



NAME: PRISCA NYAMUSA

REG NUM: B1953498

Year: 2023

Supervisor: Mr Manyani

(i) TITLE PAGE

"Effectiveness of internal controls in the financial performance of a construction company in Zimbabwe"

A RESEARCH BY PRISCA NYAMUSA

B1953498

SUBMITTED TO FACULTY OF COMMERCE

ACCOUNTING DEPARTMENT OF BINDURA UNIVERSITY OF SCIENCE EDUCATION

DECEMBER 2023

Name of student: Prisca E Nyamusa

Title of the research project: Effectiveness of internal control systems on the financial performance of a construction company in Zimbabwe

Bachelor of Science Honors degree in accountancy

Year granted: 2023


Permanent address:

Ryan

.....

APPROVAL FORM

The undersigned certify that they have read the dissertation and it is suitable for submission to the faculty of Commerce and checked for conformity with the faculty


Signature of the studentDATE 11 OCTOBER 2024


Signature of supervisor O.Manyani.....Date 11 October 2024


Signature of chairperson of department O.Manyani.....Date 11 October 2024

ii)DECLARATION

I declare that this project " effectiveness of internal controls in the financial performance of a construction company in Zimbabwe" is an original work done by me under the supervision of Mr Manyani faculty of Commercy of Bindura university.

iii)ACKNOWLEDGEMENT

I am most grateful to the Almighty, the sole provider of knowledge, wisdom, love and grace for his protection through out the programme .I sincerely appreciate my supervisor Mr Manyani who offered timely criticism and corrections that led me through various stages of the project.I appreciate my parents Mr and Mrs Nyamusa for the unquantifiable love and financial assistance during this period .May God bless you all in jesus name amen

iv) ABSTRACT

Internal control is involves an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals. Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). It involves the ability of an organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results.

This study uses both primary and secondary research. This highlights the research design, data sources, sampling methods, data analysis and data presentation that were used to collect data for this study. The sampling methods used provided an overview of the study and the target population and the sample. The empirical evidence gathered in this study point out that the internal controls positively affect firms performance.

Internal Controls are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Increasingly, reliability of financial reporting in accounting context is very important for the investors who use the information for decision management . The reliability of financial reporting is effective to internal control efficiency to ensure that the transactions and bookkeeping are appropriate and properly authorized, valid, correctly recorded, complete, and on time.

TABLE OF CONTENTS

Contents

CHAPTER 1.....	7
CHAPTER 2.....	13
Chapter 3.....	27
Chapter 4.....	34
Chapter 5.....	39
Questionnaire	45

CHAPTER 1

INTRODUCTION

Background of the study

Zimbabwe's economy has struggled to stabilize following dollarization in 2009 (Nyoni and Bonga, 2017) and continues to be characterized by business closures and many workers losing their jobs due to layoffs (Nyathi et al, 2018). A blessing in disguise, the construction industry is still standing because it is the backbone of Zimbabwe's economic development.

Internal control is the process designed and effective by those charged with management, administration and other personnel to provide reasonable assurance about the achievement of the objectives of the entity with respect to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance to applicable laws and regulations. (David, 2001). The reliability of financial reporting in the accounting context is increasingly important for investors who use the information to make decisions (Jenning et al., 2008). Reliability of financial reporting improves the effectiveness of internal controls to ensure that transactions and accounting are appropriate and properly authorized, valid, properly recorded, complete and timely. In addition, it is very important that organizations disclose accounting information quite often (Sebbowa, 2009). In general, however, quality reporting is influenced by the internal control mechanism. It is generally accepted that the establishment and implementation of appropriate internal control systems always leads to better financial results. It is also widely understood that properly designed internal control systems improve the reporting process and also create reliable reports, which increases the responsibility of the management of the economic entity. According to Dixon and others (1990), appropriate performance indicators are those that enable organizations to direct their activities to achieve their strategic goals.

Internal control involves an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals. Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). It involves the ability of an organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results.

From a Zimbabwean construction industry context, Mambondiani, Zhang and Arun (2013) highlights that good internal control systems is the pillar upon which the construction industry organization can achieve efficiency and improved profitability and the reverse is also true with lack of good internal control systems leading to financial distress and failure. This research is

premised in the context of the current Zimbabwean construction industry which is still blossoming, with most firms being family owned and private businesses (Nyoni & Garikai, 2016). The major concerns, however, have emerged from the increasingly high number of failures of companies that are tied to poor internal control systems.

