

**INTERNAL CONTROL SYSTEM IN COOPERATIVE
SOCIETIES: A CASE OF WAT HUMAN SETTLEMENT TRUST
DAR ES SALAAM**

**By
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Accounting and Finance (MSc. A &F) of Mzumbe University.**

2014

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled: **Internal Control System in cooperative societies in Tanzania: A Case of Wat Human Settlement Trust Dar es Salaam**. In partial fulfillment of the Requirements for the Award of the Degree of Master in Accounting and finance (MSC A&F)

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And to many more important person not listed here I owe them a lot of thanks. Nevertheless the opinions expressed in the report and the implications thereof are the sole responsibility of the study and by no way do they bear implication to the people mentioned in this acknowledgement nor do they constitute the opinion but for the presentation as a partial fulfillment of the MSc. A&F Degree research.

DEDICATION

To the esteemed love of my beloved father; Anatory Simeon who took me to school and taught me the value of education, to my mother Scolastika Anatory for nursing me all through.

ABBREVIATIONS

AFDB	-	Africa Development Bank Group.
AGM	-	Annual General Meeting
AICPA	-	American Institute of Certified Public Accountants
CIMA	-	Chartered Institute of Management Accountants
COSO	-	Committee of Sponsoring Organizations of the Tread way
CREDIT	-	Credit Committee
DID	-	Development international Desjardins
HST	-	Human settlement trust.
ICAEW	-	Institute of Chartered Accountants in England & Wales
IFA	-	International Federation of Accountants
IRM	-	The Institute of Risk Management
MSC A & F	-	Masters science in Accounting and Finance
NUES	-	Norsk Utvalg for Eierstyring og Selskapsledelse
RBICRM	-	Regulation on Banks' Internal Control and Risk Management
Systems		
SACCOS	-	Savings and Credit Cooperative Society
SUPERVISORY-		Supervisory Committee
TFC	-	Tanganyika Federation Cooperation
WAT	-	Women Advancement Trust
ZCC	-	Zanzibar Cigarette Corporation

ABSTRACT

The research was conducted as a case study at WAT SACCOS. The primary purpose of this research is to assess the effectiveness of internal control system of saving and Credit Cooperative Society.

There has been a trend for poor internal control system in most cooperative societies in Tanzania because management and staff of SACCOS tend to waste assets and practice poor management of members cash and miss use of members resources. The problem has been the major reason for collapse of the financial institutions in Tanzania including Cooperative Societies.

In undertaking the study the researcher decided to use various techniques such as interview, observation and questionnaire as described in chapter three of collecting, analyzing and interpreting data collected.

After analysis and interpretation as explained in chapter four, the researcher comes with the findings on results of the study which reveal that there were effective controls over cash since that the system did not allow the cash to be collected by unauthorized personnel, and that paid out were authorized by responsible personnel.

There were physical controls over the assets of the organization as physical assets were maintained in a register and valuation was done every year. There were restriction to access to records and custody of the assets to unauthorized personnel. Keys of a safe were maintained by two persons, which prohibit embezzlements of society fund

A society should look for the ways to employ competent personnel and give regular training to the current employees to equip them with skills and competence in performing their responsibility.

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CHAPTER ONE

PROBLEM SETTING

1.0 Introduction

The globalization of economy, technological advancements, complexity of business and allegations of fraudulent financial reporting have recently sharpened the ever-increasing attention on internal controls and internal auditing. Simultaneously, financial institutions have seen many new financial instruments and players being introduced, making the transactions and operations more complex. In this context, internal control is to be carried out on the basis of standing laws and regulations, which generally include also the policies and decrees of state as well as rules and by-laws of organizations. Within this framework of extremely fluid business environment, the purpose of our study is to underline the importance of a well-organized internal control system for ensuring the safe and soundness of a credit institution's activity, and by this the stability of the banking system as a whole.

Internal control system plays a major role in performance of many organizations, people and management information systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored and measured. It plays an important role in detecting, preventing fraud and protecting the organization resources both physical example machinery and property and intangible or intellectual example trademarks.

At organization level internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals and compliance with laws and regulations.

There is currently considerable interest in the topic of internal control and its contribution to exact management of any business economic resources (Kantzos and Chondraki, 2006; Rittenberg, 2006). This developing role of the internal auditing is also reflected in its current definition, i.e. "Internal control is the system of internal administrative and financial checks and balances designed by management, and

supported by corrective actions, to ensure that the goals and responsibilities of the organization are achieved” (Cahill, 2006).

In accordance with the above, growth in cooperative societies has given financial institutions the opportunity to design new products and to provide a wide range of services, there can be noticed an increase in associated risks (Palfi and Muresan, 2009). Simultaneously, there is growing management recognition of the importance of implementing a good internal control system as some of the recent reports on saccos failures have highlighted fraud and negligence as the major contributory factors (Chan, 1995). In other words, the activities of internal control are now seen as critical elements in the assurance process. Strong internal control systems have long been seen as particularly relevant to banks because of their vulnerability to fraud and the links between information systems and money (Cahill, 2006). In this context, the purpose of this paper is to highlight the interaction between components of internal control system and effectiveness of internal control in cooperative societies, in particular.

Co-operative societies like any other business organizations have an objective to accomplish, which is to raise economic and social life of its members by using available resources. This objective can be reached by management setting out strategies and policies and implement them accordingly. In implementing such policies, there must be accountability of internal control system in order to safeguard society’s assets against waste, fraud, error, inefficiency and carelessness and other unforeseen circumstances such as accident and fire.

Having effective internal control system in the society, the accounting transactions, records and financial statements will be accurate and one can rely on them. Accountability mechanism of internal control will make it possible to establish a sound policy and secure compliance with such policy.

This means that if there is accountability mechanism internal control in an organization, there is possibility of achieving the set objectives on timely basis, and

the absence of accountability mechanism of internal control will result to negative performance.

Having such situation, there is a need to conduct a study to establishment of effectiveness of internal control in co-operative societies.

1.1 Background Information.

Co-operative societies are registered societies whose principal objects are to encourage thrift among its members and provide credit services to its members at a fair and reasonable rate of interest. (Cooperative Societies Act 2003).

The idea of SACCOS in Tanzania was brought by the late Cardinal Laurian Rugambwa, who got the idea from U.S.A where he had gone for studies (Tairo 2001) When he returned, he sent two priests to the USA in 1960, and when they came back they were assigned to visit all catholic parishes in Bukoba, Moshi and Dar es Salaam to preach about savings and credits.

In 1961 the first credit society was registered in Dar es Salaam under the name of KIANGA. In the same month another society was registered in Moshi under the name of Madelia Mission.

Cooperatives have been an important part of the development of Tanzania for 75 years. While they have seen many successes and failures during this period no other institution has brought so many people together for a common cause.

Following the Arusha Declaration, cooperatives became the main tool for building a spirit of self-reliance during the Ujamaa period. However, following the introduction of free markets, cooperatives have struggled to compete with the private sector and many have not been able to provide their members with services they need. The Government has responded to this problem by introducing a new Cooperative Development Policy (2002) to help cooperatives to regain their importance in the economic lives of the people.

There was over 1,400 Savings and Credit Cooperative Societies in Mainland Tanzania (SACCOS) in Tanzania with a total membership of 200,000, which was very small compared to the population of the country during 2004. Most of them were urbanized operating on the old traditional model which is socially oriented.

SACCOS have been blamed for being weak in terms of record keeping, reporting and governance. It is on this basis that the government lately formulated a number of strategies and policies to promote the SACCOS and microfinance sector in general. **(P Sebastian (Sep 8 2004 source) transformation process take off in Tanzania source IPP.**

Previously to 1990's many SACCOS performance proved failures other collapsed due to several reasons including poor management, embezzlement of SACCOS funds, Assets and alike. SACCOS established were operating manually, there were no competent and experienced staffs with several professionals to operate them. This resulted many SACCOS to collapse and fail to meet their objectives. Others were bankrupt due to embezzlement of resources and non compliance and control over SACCOS assets

Microfinance advisors and SACCO's analyst mentioned several reasons for non performance of SACCOS declared proper control has been missed on operations, this has resulted the government to form a new modern SACCOS by establishing ministry of agriculture, food security and cooperatives to supervise and guide SACCOS operations on each districts.

Government efforts on monitoring SACCOS operations invited different companies having experts on the field to restructure and establish modern way of operating SACCOS in Tanzania.

This has resulted international organizations like DID (Development international Desjardins) a company located in Canada that deals with demonstration project established in Tanzania to support smooth run of SACCOS through introduction of control measures including use of accounting packages dual control of cash, procedures of disbursement and delinquent follow up measures, record keeping of

transactions and proper authority including competent staffs having financial experiences.

To start they managed to restructure some of SACCOS located in Dar Es salam including, Tandale SACCOS located at Manzese, Lumumba SACCOS located Mnazi Mmoja, Tandaimba SACCOS, WAT SACCOS and so many in Ruvuma and Lake zone

To this concept the researcher want to research on this modern way of control introduced to run SACCOS operations under DID later to Dunduliza projects their success and weaknesses compared to those previously established early 1960's considering SACCOS Assets management.

1.2 Background of WAT SACCOS

WAT is a Tanzanian based Non-Governmental Organization established and registered in October 1989) under the name “Women Advancement Trust” (WAT to promote the advancement of women). In the year 2005 the name was changed to “WAT- Human Settlements Trust” (WAT-HST) so that it reflects on its actual activities. This new name was registered under the Trustees incorporation ordinance (Cap 375) on 19th September 2005. Currently, the focus of the organization's is to empower low and middle income communities especially women to participate fully and effectively in all aspects of human settlements development. The organization aimed to promote the advancement of women through education and training. Likely WAT expanded to WAT-HST so as to solve housing problem to low and middle income earners.

Over the years WAT-HST has been growing slowly but steadily as it continues to improve its services and products that reach many target clients through WAT-SACCOS (WAT-HST's lending arm). To date WAT-HST's success has also been due to collaboration on advocacy issues with HAFOTA (Habitat Forum Tanzania)

Founder

WAT-HST was founded by a woman of action, Mrs Tabitha Ijumba Siwale (Mama Siwale) who has worked in the community for the most part of her life and has

greatly contributed to the improvement of people's lives through a number of innovations.

Mama Siwale funded WAT-Human Settlements Trust in 1989 and currently sits as Settler/Trustee on the Board of Directors. Mrs Siwale was the first female Tanzanian Minister, appointed Minister of the Ministry of Lands and Human Settlements Development by President Mwalimu Julius Kambarage Nyerere in 1975. Mama Siwale went on to becoming Minister of Education in 1984 and received a special MP seat between 1975 and 2000

Mrs Siwale has distinguished herself through her commitment to making financial services more accessible to low and middle income earners especially women and to developing the local microfinance sector. Savings and Credit Co-operative Society (WAT SACCOS) was one of her innovations established to support its members through microfinance loans. She is one of such individuals who are strongly committed to working with their community. More than 321 WAT SACCOS members with middle and low income have benefited from affordable loans for secured plots from WAT-HST in the year 2011/2012. More than 500 other members will benefit from these loans in the year 2013.

1.3 Statement of the Problem

Internal control system in SACCOS is defined as a set of procedures, mechanisms, and policies governing the chain of activities carried out by the SACCO as well as the hierarchical checks needed at every level so that fraud, embezzlement, misappropriation of funds or any other malpractices can be prevented.

