

Effect of Control Environment and Control Activities on Financial Performance of Kampala International University

Katusiime Allen¹, Mabonga Eric² (PhD), Kirabo Joseph³ (PhD), Sunday Arthur⁴ (PhD)

^{1,2,3,4} Kampala International University

Abstract

The study sought to establish the effect control environment on financial performance of Kampala international University. The study employed both primary and secondary data. The study was descriptive in nature and inferential statistics were used to analyze the data. Regression analysis was employed because of the nature of the study as it enabled the results bringing out the purpose of this study. The findings reveal that personal integrity and ethics did not have a significant effect on financial performance of Kampala international university. Control activities were found to have a significant effect on financial performance. We concluded that personal ethics and integrity are not significant to enhance financial performance provided the organization has set clear policies and procedure to be followed by employees. Control activities have significant effect on financial performance since they are part of the control system and they must be performed by employees for the organization to perform well.

Key words: Control environment, control activities, financial performance

1. Introduction

[1], Identifies five main elements of internal control systems against which the review should take place. These include Control environment, Risk assessment, control activities, information and communication and monitoring. There is a general expectation that institution and enforcement of proper internal control systems will always lead to improved financial performance. The COSO framework also found out 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. In this study, our interest is on the control environment and we have explored in details visa vie other earlier scholars. The control environment in this context we focus on integrity and ethical values and organizational structure. Control environment has several factors that could affect financial performance however, for purposes of this research, the focused on integrity of employees and control activities. According to [2], financial performance refers to the ability to operate efficiently, profitably, survive grow and react to the environmental opportunities and threats.

Performance is measured by how efficient organizations use its resources in achieving its objectives. According to [3] appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. [4] contend that, performance is measured by either subjective or objective criteria.

2. Control Environment and Financial Pperformance

[5] Notes 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 management philosophy and operating style and Organizational structure.

[5] Further, 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 have not 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. [6] In their study found that there is a positive linear relationship between internal control environment and

financial performance of companies quoted in the Nairobi stock exchange. [7] Maintains that control environment also refers to the overall attitude, awareness and actions of management regarding internal controls and their importance. Control environment and activities include; integrity and ethical values

3. Effect of Control Activities on Financial Performance

Earlier studies conducted on the effect of control activities on financial performance have found contradicting findings such as, [8] and [9]. [8] In his study on control activities and performance of organizations established a positive relationship between control activities and performance. However, [9] did a study to establish the relationship between internal control activities and financial performance in Tertiary Institutions in Nigeria. The findings of their study revealed no significant relationship between internal control activities and financial performance.

[5] Assert control activities as component of internal controls. 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 security 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).

Internal control should be effective when examining design can extremely be beneficial and is usually for organization management and generally to financial statements. At present, all kinds of business firms have used internal controls through the formation of policies to ensure a safeguarding assets and profitable business environment especially accounting policy, management policy, and operational policy. Hence, internal control should be on a regular basis review in all aspects of the company and insert internal controls that will strengthen the company and increase profitability.

Besides, internal control effectiveness is important to the entity level of the firm especially it provides reliable financial information, safeguard assets and records, encourages adherence to prescribes policies and comply with regulatory agencies [10]. The basic concepts of internal controls indicate that management must establish and maintain the entity's controls by risk management efficiency, should provide a quality of compliance applied to all employees with potential of intra organization communication, and effective by a continuous monitoring adequacy [4] In this study control activities were measured in terms of internal audit function, Monitoring and evaluation and reporting. According to [11] when the company

pursues integrity and clear ethical values are reflected in a formal code of conduct/ethics, the internal audit function will be of greater importance. This is because the internal audit function is often seen as a way of translating and communicating the tone-at-the-top throughout the company. Therefore, management should invest in a relatively larger internal audit function.

4. Methodology

Exposit facto and case study designs were employed. Data was collected from colleges and administrative units and finance department. Both quantitative and qualitative approaches were employed. In depth analysis was done by first testing the collected data for appropriateness before analysis. Simple regression analysis was employed since researchers intended to find out the effect of the indentified constructs of internal control on financial performance. The most basic type of regression is the simple linear regression. A simple linear regression uses only one independent variable, and it describes the relationship between the independent variable and dependent variable as a straight line. Our decision rule; with 0.05 as a level of significance, we regard the results to be significant if the p-value is less than 0.05.

5. Findings

Table 1 Effect of personal ethics and integrity on financial performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.378a	.143	.044	11.444		
a. Predictors: (Constant), Ethics and Integrity						
ANOVA^b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	33.278	1	23.278	5.369	.081 ^a
	Residual	14.198	81	8.550		
	Total	47.477	81			
a. Predictors: (Constant), Ethics and Integrity						
b. Dependent Variable: Financial performance						
Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.938	9.002		1.437	.224
	Integrity	.039	3.038	.571	2.317	.081
a. Dependent Variable: Financial performance						

Results from table 1 reveal that personal ethics and integrity does not have significant effect on financial performance in Kampala International University. Findings indicate the p-value as $0.081 > 0.05$, this imply that personal integrity of employees does no significantly affect financial performance. This could suggest that with appropriate policies and procedures put in place, and if employees follow them, the organization can perform well. The r^2 of 0.143 which is low explain the extent how personal ethics and

integrity contribute to financial performance. The sig-value of 0.81 and a small F-value of 5.369 justify the level significance integrity has on finance performance. Further, using the un standardized beta coefficient the findings show that integrity contributes only 0.039 in a regression model. The conclusion therefore, is personal ethics and integrity does not have significant effect on financial performance of Kampala International University.

Table 2 Effect of control activities on financial performance

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.472 ^a	.223	.214	.67848		
a. Predictors: (Constant), Control activities						
ANOVA ^b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.713	1	10.713	23.273	.000
	Residual	37.287	81	.460		
	Total	48.000	82			
a. Predictors: (Constant), Control activities						
b. Dependent Variable: Financial performance						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.513	.192		13.067	.000
	Control activities	.273	.059	.399	4.605	.000
a. Dependent Variable: Financial performance						

Regression analysis results in the model summary indicated that the control activities accounted for 22.3% on financial performance of Kampala International University and this was indicated by r-squared of 0.223 implying that holding other factors constant, control activities affects about 22.3 % of financial performance of Kampala international University and the remaining 62.7% is by

other factors beyond the scope of this study. The ANOVA results indicate that control activities had insignificant effect on the financial performance and this was indicated by the F-value = 23.273 and Sig-value = 0.000, since the sig. value is less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that control activities have a significant effect on the financial

performance of Kampala International University. The coefficients table indicated that considering the standard error, control activities have a weak effect on financial performance of Kampala International University. These findings are in line with [6] and [12] who found that the implementation of internal controls have a significant effect on financial performance.

6. Conclusion

From the study findings the following conclusions are drawn; Personal integrity and ethical values of individual employees does not have a significant effect of financial performance of Kampala International University. Given that Kampala International University has staff from different countries, this could have impacted on the results. Still individual employees have their own personal ethical values and the integrity varies from individual to individual.

Control activities were found not to have significant effect on financial performance of Kampala international university. Internal audit function, Monitoring and evaluation, and reporting do not have significant effect on financial performance. This therefore, could imply that financial performance of Kampala international university may largely be influenced by external factors.

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