Damofalls Investments (Pvt) Ltd is a company which is mainly concerned on land developing. The company has 8 site areas which are all functional and employing over 300 hundred permanent workers and other casuals. Due to reduced competitiveness in the industry, declining profits were incurred in prior years due to the inability of the revenue from clients to cover the high labour cost, wastage and spoilage, repair and maintenance resulting in the decrease in operational performance. Therefore the decline in profits need arose for the company to still maintain a standing in the construction industry (Year-end minutes December 2019).

Also in July 2019, 15% of the company's employees lost their jobs, and the rest were all transferred to contract workers, so they lost all the benefits of permanent staff. It was a management move to restore competitiveness and profitability. Despite the fact that the company cut all the aforementioned costs, the company's income continued to decline. The effects of internal control practices in the construction industry have not been widely studied or published, although the construction industry is the backbone of the economy without which economic development can be difficult to achieve (Idoro, 2014). As the majority of private construction companies in Zimbabwe are family and privately held (Nyoni and Garikai, 2016), internal control is also likely to be a factor in the failure of these factors. This is the basis of this study which focuses on how internal controls affect the financial performance of Zimbabwean construction companies and thus develops measures Damofalls Investments (Pvt) Ltd. reduce the difficulties experienced.

1.2 Description of the problem

The construction industry plays a key role in the economy of any country, as it contributes to the development of infrastructure and influences the development of other sectors. Many construction companies face problems related to poor or missing internal control systems that would improve their operations. The construction sector is inherently complex because it involves large public funds, competitive bidding and political interference. The construction industry currently faces challenges such as high material procurement, equipment maintenance and operating costs, as well as poor domestic investment due to a highly inflated economic situation. Construction companies

have underperformed because it is difficult for management to influence employee motivation, but by implementing strong internal control systems that detect fraud and error, reduce audit fees, promote predictable cash flow, strengthen project management, improve financial performance and reduce risk. Despite the fact that internal control is an important factor affecting a company regardless of its size and industry, there is little evidence on the impact of internal control practices on the performance of construction companies in Zimbabwe. Therefore, the purpose of this study is to find out to what extent internal control systems affect the operations of construction companies.

Research objectives

To examine internal controls instituted by construction companies.

.To investigate the challenges faced implementing internal control systems in construction firms.

.To monitor and assess the effectiveness of good internal control systems on financial performance of construction companies.

1. 4 Research questions

.What are the effects of implementing internal control systems on the performance of a company?

.What is the relationship between internal controls and the financial performance of a firm?

.What are the challenges in implementing control systems?

.What is the conceptual framework of internal control systems and financial performance of an organization?

.How is effective is internal control systems on financial performance.

1. 5 Significance of the study (Justification)

The research is in partial fulfilment of the requirements of the Bachelor of Science Honours Degree In Accountancy at Bindura university of science education. This study develops the student's research skills.

The study will help Damofalls Investments to utilize the suggested possible solutions to improve its overall performance.

The research will assist in improvement of financial performance by providing practical strategies which can be implemented to mitigate the current Damofalls Investments setbacks.

The research is a provision of literature for review in future by other students and researchers who may wish to undertake a research on the topic.

1. 7 Scope of the study (Delimitations of the study)

The study was limited to Construction companies with emphasis on Damofalls Investments, Head office in Harare and branches in Ruwa and Norton.

The research covered the period of 2022 on the effectiveness of internal control systems on financial perspective as a performance measure.

1.8 Limitations of the study

Confidentiality

Some information may be withheld by the management and staff for the purpose of confidentiality

Time

Limited time frame within which the research is to be conducted. The respondents may not afford the researcher enough time to conduct interviews and respond to questionnaires.

Finance

Financial constraints with regard to cost of gathering information and preparing the project for submission to the university.

1.9.Defination of terms

Internal control systems - refers to organizational initiatives that ensure the achievement of the unit's goals, objectives and tasks (Brennan and Soloman, 2008). They are systems of policies and

procedures that protect an organization's assets, create reliable financial reporting, promote compliance with laws and regulations, and enable efficient and effective operations. These systems are not only related to accounting and reporting, but also related to the internal and external communication processes of the organization and include procedures for handling funds received and spent by the organization, proper and timely financial reporting to board members and officers, and annual review of the organization's financial statements, inventory of real estate and other immovable property and their location.