Internal control ensures separation of duties at every stage of activities and clearly indicates who does what and who authorizes each process of operations conducted in the SACCOS.

Savings and credit cooperatives union league (SCCULT) has reported the backward development in Tanzania concerning SACCO's performance was attributed by weakness of internal control system. This has already mentioned out the picture of how fraud has been penetrated in the financial strength of many SACCOS. Conflicts

and collapse of SACCOS has been a normal trend in Tanzania, which results loss of trust by many members on their savings and non payment in time amount disbursed on time. In nutshell the damage which this fraud has done to SACCOS innumerable and it needs urgent attention.

Risk is inherent in every economic activity and every organization has to manage it according to its size and nature of operation because without risk management no organization can survive in the long run. This is because businesses today are faced with far greater challenges than before due to the fact that economical, technological and legal interdependence are becoming more prevalent and pronounced. It would be assumed that internal control systems will vary from organization to organization based on their size or industry sector. It is therefore logical to assume that every business organization has put in place strong internal control systems to help achieve its goals. These are fundamental to the successful operation and day-to-day running of a business and assist a company in achieving its goals.

Risk may affect many areas of activity, such as strategy, operation, finance, technology and environment. In terms of specifics, it may include, for example, loss of key staff, substantial reductions in financial and other resources, severe disruptions to the flow of information and communication, fires or other physical disasters, leading to interruptions of business and or loss of records. More generally mismanagement. In light of this, it is expedient to find out more about the internal control that threaten the operations of an institution (WAT-HST), in the financial sector, internal control systems are put in place, how these control measures facilitate the smooth running of the company in achieving its objectives and goals, the impact of risk management and internal control systems on the profitability and sustainability of the organization. Therefore attempt to put an end this economic degradation gave rise to the topic of this research study of internal control system in Tanzania for the management and staffs of WAT-HST SACCOS as a case study.

1.4 Objectives of the Study

1.4.1 General objective

To find out the proper internal control systems used in Cooperative Society in Tanzania.

1.4.2 Specific objectives.

- (i) To examine physical control over the assets of society
- (ii) To assess the need for segregation of duties regarding recording and processing of a complete transaction.
- (iii) To describe whether communication, authorization and approvals of transaction are done according to rules and regulation.
- (iv) To examine risk and risk management associated with cash receipts and cash disbursements.

1.5 Research questions

1.5.1 General questions

What are the appropriate internal control systems in cooperative societies in Tanzania?

1.5.2 Specific questions

- (i) Does physical controls over the assets results to ineffective internal controls?
- (ii) Is there any dual control of recording and processing of transaction?
- (iii) Is there clear communication and authority on approval of transactions?
- (v) Is there any risk management over cash receipts and cash disbursements in Co-operative society?

1.6 Significance of the Study

This study has the following significance to both researcher and the organization:

The findings will help the organization to make corrective measures to improve its internal control system, be a good source of information for other SACCOS interested in improving their internal control systems. Likewise a study will stimulate other researchers on a field of study and add new knowledge to a researcher on the

field of study together with helping the staff of cooperative societies to know their duties and responsibilities on internal control. The study will help other SACCOS located in Dar es salaam and other places to implement internal control in their organization.

1.7 Scope of the study

A study was carried in one of the Co-operative Societies based in Tanzania and located in Dar es Salaam Region with several members from different economic activities, some are employees of private and government sector, and others are small entrepreneurs who are residents of Dar es Salaam, having a regular income.

1.8 Limitation of the study

(i) Time Limitation

Since the study was conducted during working hours despite my employment location in Mwanza and case study located in Dar es Salaam, caused some difficulties to meet my work and the study at once.

(ii) Financial Limitation

The cost of resources needed to conduct the whole study. The expenses including stationary like ream papers, shorthand notebooks, pens and rulers. Secretarial costs that involves typing, printing and editing. Transportation costs such as fare transport of the researcher, meals costs and accommodation costs.

(iii) Availability of data

Possibility to obtain relevant data in time was uneasy since some respondents did not returned questionnaires, some respondents provided wrong information and others responded nothing.

1.9 Limitations of the Study

The topic of internal control systems and risk management is very broad and to be able to meet the deadline set for the thesis, the research was not conducted to cover all the areas of the topic. With regards to the questionnaire, though comprehensive, it may not cover all the areas of risk management and internal control weaknesses. It would also have been good to capture the attitudes and behaviors of respondents in the course of answering the questions but this was not possible. Due to time constraints, it was not possible to administer interviews and observations as earlier planned. The researcher anticipated that, in administering the questionnaire, some problems would be encountered. For example, for ethical reasons, some respondents did not provide certain information needed.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter is concerned with reviewing related literature as far as internal control is concerned. Theories and conceptual definition, Empirical studies, conceptual framework, conceptual and research gap both will be included.

Theoretical Literature Review

This area is about the theoretical background of the thesis. Theories about risk, risk management, internal control, internal control systems, internal audit, audit committee and corporate governance are discussed. It also includes the discussion of the relationship between risk management and internal control systems.

2.1 Definition of key terms

Control

This refers to power or authority to check or restraining or regulating influence. A process of controlling or influencing the behaviors of people as a member of formal organization to increase the likelihood that will achieve organization goals.

Internal

This refers to something existing or situated within the limits or surface of something

Cooperative

A co-operative is a group of people who work together voluntarily to meet their common economic, social, and cultural needs through a jointly owned and democratically controlled enterprise. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality and solidarity. Co-operative members believe in honesty, openness, social responsibility and caring.

Society is a group of people involved with each other through persistent relations, or a large social grouping sharing the same geographical or social territory, subject to the same political authority and dominant cultural expectations.

2.2 Disbursement

The act of paying out or disbursing money. Disbursements can include money paid out to run a business, spending cash, dividend payments, and/or the amounts that a lawyer might have to pay out on a person's behalf in connection with a transaction.

Internal control system

According to Howard (1982) Financial Accounting, Internal control is the whole system of financial or otherwise, established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible completeness and accuracy of records.

According to Meigs (1986) Internal control include all the measures taken by an organization for the purpose of protecting resources against waste, frauds and inefficiency; ensuring reliability and accuracy of operating data, securing compliance with organization's policies and evaluating the level of performance in all levels in all divisions of the organization.

According to David N. Ricchiute (Auditing Concepts and Standards) defines Internal control as the process through which an entity attempts to minimize the likelihood of accounting-related errors, irregularities and illegal acts.

According to Mhilu (2002) an internal control is effective internal control system is that which has the following objectives:

- (i) Proper organization and efficiency of operations
- (ii) Adherence to policies
- (iii) Safeguard assets that ensure accuracy of records

It is emphasized that an effective internal control system seeks to promote these objectives with regular updates of its effectiveness.

According to Messier (2003) internal control system is a process of an entity's Board of Directors, management and other personnel that is designed to provide reasonable assurance regarding to the achievements ion the following categories:

- (i) Effectiveness and efficiency of operations
- (ii) Reliability of financial reporting
- (iii) Compliance with applicable laws and regulations.

According to IFAC (2004) an effective control system is that which have been designed to achieve the objectives such that; execution of transactions are in accordance with management's general and specific authorization, all transactions and other events are promptly recorded in correct amount, into the appropriate accounts and in the proper accounting period so as to permit preparation of financial statements in accordance with an identified financial reporting framework. Other objectives are, to ensure that access to assets and records is permitted only in accordance with management authorization, recorded assets are compared with existing assets at reasonable intervals and appropriate actions are taken regarding to any differences.

2.3 Theories and concepts.

Risk

Every human activity involves some kind of risk, for example crossing the road, engaging in sporting activities, taking the bus, starting a new business et cetera. These are normal daily life activities and yet involve some kind of risks. We can however try to minimize such risks by following recommended guidelines or try to avoid partaking in such activities that are considered risky. What is risk then? Even though there is no single generally accepted definition for risk it is a common word used in connection with insurance, finance, banking and can be defined in many ways depending on the person defining it (Dorfman, 2007). In the insurance industry, the term risk refers to the exposure to loss. According to Mun (2004), "risk is any uncertainty that affects a system in an unknown fashion whereby the ramifications are also unknown but bears with it great fluctuation in value and outcome". Risk can be defined as the combination of the probability of an event and its consequences

The impact/probability figure allows an organization to determine which priority to give to each risk and how to manage them.

These two words are closely related to each other but totally different in meaning. Risk is when future events occur with measurable probability whereas uncertainty involves things that are completely unknown, for example the ash cloud case. This distinction denotes risk as a positive probability of something bad happening, while uncertainty does not necessarily imply a ranking of the possible outcomes (Chapman and Ward, 2002).

This is where risk management helps choose among alternative causes of actions to reduce the effects of risks. Risk management and internal controls are means by which businesses' opportunities are maximized and potential and material losses are reduced (Collier et al.2007).

Risk Management

Recent years have seen heightened concern and focus on risk management, as a result of series of business scandals and failures where investors, company personnel and other stakeholders suffered tremendous loss. This resulted in the publication of books, journals, articles and a series of government documents that draw attention to the need for better risk management and how to set up risk management system. The Sarbanes-Oxley Act in the US, the Basel II Capital Accord and the revised Combined Code (2003) in the UK are all examples of governance reforms with the intention of minimizing the risk of future major corporate failures through tighter regulation of internal control systems.

Risk management is viewed as a corner stone of good corporate governance and therefore results in better service delivery, more efficient and effective use of scarce resources and better project management (Collier et al., 2007). It has to do with identification, analysis and control of such risks that threaten resources, assets, personnel and the earning capacity of a company.

According to Dorfman (2007), risk management is the logical development and implementation of a plan to deal with potential losses. It is important for an organization to put in place risk management programmers so as to manage its exposure to risks as well as protect its assets. The essence is to prepare ahead of time on how to control and finance losses before they occur. Dorfman continues to say that risk management is a strategy of pre-loss planning for pre-loss resources.

Risk management is: “a process of understanding and managing the risks that the entity is inevitably subject to in attempting to achieve its corporate objectives. For management purposes, risks are usually divided into categories such as operational, financial, legal compliance, information and personnel. One example of an integrated solution to risk management is enterprise risk management” (CIMA, 2005). The Institute of Risk Management also provided a more detailed definition of risk management as: the processes by which organizations methodologically address the risks to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities (IRM et al., 2002).

In 1992, COSO issued the Internal Control – Integrated Framework with the intention of helping businesses and other entities assess and enhance their internal control systems and control their activities toward the achievement of their established objectives. It however became clear that there is the need for a stronger framework to effectively identify, assess and manage risks. Therefore, in 2004, COSO again issued Enterprise Risk Management –Integrated Framework, which expands on internal control, providing a more robust and extensive focus on the broader subject of enterprise risk management. This Enterprise Risk Management – Integrated Framework provides key principles, concepts, a common language, clear direction and guidance for all organizations. This does not however replace the internal control framework, but rather incorporates the internal control framework within it and companies may decide to look to this enterprise risk management framework both to satisfy their internal control needs and to move toward a fuller risk management process (COSO, 2004).

According to COSO again, Enterprise Risk Management deals with risks and opportunities affecting value creation or preservation, defined as “a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives” (COSO, 2004).

Internal Environment: The internal environment has to do with the tone of an organization, which sets the basis for how risk is viewed and addressed by an organization’s personnel, including risk management philosophy, risk appetite, ethical values, integrity and the environment within which an organization operates.

