our institution		
Internal audit report address weaknesses in our internal control system		
Internal audit reports are produced regularly		
Management discusses internal audit reports frequently		
Internal auditor makes appropriate recommendations for management to improve		
Internal auditor performs his duties with a greater degree of autonomy and independence from management		
Financial Performance	1	2
A budget is produced and followed every year		
The Financial transactions (incomes and expenditures) are recorded on a daily basis		
A payment voucher is signed or a receipt is asked for whenever money is spent		
Ledgers are used for recording financial transactions		
The organization always achieve the intended targets from the minimum resources possible		
The targets of the organization are always achieved using the budgeted resources		
The organization always achieve the intended objectives		
It is a policy for management to prepare periodic reports		

To examine the relationship between internal control systems and financial performance in REMA

3. In your opinion, do you think there is a relationship between internal control systems operated by your organization and financial performance?

Interview Guide

Dear Respondent:

My name is **MUTESI Joselyne**. I am currently carrying out a study for the purpose of writing a dissertation as a requirement for the award of Master of Business Administration and Management of National University of Rwanda. The topic of study is **the role of internal control system on financial performance in public institution in Rwanda. Case study of REMA**.

You have been selected to participate in this study due to the importance of the importance of your position in the Institution. The information you provide will only be used for the purpose of this study and will be treated with utmost confidentiality. Kindly help me generate solutions to the following questions: to help me form a picture of the background and education of our informed respondents, please answer the following questions.

1. What is your position in the Institution?
2. In your opinion, does the Institution operate systems of internal controls? If so how does your role to support it?
3. In your opinion, is the Accountability process adequate in your organization? Give reasons.
4. How would you rate the reporting process in your organization?
5. In your opinion, do you think there is a relationship between internal control systems operated by your organization and its financial performance?

Thanking you for your participation.