

A Comparative Study of Internal Control System Practices in Some Selected Government Business Enterprises in Rwanda.

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Abstract:- More than ever, the concept of internal controls has become a crucial concern for today's entities, becoming unarguable that strong internal controls would save companies from incurring unnecessary costs resulting from delayed execution of activities, loss or misuse of public resources, embezzlement of public funds from the intended purpose.

This requires the entity's board of directors and/or executive managers to hold on with expertise and high integrity candle-light, zero tolerance to frauds and embezzlement and any sort of internal controls' overrides.

This requires to set in place clear policies that attract and maintain competitive labor-force, and make sure they are respected despite one's position in the company, promoting staff accountability all through the organizational objectives' achievement path.

The present study compares the level of internal controls 'compliance from the two government business enterprises in one of five East African Community countries, Rwanda, a country 26,338 km² area that would require almost 7.3 times to equate Karnataka state (191,791 km²) of India.

The study hypothetically aims to test whether there exist a significant difference between respondent's perception on internal control practices with respect to Office National des Transports en commun "Rwanda Public Transport Authority" and Security Guarantee Fund, as government business enterprises.

The results found that there exist significant differences to some, and not to other elements of internal control components. Hence, to some elements, the null hypothesis has been accepted, and rejected to others.

The study recommends the concerned companies to invest in personnel professional trainings and strengthening of informal system of information gathering on frauds and corruption trends.

Key words: Internal Control, Financial Performance

INTRODUCTION

The ten corporate accounting scandals of all times that have marked the last decades from Waste Management of 1998 to Satyam of 2009 have been seen by different economists as key ingredients of the recent global financial crisis.

In reaction primarily to the Enron Scandal [14] of 2001, the Houston based commodities, energy and service corporation that made shareholders losing \$74 billion, employees and investors their retirement accounts, many

employees their jobs; the United States Congress passed the 2002 Sarbanes-Oxley (SOX) Act [13] redesigning and revolutionizing the concept of internal controls [5] that had previously been developed by the Committee of Sponsoring Organizations (COSO) as a corporate guidance to objectives achievement in the areas of reliability of financial reporting, compliance with applicable laws and regulations, effectiveness and efficiency of operations [9].

In 2013, the observed remarkable increasing hindrances to the internal controls' effectiveness, to quote a few, the effects of management override, conflicts of interest, lack of segregation of duties, poor or nonexistent transparency, soloed risk management, ineffective board oversight, and unbalanced compensation structures that enabled or drove dysfunctional and/or irresponsible behavior [3], etcetera brought COSO to release an updated internal control framework with respect to control environment -1-, risk assessment -2-, control activities -3-, information and communication -4-, and monitoring -5-.

The present article is all about a comparative study on internal control system practices in two selected Government Business Enterprises (GBEs) in Rwanda, where one has been undergoing financial performance criticisms from several years (Office National des Transports en Commun "ONATRACOM") and another one not (Security Guarantee Fund "SGF").

STATEMENT OF THE PROBLEM

From the last decades, companies have been facing financial problems originating from less compliance with organizational internal controls.

As internal controls does affect each and every business and organization, from the smallest to the largest [4], companies and governments became aware of irreversibility to establish strong internal controls through which the performances will be anchored and monitored, frauds and embezzlements of organizational funds minimized.

All in all, it did not avoid famous companies like Enron, WorldCom [10,5], Satyam [8] and many more to be champions in frauds and inappropriate financial reporting scandals that, Enron collapse case itself has become a dream for academics who conduct research and teach, but a

nightmare that will continue for a long time [15] for its other stakeholders.

In Kenya, one of East African Countries, a big company “Mumias Sugar” has violated internal controls with regard to financial reports by declaring false profits, and Deloitte Auditing and Consultancy firm is put on the spot over role in Mumias Sugar accounting scandal [6].

In Rwanda, after the Government privatized some of its businesses to ease its control burden and inherent losses, internal control systems’ effectiveness remains a crucial issue still, even though the Office of Auditor General of State Finances has been set up to carry out audit activities wherever governmental finances are channelled and accordingly issue recommendations including to which extent is the compliance with internal controls.

29 fraudulent and ONATRACOM cash deficit [2] and many other cases have been reported, similar cases have been appearing in previous Auditor reports and still continue today.

The 30 June 2014 dated report has come up with increasing cases of fraudulent activities in public entities where fraudsters abused the internal controls systems to divert public resources for personal gain, where 30.51% are funds withdrawn using forged documents/signatures, 0.16% used for personal gain and not accounted for, and 69.34% diverted and not reaching intended beneficiaries.

RELATED LITERATURES REVIEW

Ben Kwame Agyei-Mensah [7] has conducted a research on internal control information disclosure and corporate governance and found that the low level of internal control information disclosure could be used by stakeholders to determine the level of corporate governance practices in the sampled companies.

Zuraidah Mohd Sanusia, Razana Juhaida Johari, Jamaliah Said, and Takiah Iskandar [11] studied the Effects of Internal Control System, Financial Management and Accountability of NPOs: The Perspective of Mosques in Malaysia, and found that the internal control system plays an important role in ensuring the effectiveness of financial management practices.

Angella amudo, Eno L. Inanga [1] have conducted a study on evaluation of Internal Control Systems in Uganda and found that some control components of effective internal control systems were lacking in the studied projects, rendering the control structures ineffective. In their conclusion, they express generalization problems as other countries should get included in the study to provide enough data.

In Kenya, the study conducted by Douglas Ong’ang’a Nyakundi, Micah Odhiambo Nyamita, Tom Matwetwe Tinega [12] on the Effect of Internal Control Systems on Financial Performance of Small and Medium Scale Business Enterprises in Kisumu City has revealed that a significant change in financial performance is linked to internal controls systems.