Objective Setting: Before management can identify potential events that could affect the achievements of the organization, it must first set objectives for the firm. Enterprise risk management makes sure that management has put in place a process to set objectives and that the chosen objectives support and align with the entity’s mission and are consistent with its risk appetite.

Event Identification: It is important that internal and external events capable of affecting the achievement of the organization’s objectives are identified, distinguishing between risks and opportunities. Opportunities are channelled back to management’s strategy or objective setting process.

Risk Assessment: Risk assessment is the determination of quantitative or qualitative value of risk related to a particular event if it happens. This involves analysis and evaluation. Quantitative risk analysis requires the calculation of two elements: the probability that the event will occur and the consequences of the event. It must therefore be analyzed, taking into consideration likelihood and impact, as a basis for determining how they should be managed. It is assessed on an inherent and a residual basis. Those risks that exist and affect the organization before they are addressed and

managed are known as inherent risks, while those risks that remain after an organization attempted mitigating inherent risks are called residual risks.

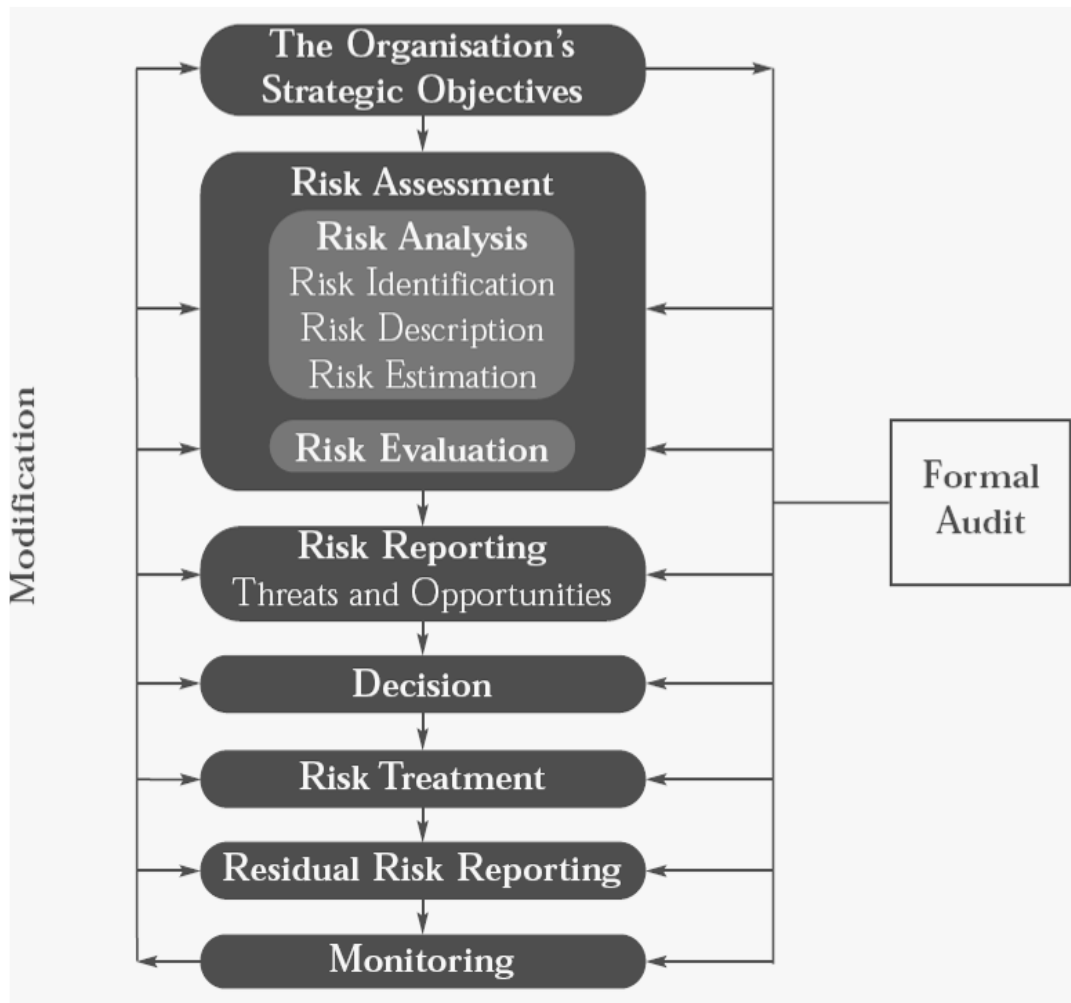
Risk Response: This is where management needs to decide on which risks to avoid, accept, reduce or transfer and develop a set of actions to align risks with the entity's risk tolerance and risk appetite.

Control activities: Control activities such as operating review and reporting, authorization, verifications, approvals and division of duties should be implemented in order to try and avoid risks materializing.

Information and communication: Important and relevant information should be Communicated in an appropriate and timely manner in order to enable employees to properly carry out their duties and responsibilities. The communication system should ensure that all information, positive and negative, reaches senior management without any delay.

Monitoring: The monitoring process involves assessing the quality of control systems overtime. This may be accomplished through monitoring activities, separate evaluation or both. From these definitions and discussions, it can be seen that risk management is an ongoing process for dealing with the possibility of loss. It aims to create a disciplined, structured and controlled environment within which risks to the organization can be anticipated and maintained within predetermined and acceptable limits. Risk assessment is a continuous process requiring regular review as internal and external changes influence the company's strategies and objectives. Circumstances demanding close attention include substantive changes to the operating environment, new personnel, new or revamped information systems, rapid growth, new technology, products or activities, corporate restructuring, acquisitions, disposals and foreign operations. A framework for managing risks aims to assist an organization to manage its risks effectively through the application of the risk management process at varying levels and within specific contexts of the organization.

Figure 2.2: The Risk Management Process



Source: IRM et al., (2002)

The risk management process is a continuous activity as illustrated in figure 2.2 The process involves these basic steps: understanding the mission of the organization, performance of risk assessment to identify the risks associated with the mission, categorizing and prioritizing the risks, design processes, training and checks (controls) for top level risks, monitoring internal control effectiveness and making improvements as required and repetition of the steps as shown in figure 2.3

Understanding the mission of the organization is the first step to effective risk management. It's important that an organization clearly articulates its mission. In this

way, risks associated with the mission can be easily identified. The next step is to start listing the risks. These risks could be categorized into human error, fraud, system or process weakness or problems and soon. Once the risks are listed, the company must then proceed to prioritizing these risks. It is unlikely that a company would be able to address all the risks listed; therefore it would be important that a company identifies high priority risks and focuses on them first. This leads to creating internal control systems that complies with Section 404 of the Sarbanes Oxley Act. Even though this act is meant for companies in the United States, it purports to protect big and public listed companies all over the world (Holt, 2006).

Literature review revealed that trying to envisage, predict and prevent every single risk associated with a business activity can be difficult and exhausting. A company can therefore be successful in managing its risks by breaking it down into stages that are manageable. Companies must identify and mitigate high priority risks first and then continue to review, prioritize and address the rest of the risks according to the needs of the organization (IRM et al., 2002). The risk management team, risk manager or internal control committee could rank the risks as risk1, risk 2, high-level risks, medium-level risk, low-level risk, et cetera. The idea is to first attend to all risks with the greatest probability of occurrence and greatest loss. However, the number of risks addressed at a time depends on the size and ability of the entity. The next step is to find the best way of mitigating these risks. A well-defined process is then used to minimize the risks and then communicated to all personnel at all levels of the organization through procedures, policies, instruction and training. Finally, these processes should be monitored on regular basis to make sure that they are functional and effective. Corrections are then made as and when necessary. The company then repeats the risk assessment or risk management process so as to attend to the next level of risks. The issue of this risk management strategy is also very crucial and fundamental to effective risk management. This is because it provides barriers against an accumulation of exposures inherent in ongoing business activities (Chorafas, 2008). Companies need risk management strategies in order to be successful at risk management. It helps management to identify and decide which risks to avoid, control, transfer to another party such as an insurance company or

which risk to tolerate, that is accepting some or all the consequences of a particular risk. The focus of good risk management is the identification and treatment of these risks. Its objective is to add maximum sustainable value to all the activities of the organization. This activity must also be realistic, practical and cost effective.

Internal Control and Internal Control Systems

Internal control is the whole system of internal controls, financial and otherwise, established in order to provide reasonable assurance of: (a) effective and efficient operation; (b) internal financial control and (c) compliance with laws and regulations. While internal control systems include all the policies and procedures (internal controls) adopted by the directors and management of an entity to assist in achieving their objectives of ensuring, as far as practicable, the orderly and efficient conduct of a business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information (CIMA, 2006). A strong internal control is one of the best defenses against business failures and an important driver of business performance. Therefore the usual question that is asked when a vibrant organization suddenly goes bankrupt is “what went wrong”? The answer points to weak controls most of the time. After assessing key risk areas of an organization, these risks would need to be managed in line with a defined risk management strategy. One major component of this strategy is appropriately derived internal controls that seek to mitigate unacceptable levels of risks. Each control will address a defined risk or be part of a regulatory requirement that in turn addresses the risk of breaching laws, procedures and rules.

The well known definition for internal control all over the world is given by COSO and according to it: “Internal control is broadly defined as a process, effected by an entity’s board of directors, managers and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

According to the COSO framework, internal controls are put in place not only to help companies reach profitability goals and achieve their missions, but also to minimize surprises along the way. An internal control system enables management to deal with quickly changing economic and competitive environments, market changes such as shifting customer demands and priorities and restructuring. So what then is internal control? There seems to be no distinct answer to this question.

It could mean different things to different people, which could be a factor of confusion among business people, legislators, regulators and others. Misunderstandings and different expectations could easily lead to problems within organizations and these problems could get even more apparent when the term, if not clearly defined, is written into laws, regulations and or other official documents. The COSO report deals with the needs and expectations of managers and others and describes internal control in order to establish a common definition that serves the needs of different parties and to provide a standard against which organizations can assess their control systems and determine how they can be improved. According to the report everyone in the organization is responsible for the internal control, yet in different ways. Management is responsible for the establishment of internal control policies and procedures.

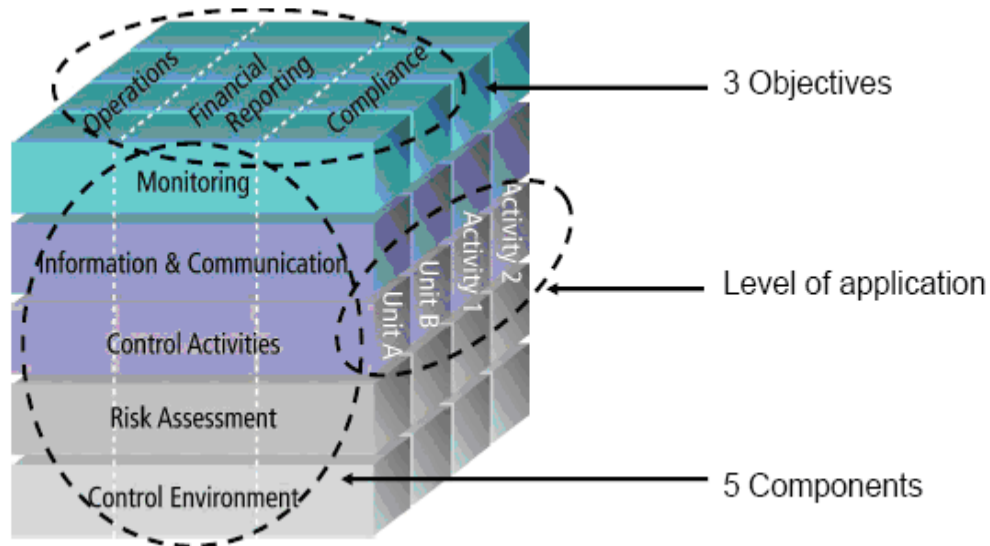
Management is again accountable to the board of directors, who is responsible for providing governance, guidance and oversight and all personnel are responsible for reporting problems, such as policy violations or illegal actions. Traditionally, the accounting profession's definition of internal control was focused on financial reporting and compliance aspects of control. However, the definition provided by AICPA in 1949 includes operational, financial reporting and compliance aspects of internal control (Mautz and Winjum, 1981). This definition was amended in 1958 and 1972 successively and then separated these controls into accounting controls and

administrative controls. AICPA directs accountants and auditors' attention on traditional accounting controls such as authorization, segregation of duties, cross-checking, in order to minimize litigation risks. This narrows the focus of control. The reason(s) for restricting accountants and auditors' responsibility to accounting and administrative controls is much of a debate. As a result of technological advancements and changing management techniques, organizations employ less people and are therefore less able to perform many internal accounting controls, for example, layers of authorization, cross-checking, segregation of duties, supervision et cetera. A range of control elements are therefore required in order for internal controls to be effective.

The COSO framework (see figure 3) shows three objectives: Operations (which has to do with how effective and efficient an entity uses its resources), Financial Reporting (which deals with the preparation of reliable financial statements) and Compliance (which relates to an organization's compliance with applicable laws and regulations). The framework also identifies five basic control components: Control Environment, Control Activities, Risk Assessment, Information and Communication, Monitoring and the different units of application.

The objectives show what an organization strives to achieve and the components show what is needed to achieve these objectives at different levels of the organization. All the components are related to each objective. For example, when talking about the reliability of financial reporting, all the five components must be present and functioning effectively in order to conclude that an organization's internal control over reliable financial information ineffective.

Figure 2.3: The COSO Internal Control



Source: Adapted from the 2004 COSO

Effective internal control requires a strong control environment under which the other components are implemented. The principles underlying good control and commitment to sound control compliance must be present so as to ensure healthy interactive control structure. Risk assessment forms the basis for determining where internal control activities are needed. This enables the organization to focus on those risks that will impact on the overall success of the firm. Communicating information resulting from the exercise of internal controls keeps key personnel and management informed of potential problems. An effective monitoring system is an ongoing assessment programmed that oversees the design, implementation and effectiveness of controls in mitigating risks.

Internal control must also be tailored to meet the needs of the individual business. This is because the more elaborate an organization's control systems, the greater the cost (IRM et al.2002). The scandals of recent years emphasized the need to evaluate, scrutinize and reformulate control systems of checks and balances in order to guide

corporate executives and persons in decision-making. Therefore as much as an organization would like to implement appropriately derived control measures; it must also consider the amount of money involved in implementing such measures.

Finally, there is the need for companies to have a risk protection strategy (Chorafas, 2008). Insurance is known to be one of the methods used by companies as risk financing in order to obtain financial protection against the impact of risks. However, it must be noted that losses such as organizational reputation and employee morale are uninsurable and difficult to regain once they are lost. Therefore, organizations must put in effort to maintain their reputation and goodwill.

Risk Management Versus Internal Control Systems

There is a misunderstanding as to whether risk management is a sub-division of internal

control or vice versa or they go together. The management of risks is very important and

significant to the achievement of business objectives and therefore plays a key role in a

company's system of internal control and corporate governance. Leitch (2004) published an article on Risk Management versus Internal Control. In this article, he noted that there is no difference between these two topics in principle. He went on to point out that the scope of each phrase seems to be getting wider. However, there are big differences in emphasis, with many practical implications. In the researcher's opinion, the management of risks and their control measures are inseparable. First, risks must be identified, assessed, then managed and mitigated by putting in place or implementing a strong system of internal control. As a result of separation of ownership from control, both the corporate world and governments turn to risk management and internal controls to give calm and reassurance (Collier et al., 2007).

Internal Audit and Audit Committee

Under the principles of good corporate governance, internal audit and audit committee are very important to the operations of an organization, as they ensure the

management of regular and adequate performance of internal control, seeking deficiencies, weaknesses and enhancing more efficient operations. Internal control office reports directly to the Audit Committee for the purpose of complete system of checks and balances. (Skogstad Aamo, 2004).

Ordinarily, the internal auditor does not get involved in any decision making process on risk management. It is felt that in the case of risk management it would be prudent for the internal auditor to have a say. The internal auditor only ensures that risk management practices adopted by the concerned departments are adequate, considering the nature of various risks and their likely impact on the business operations of the company. In a large company, different departments, depending on the nature of risk involved, may handle the risk management function. It would therefore be necessary for the internal auditor to first get a fair idea of the various categories of risks and action to be taken to confirm that enough safeguards are put in place for managing these risks. In the case of other risks like environmental and technological risks, the internal auditor may not have an expert knowledge of the severity of the risks and would have to get help from the concerned departmental heads to critically examine the process of the risk management. It would also be necessary for the internal auditor to weigh the impact of all these risks on the financial performance of the company and make a suitable report to the board of the company.

Corporate Governance

There is the need to talk about corporate governance; this is because risk management is a key element of corporate governance and overall internal control of a company (Collier et al., 2007). Corporate governance is the umbrella concept that drives a control and reporting framework, which in turn depends on risk management and an efficient system of internal control. Although corporate governance can be defined in a variety of ways, it generally involves the mechanisms by which a company is directed and controlled (NUES, 2009). Globally, demand for improved corporate governance has been a feature of the last decade, as a result of several and

prominent bankruptcies resulting from non-compliance with rules and internal controls.

Companies whose securities are admitted to trading on a regulated market, for are obliged to disclose an annual corporate governance statement as a special and clearly identifiable section of the annual report (NUES, 2009). In this statement, key information about governance practices, including the description of the main features of any existing risk managements and internal controls in relation to the financial reporting processes are to be mentioned. That is to say that information concerning the company's risk management systems and internal control systems should be presented and commented on. However, the level of disclosure and contents differ mainly because of changes in operations, so also the associated risks and their control measures. Listed companies manage a significant proportion of a country's assets and generate a major part of value creation. It is therefore in the interest of society as a whole that companies are directed and controlled in an appropriate and satisfactory manner.

For investors' confidence to be increased there must be good corporate governance in place. It increases trust and provides an accountability structure for management. The standards for risk management makes it clear that good corporate governance requires organizations to adopt a methodical approach in their risk management which will in turn ensure management controls, monitor performance and protect the interests of stakeholders.

Characteristics of an effective Internal control system

According to Howard (1982) an enterprise should have a plan which will define and allocate responsibilities and identify lines of reporting for all aspects of enterprise operations including controls. Delegation of authority and responsibilities should be clearly defined.

There must be separation of duties and responsibilities, which would, if combined, enable one individual to record and process a complete transaction. Not only that but

also an effective internal control should have procedures that will ensure that access to the assets is limited to authorized personnel, this include direct access and indirect access via documentation, also, an effective internal control should ensure that all transactions are authorized and approved by an appropriate responsible person. An effective internal control should ensure controls within the recording functions which check that transactions to be recorded and processed are have been authorized, and they are all included ad they are correctly recorded and accurately processed.

An effective internal control system should have procedures that will ensure personnel have capabilities commensurate to with their responsibilities.

According to Meigs (1986) an effective internal control should posses the following characteristics:

Organization plan to establish responsibility for every function in an enterprise, control transactions, which will enable all transactions to pass through authorization, approval, execution and record.

Subdivision of duties which will make sure that no one person or department handles a transaction completely from beginning to the end and the accounting function is separate from custody of assets.

According to Mhilu (2002) essential characteristics of good operating internal control system are as follows:

- (i) Clear plan of organization
- (ii) Segregation of incompatible functions such that, authorization and recording are done by separate people.
- (iii) Regular physical checks including installation of working security gargets
- (iv) Authorization and approval of transactions
- (v) Accuracy of records
- (vi) Skilled personnel with well defined jobs.

- (vii) Sound management and regular supervision of enterprise activities.

According to Messier (2003) an effective control system should consist of five components, which are:

- (i) Control environment which sets the tone of an organization and influence the control consciousness of its people.
- (i) Risk assessment, which is, entity's identification and analysis of relevant risks to achievements to its objectives, forming a basis of determining how the risks should be managed.
- (ii) Control activities, which are, the policies and procedures that help to ensure that management directives are carried out.
- (iii) Information and communications system which will support the identification, capture and exchange of information in a form and time frame that enables people to carry out their responsibilities.
- (iv) Monitoring, this is the process that assesses quality of internal control over time.

Capital Theory

The main and key factor for SACCOS is to give credit to its members for different purposes; it may be for purchasing land, household equipments, paying children fees and so many reasons. Likely SACCOS fall under microfinance institutions that also facilitate its members raise capital for business development. Most of commercial banks ignore the middle and low class business people who do not have security to access loans or credit. Thus Hernando DeSoto's on his view he came out with capital theory on the importance of capital and property rights in development. According to him, capital is the force that raises the productivity of labor and creates the wealth of nations. The main idea in DeSoto's work is based on the notion that no nation can prosper as long as most of its people remain poor. This creates a parallel relationship of two structures that he describes as the formal and informal economy wherein there exist a huge gap between the rich and the poor due to the lack of property rights, a situation which he terms as 'dead capital', referring to capital that has no legally documented value and as such cannot be used as collateral securities

on loan in commercial Banks. (DeSoto, 2000). Consequently, the poor masses that are often ignored by the commercial banks tend to embrace the informal sectors thereby creating a wider disparity between the rich and the poor. He praised the activities of Microfinance institutions as mediators between the two structures as they give out credits without any bureaucratic attachments geared towards development. 'The hour of capitalism's greatest triumph is its hour of crisis' (De Soto, 2000). In this theory, I intend to look at De Soto's 'Mystery of Capital' and the Importance of Property Rights with regards to his contribution to development and poverty alleviation.

The extent to which this has helped in answering the research questions on internal control system is also of prime importance to the understanding of this thesis. His ideas on the importance of capital are the center of discussion in providing solutions geared towards Third World's development problems on credit creation. Capital, to DeSoto is of prime importance to Third World development and until they wake-up from their slumber and convert their huge 'dead capital' (unregistered, undocumented, unrecognized assets) to 'active capital' (registered and lawfully recognized assets); development to him, will remain a distant dream. He views the lack of capital as the root cause of extreme poverty. He quantifies capital as an important productive machine that can boast the entrepreneurial spirit of the African continent as he puts it 'capital is the force that raises the productivity of labor and creates the wealth of nations' hence internal control system for the survival of the microfinance institutions.

Capability Theory

Apart from Hernando DeSoto's school of thought on how microfinance institutions play a big role in development Amartya Sen provide other way as his thought capability theory. He provides his ideas of justice and the importance of human capital in development. Sen believes that human beings, given their freedom are potential mechanisms in the fight against poverty. He views microfinance loans as an enhancement of human capabilities and social justice. In his book *Development as Freedom*, he sees development in the light of individual freedom. Sen agrees with

proponents of empowerment theory but differ with them in that whereas he stresses more on the importance of human capitals and freedoms, empowerment theory lays more emphasis on power relations and control. However, they both confirm microfinance as an empowerment paradigm.