The current study will compare how internal controls are practiced in two Rwanda GBEs, with respect to each of five internal control components.

Objectives

The objectives of this study are

1. To explore the extent by which internal control practices are performed in two selected government business enterprises in Rwanda, and
2. To examine whether there is any significant difference in perception of respondents regarding internal control practices in government business enterprises in Rwanda.

Hypothesis

Our study will have to test the following hypotheses:

- Ho: There is no significant difference between respondents perception on internal control practices in Rwanda GBEs,
 H1: There is a significant difference between respondents’ perception on internal control practices in Rwanda GBEs.

METHODOLOGY

Source of data

The study used primary and secondary data, where the primary data have been collected by the researcher through a survey administered to selected GBEs, whereas secondary data have been collected through a documentary technic by consulting different journals and articles, reports, books and websites.

Population and sampling

The population is composed by a total of 113 staff members with ONATRACOM counting 92 itself.

The sample has been determined through Yamane formula

$$n = \frac{N}{1 + N(e)^2} \tag{1}$$

with 95% confidence level, Where n: Sample size, N: Population size and e: The level of precision.

Hence, a sample of 88 respondents with 72 from ONATRACOM and 16 from SGF has been used for this study.

Research instruments

The researcher has used observation, research questions and unstructured interview.

Research questionnaires helped to collect demographic and internal control practices data in government enterprises under study.

Validity and reliability testing

The researcher obtained questionnaire validity, through sending it to 3 research experienced Ph.D holder in Business, Statistics, and Social Sciences respectively for a review.

To test the reliability Cronbach's Alpha of .763 has been maintained through the Software Package in Social Sciences (SPSS) calculation:

Reliability Statistics	
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items
.763	.759

Table 1: Test of reliability

Limitations of the study

This study is for only two GBEs, whereby the generalization may not be true in all cases. It also anchors on previous studies that have been conducted by others, through which the researcher has only to believe in their findings.

Conclusions and suggestions are based on responses from a judged representative population’s sample that is met once at a time, which may not be true in all cases.

The questionnaires used for this study were translated from English to French, where the degree of words soundness may differ in the respondent’s understanding.

DATA PRESENTATION AND INTERPRETATION

Demographically, 1.1%, 33%, 26.1%, 36.4% and 3.4% of our respondent are below 25, 25 to 35, 36 to 45, 46 to 55 and above 55 years old respectively.

12.5%, 3.4%, 13.6% and 70% have experience of below 1, 1 to 3, 3 to 5 and above 5 years with their respective employing company.

When it comes to the respondents ‘education level, the study has found that 30.7%, 19.3%, 42%, 4.5%, and 3.4% are their respective level with those who completed high school, undertaking bachelor, completed bachelor, undertaking master’s and completed masters’ studies, where the majority (51.1%) is undertaking or has undertaken business related studies with 75% of the total respondents having not access to professional qualification like Certified Public Accountants (CPA), CFM (Certified Financial Managers (CFM), etc....

For the internal control practices with respect to control environment, risk assessment, and control activities, no much differences can be observed from the two companies as they almost all fall in the same optimistic or pessimistic sphere to agree or disagree with the statements. But when it comes to information and communication, and, monitoring, the followings are remarkable differentiations:

Key Differences on Internal Control Practices	ONATRACOM	SGF
	Disagreement	Agreement
Critics from employees welcomed	55.60%	56.20%
Information and communication Existence of Informal system reporting frauds and corruption	51.40%	56.30%
Monitoring External Auditors' recommendations efficiently communicated to everyone	56.90%	93.70%

Table 2: Observed key differences on Internal control practices.

DATA ANALYSIS AND CONCLUSION

This paper is a comparative study of Internal Control System Practices in Some Selected GBEs in Rwanda,

aiming to find out whether there exist significant difference in internal controls are practices.

60.2% of our respondents have not yet gone beyond 45 years, with 34.1% not exceeding 35 years which is a good asset for the company to have the staff that is still physically strong.

But still the problem relies on the educational level, where 30.7% are those with high school certificate, with ONATRACOM holding a majority.

For some of internal control components, disparities are observed in information and communication, then monitoring, where in ONATRACOM, views of employees are less considered, which not the case in SGF.

Lastly, the recommendations from external auditors, the ones that are originating from a totally independent body are not effectively communicated to everyone in ONATRACOM, which is not the case with SGF.

After conducting t test with our significance level α maintained at 0.05, the regular t value and the significance level associated with the t value sig.(2-tailed) the following table makes a conclusion at which questions we accept the null (H0) or alternative (H1) hypothesis:

Internal Control Components	Sig. (2-tailed)	Statically significant (or no significant difference)	Accepted hypothesis
CE1	0.156	Significant	H1
CE2	0.39	Significant	
RA1	0.563	Not significant	H0
RA2	0.157	Significant	H1
CA1	0.141	Significant	H1
CA1	0.415	Significant	
I&C1	0.053	Significant	H1
I&C2	0.601	Not significant	H0
M1	0.945	Not significant	H0
M2	0.011	Significant	H1

Table 3: Hypothetical tests of significance.

Internal control components (ICC): Control environment (CE), Risk assessment (RS), Control activities (CA), Information and communication (I&C), Monitoring (M)

From the findings the study recommends to GBEs that they should plan how promote staff involvement in professional trainings, and set up an informal system helping them collect enough information regarding frauds and corruption trends.

Having used only 2 questions for every ICC, the researcher recommends future researchers to develop a research that uses extended questions that would increase exhaustiveness of information on internal control practices.

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