‘The exercise of freedom is mediated by values, but the values in turn are influenced by public discussions and social interactions which are themselves influenced by participatory freedoms’ (Sen, 1999, p.9). Nobel Laureate, Dr Amartya Sen presents a very different approach to development. In his book titled ‘Development as Freedom’ he portrays development as the enhancement of human capabilities and individual freedoms geared towards controlled achievable valued outcomes. Sen views freedom as a human right prerequisite necessary for development.

Empowerment Theory

This theory is central in that it portrays power, control over one’s environment, awareness, community empowerment, and self reliance initiatives. Proponents of empowerment theory like Robert Chambers describe poverty as the ‘deprivation trap’ (Chambers, 1983). Gunnar Myrdal agrees with him and calls it the vicious cycle. They see microfinance loans as the way forward to get out of this stigma. A combination of all the above theories and their critics, throws more light to the understanding of microfinance as a development paradigm besides its shortcomings

Empowerment is a transformative process within human existence from the state of powerlessness to the state of relative control over one’s overall existence by taking control over his destiny and making use of his immediate environment for a sustainable improvement in their livelihoods and better standards of living. Microfinance emerging as a tool of community empowerment and poverty alleviation surrounds the discussion of empowerment theory. Empowerment theory is an alternative development approach as a result of the failures of mainstream development theories in addressing the poverty situation in Third World countries due to their emphasis on growth, pursuit of industrialization and urban bias on holding unfulfilled small promises of a better life for the excluded and downtrodden majority. This situation pushed the poor people in a downward spiral of resource deficit trapped in a vicious life cycle of poverty. Robert Chamber describes this

situation as ‘the deprivation trap’ and Gunnar Myrdal agrees with him and calls it the ‘vicious cycle’ which need to be addressed from this disillusionment comes an alternative development approach and hence empowerment theory: emphasizing the need for grassroots participation in the decision making process on a wider scale as against centralized development policies designed and carried out by politicians and international organizations alike (Friedmann, 1992). Alternative development restores the abilities to those at the bottom (underprivileged) on the basis that unless the poor take an active part in the development process and in control of their own destinies, sustainable development and the so-called poverty alleviation, will only remained a distant dream. This theory is in direct opposition to top-bottom approach on development. It is people-centered geared towards addressing the needs of the poor and how to use their initiatives, potentials and capabilities and move themselves out of the malignant deprivation of poverty as a result of being empowered.

Given this approach, empowerment has become a buzzword in most development and international agencies with most of its discussion centering on power relations, awareness, control, poverty alleviation, development and empowerment. The contributions of Friedmann, Rappaport, Zimmerman, Chambers, Myrdal and other scholars of the same category will be of paramount importance in this discussion for the understanding of this thesis. However, greater emphasis will be placed on Friedmann’s work titled ‘Empowerment: The Politics of Alternative Development’ wherein he provides the basis for an alternative development approach defined in the politics of empowerment asserting universal human awareness and rights of people within a given social setting. The focus is on the voiceless, marginalized, underprivileged, the households and all classes of disempowered people; men and women alike who constitute a majority in their political communities (*ibid.* pp. v – vii). Friedmann does not negate the politics of sustainable economic growth in his emphasis on the autonomy of power and self reliance initiatives but rather seeks to see a form of political, economic and social integration of communities regardless of their social status in the overall decision making process.

Friedmann sees empowerment in terms of power relations, the abilities of people to take control over lives and environment and participate in the overall decision making processes that affect their livelihoods geared towards improving their

standards of living; emphasizing on the needs of households. 'Alternative development must be seen as a process that seeks the empowerment of households and their individual members through their involvement in socially and politically relevant actions' (ibid., p. 33). He distinguishes three forms of power such as social power which has to do with awareness, knowledge, skills, participation in social organizations and access to financial resources without any form of societal discriminations. The second form of power being political power has to do with autonomy and active participation in the decision making processes. The last form of power is psychological power which portrays individual potentialities and sense of reasoning that influences both the social and political power. He moves further to explain that any deprivations of such rights infringes with individual basic existence and a negation of one's very humanity (ibid. pp. 30 – 34).

Narayan agrees with the above perceptions of empowerment by Robert Friedmann and added that empowerment is 'the expansion of assets and capacities of poor people to participate in, negotiate with, influence, control and hold accountable institutions that affect their lives'. Arguing that poor people are unlikely to take control without being empowered (Narayan, 2002). Similarly, Swift, Levin and Zimmerman in Perkins et al on empowerment suggesting that 'actions, activities, or structures may be empowering, and that the outcome of such processes result in a level of being empowered' and Rappaport in Perkins et al adds that 'both empowerment processes and outcomes vary in their outward form because no single standard can fully capture its meaning in all contexts or populations'. He further explains that 'empowerment is a construct that links individual strengths and competencies, natural helping systems, and proactive behaviors to social policy and social change (Perkins et al, 1995).

2.4 Empirical Studies

International case study DnB NOR ASA

The study was conducted in the financial sector of the Norwegian economy concerning risk management and internal control system in November 2010 by Anne Deladem Siayor DnB NOR ASA's as the case study. Businesses today are faced with greater challenges and complications than ever before, as economical,

technological and legal interdependence become more common and pronounced. Due to these developments, risks may go unidentified too long and early warning indicators ignored. It is therefore assumed that every business organization has put in place risk management and internal control systems in order for the organization to continue running. In light of this, this research was undertaken to find out more about the risk management and internal control systems in the financial sector of the Norwegian economy.

The objectives of this thesis were to find out the risks that threaten the operations of DnB NOR ASA, the impact of these risks on the financial performance of DnB NOR ASA, the risk management and internal control systems put in place by DnB NOR ASA and how these control systems have impacted on the performance of DnB NOR ASA.

This thesis was a study of a concrete problem that every organization is exposed to. The investigation was made through the combination of theory and empirical work. Primary and secondary data has been gathered through qualitative and quantitative approaches. Questionnaire was used to collect primary information from key informants in DnB NOR ASA in the financial sector of Norway.

At the end of this study, significant findings in the company revealed that risk management and internal control systems exist in the company and that they are being complied with. Therefore the main hypothesis for the research was accepted. As a result of the good risk management and internal control systems put in place by the company, the company was able to do fairly well (compared to the previous years) despite the financial scandals and crisis of recent years.

RCM'S Uganda

Angella Amudo and Eno L Inanga of Maastrich school of management in Netherlands conducted a research on Internal control system in public sectors in Uganda 2009. A proactive preventive approach to the problem required a critical evaluation of existing internal control structures in organizations to determine their capacity to ensure that the organization's activities are carried out in accordance with

established goals, policies and procedures. This study was on the Regional Member Countries (RMCs) of the African Development Bank Group (AfDB) focusing on Uganda in East Africa. The paper developed a conceptual model used in evaluating the internal control systems in Public Sector Projects in Uganda financed by the African Development Bank.

The study provides an understanding of the structure of the internal controls in these projects. Internal control structure includes policies and procedures on controls over: withdrawal applications for funds from the loan and grant accounts, bank and cash, purchases, and payments and monitoring, evaluations and reporting.

The outcome of the evaluation process was that some control components of effective internal control systems were lacking in these projects. This renders the current control structures ineffective. The study ends with recommendations to improve the existing internal control systems in the projects and suggests areas for further research.

National context Kimara SACCOS

Mwabulaga in January 2009 in SACCOS strengthening project journal conducted a study on sustainability of SACCOS in Tanzania a case study at Kimara SACCOS. He pointed out among factors that contribute to poor sustainability of SACCOS include

Weak internal control system. Another challenge is the weak leadership, limited member participation and domination of political rather than business considerations. In order to get out of the current situation he recommended focusing on the development of capability of cooperative members to take the lead in the operations of SACCOS. Empowered members must show the qualities of full participation and involvement in cooperative activities such as decision making, planning and control; changed behavior and altitude (mind set); commercial minded or business oriented as well as self initiative, innovativeness and transparency. Empowerment of members and SACCOS promotes sharing knowledge skills and experience in the process of problem identification, planning, implementation, monitoring and evaluation of the

cooperative activities in a participatory manner. This will enable power sharing with the ordinary members in order to build confidence and ability to manage economic activities and cooperatives.

Continue pointed out s Chambasho SACCOS is among the example of well performing SACCOS in Kongwa district-Dodoma Region due to having framed internal control system. However many other SACCOS formed through DUNDULIZA /DID model, in Tanzania are also sustainable due to internal control system.

2.5 Conceptual framework

Most of the literature on internal control frameworks includes information and communication as one of the internal control components. Smooth flow of information and communication across and within the organization is influenced by the nature of the working relationship within the organization at all levels. The working relationship coordinates organization's activities to achieve goal congruence.

When effective working relationship exists in an organization, delegation of responsibilities is achieved. Then internal control functions as intended. However, when a communication gap exists for any reason, sub-optimization results with adverse consequences.

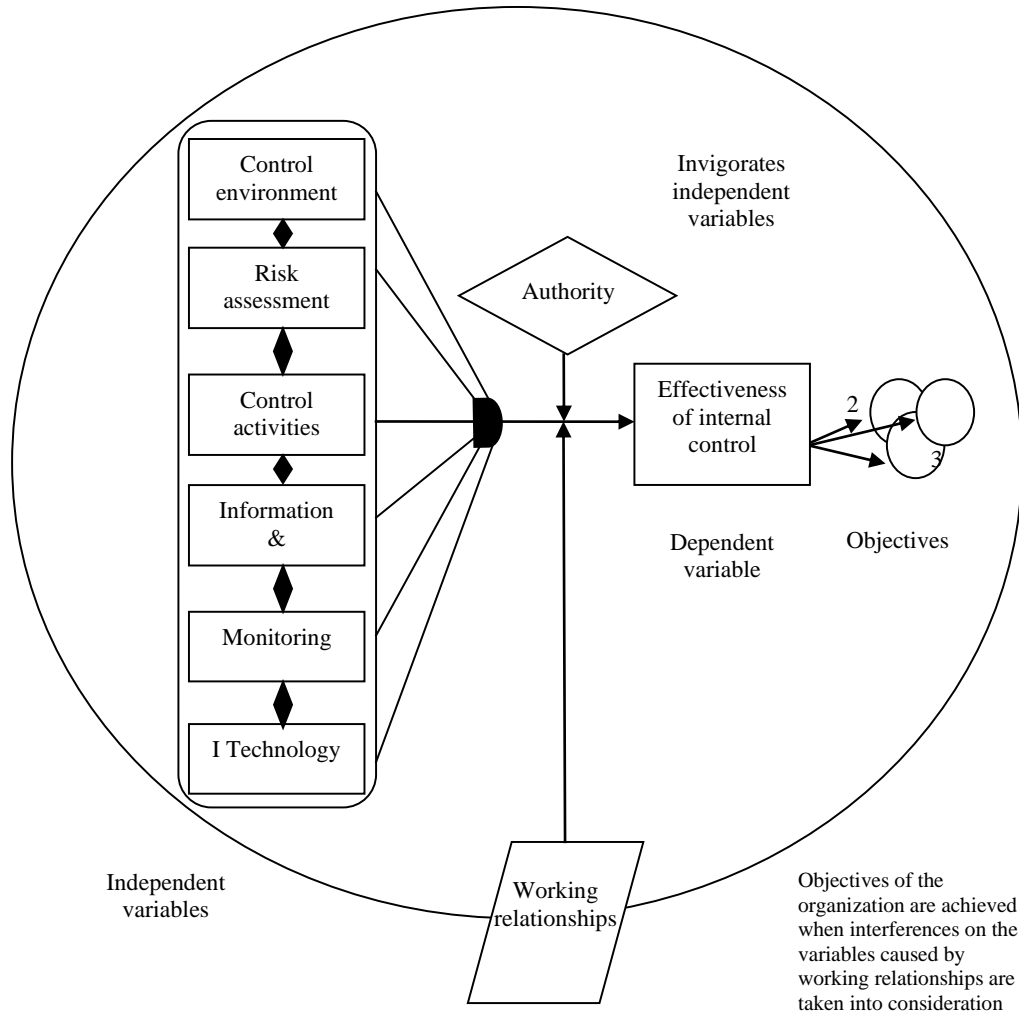
Some internal control frameworks place unnecessary emphasis on detailed explanation of the different components of the system and methods for their design. They ignore details on how each of the components can be measured to assess their effectiveness. This causes a dilemma. For example, where two managers use different methods to measure the same subject and arrive at different conclusions. A challenge arises in ascertaining who is right or wrong. When a common benchmark for evaluation of measured results is missing, knowing the right approach becomes difficult.

Other internal control frameworks ignore where one or more components are missing within a given structure, but are compensated for with other controls in other components. For example, in small companies' segregation of duties is not possible, but is compensated by management's involvement in the day-to-day supervision, verification and review of records and processes, to ensure controls function effectively. Under the situation, all components of an effective internal control system may not be present but the system could still function effectively. The challenge is ascertainment of the effectiveness of the system. When such management styles extend to large organizations unscrupulous managers of these organization's can manipulate the organizations to meet their personal goals.

After addressing the above limitations, internal control is a process of integrated sets of activities originated by top personnel of an organization and embedded within all the Organization's activities to achieve goals. This comprises two sets of variables: dependent and independent. At the forefront of the independent variables is the influence of authority that ensures the independent variables function to generate the outcome of the dependent variable.

The effectiveness of internal control is the dependent variable. This is achieved by the presence and proper functioning of all the predefined independent variables in relation to each category of the organization's objectives. Proper functioning of independent variables provides reasonable assurance of proper functioning of dependent variable. Then the organization realizes preset objectives of efficient and effective operations, generation of accurate, reliable and informative financial reports that comply with relevant legal and regulatory requirements. The objectives are overlapping. This means efficient and effective operations produces accurate, reliable and informative financial reports that comply with applicable laws and regulations.

Figure 2.4: Conceptual framework of internal control



Source: Researchers' Design

(International Research Journal of Finance and Economics - Issue 27 (2009))

The objectives, depicting overlapping interrelationships are numbered 1, 2 and 3 in Figure 2 (1) include efficiency and effectiveness of operations (2) accuracy and reliability of informative financial reporting and (3) compliance with applicable laws, regulations, policies and procedures. The independent variables determine the effectiveness of an internal control system. The presence and proper functioning of all the components of the independent variables ensures effectiveness of internal control system. This achieves each category of objectives 1, 2 and 3 in Figure 2.

The independent variables comprise major and minor components. Individual minor components jointly feed into and form a specific major independent variable. The measurement of minor independent variables locates any weaknesses existing in the major independent variables. The major independent variables include:

- (i) Control environment
- (ii) Risk assessment
- (iii) Control activities
- (iv) Information and communication
- (v) Monitoring
- (vi) Information Technology
- (vii) The minor independent variables include:
- (viii) Authorization and approval procedures
- (ix) Human resource policies and practices
- (x) Assignment of authority and responsibility
- (xi) Ineligible expenditure
- (xii) Accountability obligations
- (xiii) Segregation of duties
- (xiv) Controls over access to resources
- (xv) Presence of internal auditors
- (xvi) Verification
- (xvii) Reconciliation
- (xviii) Review of operating performance
- (xix) Supervision

A direct relationship exists between the outcomes of the dependent and the independent

variables. All the independent variables are relevant to each category of objectives. Internal control processes (minor independent variables) affects the effectiveness of internal control systems, which is subject to the organization's determined objectives. All the independent variables are interdependent but each has an impact on the effectiveness of internal control systems

There are four critical dimensions of this concept control, it is oriented to goals, it relates to lack of goal congruence, it refers to process and it is probabilistic.

2.5.1 It is oriented to goals

The concept of control used here is based upon the idea that the purpose or raison of control is to assist the organization in achieving its goals.

An organization goal may be the goal of the goal of an individual or Chief Executive officer. They may be the goal of committee or set of committees. They may even be goals that are not chosen by the organization, but merely imposed upon it by an external group or authority. Regardless of the source of its goals all control systems must be goal oriented (**Eric Flamholtz 1996 Effective management theory and practice**)

2.5.2 Lack of goal congruence

We assume that goal of the organization are not necessary the same goals of all of the entity's individual or group members. The large the organization the less likely the goals of all its members are to be congruent. For an organization to function effectively it would be idea if all members share the same goals.

Unfortunately the state of total goal congruence is rarely if ever, attained except perhaps in a one personal firm where the owner is the only employee. (Eric Flamholtz 1996).

2.5.3 Control is a process

This concept of control views it as an ongoing process. Control is adynamic and not static. It must adjust to changes in goal overtime.

Although there are techniques of control, they are merely components of the control process which is intended to increase the degree of goal congruence (EricFlamholtz 1996).

Research gap

This study has been done by many researchers and they have written a lot but still the problem of internal control is the problem even today. A lot of SACCOS fund are misused and lost due to lack of planned internal control system that can prevent and detect embarrassment that is why the research will be conducted to find out where the problem is by evaluating the procedures used in Wat SACCOS so as to come with

Solution on assessment of internal control system in cooperative societies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter covers all methodologies used in this research study. It includes; study design, study area, population of the study, sample and sampling technique, types of data, data collection, data analysis and reliability and validity issues.

3.1 Study Design

This study used a case study as a mode of investigation out of which collection of data was possible. In order to develop a deeper understanding of the role of the different types of control measures and their impact on performance of the organization, the case study method was adopted for this research. Case study is a research method based on an in-depth investigation of a single individual, group, or event. It is good to adopt case studies for explorative research, where an inductive method can be adopted by using theory to explain empirical observations. The usefulness of case-based research has been explicitly recognized by researchers in the field of management accounting practices. Case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident, however that case study methods is used for the “evaluation” of businesses and government programs with the goal of identifying potential explanations for their successes or failures.

3.2 Area of the study

The researcher conducted the study at WATSACCOS in Dar-es-Salaam. WAT was chosen by the researcher because of its proximity. This helped the researcher to minimize the traveling cost. In addition to that it was realized that at WAT there are favorable performance from its establishment to date. What are not known are reasons of whether there is proper internal control system or not.

The researcher selected the study on the mentioned organization because is one of the organizations that has been experiencing frequently competent employees most of them graduated, un qualified financial performance reports for the past 2 years, managed assets and resources of the organization which stimulates more members to join the organization.

3.3 Population of the study

This is a targeted group to be studied. It is aggregate of units pertaining to a study. The population of the study composed employees from the following, credit/loan officers, tellers, manager, management of SACCOS including Supervisory committee, credit committee and group member who will be randomly selected that will come to the organization.

3.4 Sample and Sampling Procedures

3.4.1 Sample size

Two hundred and twelve (212) respondents were randomly selected for the study out of the total 11 WAT employees and 1000 members using random sampling. Then after that the exact number of respondents was identified from different Departments and Units using stratified sampling as indicated in table 3.1.

Table 3.1: Sampling Plan

Division	Population	Selected sample
SACCOS Manager	1	1
Credit officers	7	5
Tellers	3	2
Management Committee	2	2
Supervisory Committee	2	2

Source: research field Data, 2013

Sampling Procedures

There are different types of sampling based on representation basis and the selection basis but the most known used is based on representation basis which falls in two categories which are probability and non probability sampling (**CR Kothari**)

This study used a random sampling since it gives each element in the population an equal probability of getting into the sample; and all choices are independent of one another. Likewise it gives each possible sample combination an equal probability of being chosen by ignoring personal element to have great chance to be in sample.

Probability sampling: Probability sampling is also known as ‘random sampling’ or ‘chance sampling’. Under this sampling design, every item of the universe has an equal chance of inclusion in the sample.

3.5 Types of primary Data

Data collected include primary data, which will be collected through observation, questionnaire and interview, while secondary data will be collected through documentary review.

Primary Data

Primary Data refers to those data which re collected fresh and for the first time, they happen to be original in correction.(Kothari)

3.5.1 Observation

During the study, a researcher was able to observe employees, their functions, duties, responsibilities and society’s operations and findings from operation which are used to appraise the system.

3.5.2 Questionnaires

This method of data collection is quite popular, particularly in case of big enquiries. It was being adopted by private individuals, research workers, private and public organizations and even by governments. In this method a questionnaire will be sent (usually by post or direct delivery) to the persons concerned with a request to answer

the questions and return the questionnaire. A questionnaire consists of a number of questions printed or typed in a definite order on a form or set of forms. The questionnaire will be sent to respondents who are expected to read and understand the questions and write down the reply in the space meant for the purpose in the questionnaire itself. The respondents have to answer the questions on their own.

3.5.3 Interview

Researcher was able to conduct the interview to some officials, employees and members of the society to obtain data for appraising the system. The interview will involve two members of the Board, two members of Credit and Supervisory Committees, all seven employees and nine members. Both structured and unstructured interviews are used. Structured interview will do through internal control questionnaires.

Secondary Data

Are those data which have already been collected by some one else and which has been passed through the statistical process. (C R Kothari)

3.5.4 Documentary review

The examination of various records and documents in the society will be conducted to determine the adequacy accountability of the system, for example bylaws, loan policies and job descriptions for employees. Also previous studies and other relevant materials for similar study will be reviewed.

3.6 Participation

This included participating physically in doing some activities of the society such as receipt and payment of cash, registration of new customers and recording of transactions in books of original entry to study how staffs are accountable on the internal control system as delegated to them

3.7 Data Collection Techniques

Within each general research approach, one or many data collection techniques may be used. Typically, a researcher decided for one (or multiple) data collection techniques while considering its overall appropriateness to the research, along with other practical factors, such as: expected quality of the collected data, estimated costs, predicted nonresponsive rates, expected level of measure errors, and length of the data collection period (Lyberg and Kasprzyk, 1991). It was of course possible that a given research question may not be satisfactorily studied because specific data collection techniques do not exist to collect the data needed to answer such a question (Kerlinger, 1986). The researcher used secondary data sources and primary data sources include interview and experimental instrument (questionnaire) techniques to collect data.

A simple random technique was used to select the members to be interviewed which included only who arrived to the society.

3.8 Data Analysis

Data analysis techniques included univariate analysis (such as analysis of single-variable distributions), bivariate analysis, and more generally, multivariate analysis. Multivariate analysis, broadly speaking, refers to all statistical methods that simultaneously analyze multiple measurements on each individual or object under investigation (Hair et al., 1995); as such, many multivariate techniques are extensions of univariate and bivariate analysis.

Both qualitative and quantitative methods of data analysis will be employed. Quantitative field data was organized into categories, labeled, edited and coded. Qualitative data from interviews and open ended questions was organized into meaningful themes and analyzed using content analysis. This enabled the researcher to interpret data collected and ultimately make necessary, recommendation.

Reliability and Validity Issues

3.9.1 Reliability

Reliable data is determined by how the measures are conducted. For the measures to be reliable, it is important that the researcher is accurate. For reliability to be high there must also be a description of how the measures were conducted and that they were precise and accurate. Another requirement is that the researcher documents everything done. This is because in retrospect other researchers will be able to use the data gathered for comparison purposes. In short, reliability is how consistent a researcher's measurements are. When it comes to the analysis of the data collected for this study, the researcher can say that other interpretations may provide other outcomes since questionnaires were carried out, because other researchers may get different answers from the respondents even though they have used the same questionnaire due to changes in the operations of the company, new rules and regulations but the data is processed accurately

3.9.2 Validity

Validity of data is determined by the strength of conclusions, inferences or propositions. Data is measured in order to have relevance and validity for the issue that is examined. It is about finding out if the data collected or gathered is relevant to the problem being investigated and whether the survey conducted provided an answer to the problem. In this study the researcher will say that the theoretical understanding of risk management and internal control is the same as in the operational sense and to that extent, there is consistency between these. The researcher sees clear connection between the theoretical and practical notion of risk management and internal control and for that reason can say that he had valid data.

CHAPTER FOUR
ANALYSIS OF DATA, INTERPRETATION AND DISCUSSION OF
FINDINGS

4.0 Introduction

Respondents were chosen based on the fact that they were considered most knowledgeable on risk management and internal controls, in order to confirm opinion regarding the subject matter. There was a favorable response level (representing 92%) from the company. A total of 100 questionnaires were distributed to various staffs of the society and customers of Watt SACCOS and after the questionnaires were filled by the respondents and collect back, they were screened and sorted out by the researcher. The detail of the returned questionnaires shows that out of 100 sent out, 92 only were completed and returned, while 5 were not returned and 3 were rejected because they were not properly completed. Hence 92% of the respondents returned their questionnaires.

Among the all questionnaire distributed 23 were in respect of the staffs and management of the society while 69 were in respect to Customers.

4.1 Presentation and Analysis of Data

4.1.1 Qualification of Respondent

The researcher was able to meet with the employees to know their level of qualification.

The table below shows their different qualifications and their response.

Table 4.1: Qualification of respondents (employees)

ALTERNATIVE	RESPONDENT	PERCENTAGE
Secondary Education	3	0
Certificate	3	39.13
Diploma/Degree	5	60.86
MSC/MBA	0	0
PHD	0	0
Total	11	100

Source: Research Field Data 2013

From the Table 4.1 above is representation of society workers employees to which it show that 60.86% of workers are holding Diploma and Degree in different field and 39.13% are holders of Certificate. This means the major part of the society employees occupancy are holders of Diploma/Degree. Diploma/Degree level is ideal for society employers to work promptly basing on different work they perform. Also the presence of 39.13% of Certificate is a catalyst of work performance as they work hand to hand with diploma/Degree holders.

The educational backgrounds of the respondents (employees) were assessed. This is important because there is a relationship between educational background and the degrees of effectiveness of internal control systems in an organization (Woolf, 1994). The higher the level of education of personnel, the higher the degree of awareness of internal controls and the lesser the risk associated with business activities (all things being equal). Data collected shows that respondents have high educational levels and that there is a positive relationship between the level of educational background of personnel and the level of awareness of risk management and internal controls. For example, the manager is a graduate from the University of Dar es Salaam. The questionnaire clearly revealed that the more educated employees are, the more understanding they have for risk management and internal control system.

4.1.2 Working Experience

The research was able to meet with different respondent to know their year's experience with Wat SACCOS.

Table 4.2: Years of Experience of employees with the organization

ALTERNATIVE	RESPONDENT	PERCENTAGE
1-5 years	8	54.55
6-10 years	6	45.45
11-15 years	0	0
16-20 years	0	0
21 years and above	0	0
TOTAL	11	100

Source: Researcher Field Data 2014

Table 4.2 shows how long the respondents have been working with the organization. From the data collected, it could be seen that 6 or 54.55% of respondents have spent between 1-5 years working with the society, while 6-10 years 5 or 45.45% between 11-15 years, between 16-20 years, more than 21 years there were no staff with such experience.

Experience is the most key in individual performance. The more number of years in certain job the more competent of an individual performance, likely delivering quality performance by following and comply with rules and procedures. Therefore as shown above from the data collected the SACCOS employees has spend more years within the organization which shows that they have acquired high level of experience in the organization including comply and following rules and procedures of internal control on their daily performance.

4.1.3 Cadre of Respondents

Different cadre of the respondents both the junior officers and the senior credit officers

Were ascertained and are shown in Table 4.3 below.

Table 4.3: Cadre of Respondents

ALTERNATIVE	RESPONDENT	PERCENTAGE
Junior Credit Officer	5	71.43
Senior Credit Officer	2	28.57
TOTAL	7	100

Source: Researcher Field Data 2013

Table 4.3 shows that 2 or 28.57% of credit officers are Senior Credit Officers with the society while 5 or 71.43% are junior Credit Officers. Therefore, the Society Junior Credit Officers are more than the senior ones. Therefore since junior officers are greater supporter of senior officer's performance will almost be better. The two senior officers act as supervisors who provide technical support to junior credit officers. Since loans is the key asset of any credit organization intensive techniques of screening loans applications are required and assessment to be done with great care. Thus competent loan officers are required to safeguard assets of the organization.

4.1.4 Number of department and employees

Departments were analyzed to asses financial position of the organization on staff employed.

Table 4.4: Departments

ALTERNATIVE	RESPONDENTS	PERCENTAGE
Human Resources	0	0
Finance and Accounting	1	9.1
Business development	0	0
Information Technology	0	0
Credit and marketing	10	90.90
TOTAL	11	100

Source: Researcher Field Data, 2014

Table 4.4 indicate that the SACCOS has no human resource department, business development and Information Technology department but the manager and Saccos management are performing function of human resource likely the manager is also responsible for Finance and accounting. Credit and marketing from the data analyzed above has the higher number of staff 10 or 90.9% as such the society will always strive to gain the larger share of market.

4.1.5 Training Program

The researcher was able to ascertain the level of training program in Wat SACCOS, and the responses are shown below:

Table 4.5: IT Program

ALTERNATIVE	RESPONDENTS	PERCENTAGE
Strongly agreed	2	18.18
Agreed	7	63.64
Undecided	1	9.09
Disagree	1	9.09
Strongly disagree	0	0
TOTAL	11	100

Source: Researcher Field Data 2013

On the assessment of training development program for Society officers, the Table shows that 7 or 63.64% of the respondents were of the agree opinion, 2 or 18.18% strongly agree, 1 or 9.09% undecided and 1 or 9.09% disagree and none respondent opened on strongly disagree. Therefore, the society has information training development program for its staff because 81.82% of the respondent were of the agree opinion.

4.1.6 Improvement of Customer Satisfaction

The respondents/customers were asked about the level of satisfaction derived from electronic banking and their response is shown in Table 4.6 below:

Table 4.6: Customer Satisfaction Improvement

ALTERNATIVE	RESPONDENT	PERCENTAGE
Strongly agreed	29	29
Agreed	55	55
Undecided	10	10
Disagree	6	6
Strongly disagree	0	0
TOTAL	100	100

Source: Researcher Field Data 2014

Table 4.6 shows that 55 or 55% of the respondents were of the agree opinion that electronic banking have improve customers satisfaction, 29 or 29% strongly agree while 10 or 10% undecided and non respondent on the opinion of disagree or strongly disagree. Therefore, agree opinion having higher percentage shows that electronic banking has really improved customer satisfaction. Use of computers and accounting packages resulted proper accounting records of customers, loan balances and saving balances can be easily provided once required by the customers reducing time to find manually in customer files and ledgers.

4.2 Findings

This chapter presents data collected, its analysis and discussion of the major findings. The aim of the study was to evaluate the internal control system of Wat SACCOS to determine its effectiveness in risk reduction. The discussion will base on the procedures performed in Wat SACCOS that concerned to internal control which answer research questions on control of cash, physical controls over assets, dual control of recording and processing of transactions, competence of personnel and communication and delegation of authority.

4.3 Cash Receipts Procedures

Cash received from various sources are recorded to the deposit slips by cashiers. From deposit slips, data are transferred to daily cash collection sheet and at the end of the day to general ledger and then to the computer accounting package to be processed to reports and financial statement. Loan collections from members followed the same procedures but further, member's ledgers and passbooks are adjusted and individual loan monitoring sheet are used to control loan repayments.

4.4 Cash Disbursements

Cash paid out for various expenditures are recorded in the payments slips after being authorized by a manager up to the amount not exceeding 999,999/=. The amount beyond that needed higher authority to approve (Board). The amount below 999,999/= is paid by cash and beyond that needs notification and approval.. From payments slips, records are transferred to the general ledger and then to the computer accounting package. Loans to members before authorization, passed through at least three stages, which were.

- 1) Consideration of a manager that the applicant has qualities to borrow according to a loan policy of the organization, which required a member to have a membership of at least three months and having participated fully to the society.
- 1) When a manager satisfied himself that a member was eligible to borrow, the applications forwarded to credit instruction Committee, which consisted a manager and one member to check further on the repayment possibilities.

2) When a committee satisfied that a loan will be repaid, application is forwarded to credit committee for approval.

Findings showed that Watt SACCOS has developed and implemented an adequate internal control system for the proper management of cash receipts and cash disbursement and physical control over assets. Segregation of duties and proper authority is maintained.

Internal control strength pertaining to cash receipts and cash disbursements also include

A duplicate copy of deposit slips and withdrawal are submitted to clients for signature. Receipts are given to individuals rendering cash (currency) for miscellaneous transactions.

4.5 Cash Transfer

Access to the bank is not near it needed the transfer of money from the Saccos office to the bank for banking as the policy requires to keep minimum amount in strong room and the excess to be banked with other bank till required or shortage appears when cash needed.

Cash is transferred by car to and from the office with the support of office guard whenever exceed the minimum or shortage occurs.

4.6 Record Keeping

Keeping of records of clients both manually and in computer were properly considered to facilitate accuracy of data and relevance of information. Proper records of books of accounts and in ledger cards and in accounting packages are consistent according to the rule and policies of the organization.

Daily transactions are recorded in the accounting package at the end of the day work. Other documents are properly kept in files and those legal one's there is a clear authority and responsibility that some one is accountable for any person to access once needed. These include loan monitoring sheets, deposit slips, withdraw slips,

management and tellers stamp pads as well as loan disbursed contracts kept in fire proof cabinet for any risk like fire to destroy them easily.

4.7 Office access Security

Access to the office such as back office is strictly authorized for staff only, any person is restricted into the back office through rear door without notification and authority from the manager with strong reason that the problem requires to be settled in, for example clients who requires much money to withdraw by notification or deposits much money than can bring inconveniences to other customers.

4.7.1 Office Security

Both staffs and customers are properly secured in the office, fire extinguishers for emergencies of fire are available to cover emergencies of fire.

Security alarms available to secure necessary notification of danger if any case of any problem without an outsider person to notice.

Security guards are available to secure customers coming to get any service to the office and protect assets of the organization.

4.7.2 Official Hours

Office hours, opening at 8:30 am and closing 3:30 pm Monday to Friday 9:30 to 12:30 pm on Saturday no Customer is allowed to inter before official hours or after official hours.

4.7.3 Organization Structure

Organization Structure of WAT SACCOS had Annual general Meeting at the top as a supreme organ. The Annual general meeting had duties of appointing and removing members of the Board, approving budgets and approving audited financial statements. Below Annual General Meeting there was a Board, which had five members who were elected in the Annual General Meeting. The functions of the Board included overseeing the daily operations of a society, employing and retrenchment of employees and preparation of financial statements.

Below the Board there were two committees, credit and supervisory. The credit committee had three members, whose functions are to deal with all matters concerning to the provision of loans and reviewing and preparation of loan policies. A supervisory committee had three members whose duties are to assist the board to supervise the operations of the society. By laws of the society indicated that at least one member of a supervisory committee should be present in the society everyday. At the bottom of the organization structure there is employees who actually performed all the operations of the society. There is a manager, seven loan officers and three tellers. A manager is responsible to supervise the work of other employees and also acted as an accountant who is responsible for all accounts balances and preparing necessary reports.

4.8 Budgets

A society prepared budgets to be used in the following year. A Manager prepared a rough budget, after reviewing the expenditure of the current and past periods. The rough budget is then forwarded to the Board to be reviewed and lastly to the Annual General Meeting for approval.

4.9 Physical Controls

A society had a safe where all cash and other valuable documents are kept. A safe had two keys, one is held by a manager and the other by a member of supervisory committee for control purposes. A society had procedures that restrict employees other than a manager to access the records and files in the computer as a manager used his own password. There is alarm system installed to protect the office against thieves and the watchman guarding after official hours to safeguard SACCO's assets

4.10 Efficiency and Training of Employees

A society had eleven employees a manager, two senior loan officers, 5 junior loan officers and three tellers. Among those employees only a manager had a degree in accountancy tellers, are from four leavers. Senior loan officers are graduates and junior loan officers possesses diplomas in different fields. Several training are

offered to staffs sponsored by DUNDULIZA as microfinance supporting company under new modern way of operating SACCOS performance.

4.11 Organizational Culture and Support

This part was intended to collect information about the importance of risk management to the organization. The questionnaire revealed that effective risk management is very important to its operation and activities and that the manager is responsible for risk management. The responsibility for risk management is well documented and communicated. However four out of five staff (representing 80%) understands the importance of risk management to the organization. Again, the organization's ability to encourage and provide resources to staff to undertake relevant training to improve their skills in risk management is not at its best but the company has put in place an audit committee that checks on the control weaknesses and balances for the company.

Control Activities

It has to be recognized that all forms of activities need some measure of control. Answers provided show that procedures and policies exist in the company to provide appropriate approvals, independent verification, ongoing and independent reconciliation of all balances, assets, liabilities and off balance sheet items.

Accounting, Information and Communication Systems

Watt SACCOS accounting systems properly manage and report company transactions in accordance with proper accounting standards. However, the institution's accounting, information and communication systems are not able to identify all risk taking activities within the company's policy guidelines. It has also been revealed that not all personnel in the area of control understand how their activities relate to others.

Review showed the following strength in internal controls over cash receipts and cash disbursements

There are detailed operating procedures. Watt SACCOS developed its “Fiscal Procedures Manual” and its “Purchasing Policies” these documents are primarily policy statements and day-to-day detailed operating procedures. Also, Watt SACCOS has established procedures addressing segregation of duties regarding preparing and mailing cheques Watt SACCOS accounting system is organized by program. Each program has a general ledger.

Monitoring or Self Assessment

Information gathered revealed that the Boards do review management’s actions in dealing with control weaknesses and verify that the actions taken by management are appropriate and adequate, audit reports or other control assessment reports are provided on time to allow for appropriate action by both the board and management.

4.12 Research problem and limitation.

The topic of internal control systems is very broad and to be able to meet the deadline set for the thesis, the research was not conducted to cover all the areas of the topic. With regards to the questionnaire, though comprehensive, it may not cover all the areas of risk management and internal control weaknesses. It would also have been good to capture the attitudes and behaviors of respondents in the course of answering the questions but this was not possible. Due to time constraints, it was not possible to administer interviews and observations as earlier planned. The researcher anticipated that, in administering the questionnaire, some problems would be encountered. For example, for ethical reasons, some respondents did not provide certain information needed.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter is going to summaries the findings of the study, give conclusions and recommend the best ways of improving the effectiveness of internal control of Wat SACCOS.

From the findings of the study it showed that Wat SACCOS has developed and implemented an adequate internal control system for the proper management of cash receipts, cash disbursements, for its assets. As a result, there is assurance that funds are or can be expect and accounted for in accordance with grant terms and conditions.

Internal control is considered to be an instrument in handling risks that could prevent the

Organization from attaining its targets. The organization has developed internal models that analyze and calculate the risk of operations, including credit, market and liquidity risks. It is also acknowledged in the organization that internal control ensures effective operations, high quality internal and external reporting, together with organization compliance with related laws, regulations and internal guidelines, including the company's value and codes of ethics. The organization believes that independent and effective audit ensures satisfactory internal control as well as reliable financial reporting. The organization audit carries out independent assessment of risks and checks organization activities. The result is then presented to the Board of the Wat SACCOS, the Audit committee and management. Due to the strong risk management, internal control systems and credit strategies put in place by Wat SACCOS, the company performed fairly well despite the down turn on the economy.

5.1 Recommendations

The following recommendations are made based on findings from the results of the questionnaires:

The management of cash in hand involves the process of managing SACCO's cash in safe, obtaining cash from the safe to serve members, carrying out withdrawals and deposits by members, closing the daily physical cash balances and accounting book balances. All withdrawal and deposit of members' savings should be done at the SACCO's location (counters) or/and its accounts in banks not through elected organs or staff's hands, accounts or outside the SACCO's premises.

When there is a cash surplus or deficit, it must be thoroughly searched and if not found at that moment, the cashier responsible should sign a recognition note which should be kept in safe place. The SACCOS should put in place a strong policy on the management of cash surpluses and deficits and sanctions required for discouraging the repetition of such deficiencies including the payment and dismissal.

When the SACCOS is to acquire/purchase fixed assets or engage in any contract it should set up a specialized committee called "Procurement/tender Committee". This committee should not include members of staff or elected organs (BoD, Supervisory Committee or Credit Committee). The procurement committee should be composed of a minimum of three but not exceeding five members elected by the General Assembly

Manuals on policies and procedures are made available to all employees at all time but employees do not comply with these policies and procedures at all times. In this case, management must take strong and appropriate actions against defaulting personnel depending on the breach, such as will prevent them from repeating such offences as well as serve as example to others. SACCOS maintain various accounting books which are equally useful for the SACCO to ensure strong internal control system and effective operations leading to accurate production of the financial statements reflecting the financial performance of the SACCO. Whenever

these books are not regularly or poorly filled, the SACCO may incur various frauds and embezzlements and the SACCO will therefore produce unreliable financial statements leading to poor interpretation of the financial performance of the SACCO.

5.2 Suggestions for further research

The initial topic for this thesis was internal control systems in listed cooperative societies; a comparative study of WAT SACCOS in the financial sector. The intention of the researcher was to assess SACCO's current performance in Tanzania under new model and contrast similarities and differences in risk management and their control systems.

However, due to the unwillingness on the part of personnel i to participate in the research, the study was limited to WAT SACCOS. It would therefore be an absolute delight to see a research done in this direction. That is a comparative analysis research between or among different sectors of the Tanzanian economy place by the company, the company was able to do fairly well (compared to the previous years) despite the financial scandals and crisis of recent years.

It is also important to note that even though it is stated that WAT SACCOS work within internal control is based on the principles in the framework of COSO, all the elements are not implemented. By comparing theory with empirical work from the company's annual reports, it appears that the company adopts and adjusts elements and principles that best suit the operations of the company.

5.3 Conclusion

The study revealed that internal control systems exist in the company and that they are being complied with. Therefore the main hypothesis for this research is accepted. Physical control over the assets of the society is in place since there is good system of security and register of physical organization's Assets. Segregation of duties and recording and processing of a complete transaction involves dual control and supervision of a manager. This has facilitated clear communication, authorization and approval of transactions to be done accordingly and reduces and detected associated risk that might occur to harm the organization. As a result of the good internal control systems put in WAT SACCOS.

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APPENDICES

Appendix I

Internal Control Questionnaire / employees

1. Do you think this SACCOS has good internal control system which is updated with new technologies?

Yes () No ()

2. Are you satisfied with the internal control system of this SACCOS?

Yes () No ()

3. How effective is the internal control system of this SACCOS? Do you find it to be beneficial for the organization?

Yes () No ()

4. Are there any changes which have occurred in the working of the SACCOS since the internal control system came into place?

Yes () No ()

5. Has the internal control system proved to be cost effective for the SACCOS?

Yes () No ()

6. Are the employees and other staff happy with the internal control system in place for the organization?

Yes () No ()

7. Do you think the internal control system of the SACCOS is foolproof enough that no frauds can be committed?

Yes () No ()

8. With the internal control system in place, are the resources of the SACCOS being used to the optimum level so that there is minimum wastage of resources?

Yes () No ()

9. Is there any specific department in this SACCOS which is working on further improvement of the internal control system?

Yes () No ()

10. Do you see increase in co-ordination between all the levels of management present in the SACCOS because of the internal control system?

Yes () No ()

11. Has the accounting procedure of the SACCOS being revamped to accommodate the changes in the working pattern of the company?

Yes () No ()

12. Does your organisation have an up- to -date accounting policies and procedures manual?

Yes () No ()

. 13. Are personnel policies maintained and distributed to all personnels?

Yes () No ()

14. Does your organisation have an organisational chart that clearly defines lines of authority and responsibility?

Yes () No ()

15. Are current job descriptions on file for each employee in the organization?

Yes () No ()

16. Is an internal audit manual in use?

Yes () No ()

17. Is there reconciliation of proofs of collection with amounts banked?

Yes () No ()

18. Are monthly statements prepared and are they in accordance with required financial reporting standards?

Yes () No ()

19. Are all disbursements made by cheque except for small amounts?

Yes () No ()

20. Do you have a safe in the society to store cash and other valuable assets?

Yes () No ()

21. Are there forms and documents maintained to support transactions for proper record keeping and are they controlled by pre numbering etc?

Yes () No ()

22. Has the organization's disbursement approval policy been communicated to all appropriate staff?

Yes () No ()

Please tick where appropriate on education level

Position in a society Form 4: Form 6: Certificate: Diploma: Adv. Dip/
Degree

1. Manager
2. Ass. Manager
3. L/Officers
4. Tellers

Questionnaire for:

Internal Control/ customers

1. Does the organization have a statement of mission and objective?
Yes () No ()
2. Are all major channels of communication utilized effectively?
Yes () No ()
3. Are there annual general meeting held in the organization?
Yes () No ()
4. Are there deposit slips and withdraw slips provided after transaction?
Yes () No ()
5. During general meeting any decision made do meet requirement of column needed?
Yes () No ()