Efficiency - is the achievement of a specific function of a given task, calculated based on an existing standard of accuracy, completeness, cost and speed. It is also the evaluation and comparison of the resulting results of different profit units of the organization.

Financial statements Financial statements comprise of: Statement of Financial position, statement of comprehensive income, statement of cash flows, statement of changes in equity and the notes to the financial statements

Chapter One (Introduction)

Chapter 1 is called Introduction. It introduces the whole research report by providing an overview of the key areas of the study. Although improvements may be made, the bulk of this chapter comes from the research proposal.

Chapter Two (Literature Review)

The second chapter is called a literature review. The literature review addresses research questions in general. The objectives of the research guide the researcher to the subjects of the literature review. The literature review focuses on the theory from which you derived your research topic, the empirical evidence and the methods used in the studies related to the review. The purpose of the literature review is to explain the historical background of the subject, highlight gaps in existing research, describe and compare trends of thought related to the subject, synthesize existing research, emphasize and criticize research methods, reflect on issues. If you disagree, justify the topic you intend to research and narrow your research problem.

Chapter Three (Research Methodology)

The third chapter is called research methodology. This chapter clearly and concisely describes how the research was conducted. The researcher emphasizes the method used and gives reasons (eg what research design did you use and why). This chapter is headed by the following headings, Introduction, Research Design, Population and Sampling, Sampling Procedure, Research Instruments, Data Collection Procedures, Data Analysis and Presentation Procedure, Validity and Reliability, Ethical Considerations and Summary.

Chapter Four (Results and Discussion)

Chapter Four is called Results and Discussion. The chapter presents the findings. The implication of the results is given. Compare and contrast researcher's present findings with findings from prior research and provide an explanation.

Chapter Five (Summary, Conclusions and Recommendations)

Chapter Five is called Summary, Conclusions and Recommendations. The presentation of this chapter must be guided by the following headings: Introduction, Summary of findings, conclusion, recommendations, future research and references.

1.11 Chapter summary

The chapter is an introduction to the research problem which outlined the background, problem statement, objectives, questions, justification, the scope of the study, limitations of the study, definition of terms, reports and organisation of research report. The essence of the problem is derived from the increasing breaches in internal control systems which threaten the performance and survival of construction firms in the country. The next chapter reviews literature related to the issue of corporate governance and sustainability.

CHAPTER 2

2.0Introduction

This chapter discusses the theoretical underpinnings of the study as well as the conceptual problems that the theories raise. There is also an overview of several empirical investigations on the subject. The literature review establishes the background for the study and identifies how the research fits into the body of current knowledge (Boote & Beile, 2005). The findings of research that are closely relevant to the one being conducted are shared with the reader in this passage. The review of the literature also connects the study to the ongoing discussion in the literature, completing and extending earlier studies (Cooper, 2010; Marshall & Rossman, 2011).

2.1 Conceptual framework of the study

procedures aimed at protecting its assets are called internal controls. A lockable set of activities that are added to an organization and its standard operating procedures to protect assets, reduce errors, and ensure that activities are performed according to protocol are called internal controls (Chang et al., 2019). Hogan and Wilkins, 2008). There are two different control methods: financial control and administrative control. Security of assets and accuracy of financial documentation are part of financial management. The way work is done is influenced by practices such as standards and procedures (including training, cleaning, equipment maintenance and personal hygiene practices), as well as time, regulations and other rules (Kisanyanya, 2018). A procedures aimed at protecting its assets are called internal controls. A lockable set of activities that are added to an organization and its standard operating procedures to protect assets, reduce errors, and ensure that activities are performed according to protocol are called internal controls (Chang et al., 2019). Hogan and Wilkins, 2008). There are two different control methods: financial control and administrative control. Security of assets and accuracy of financial documentation are part of financial management. The way work is done is influenced by practices such as standards and procedures (including training, cleaning, equipment maintenance and personal hygiene practices), as well as time, regulations and other rules (Kisanyanya, 2018). According to the AIS perspective, characteristics of internal control are influenced by internal control adaptation because they affect management and processes. Internal control is implemented to ensure that the priorities and goals of the organization are achieved. Implementation of control procedures, control environment, risk assessment, communication and information sharing, and monitoring are the five main parts of internal control (Abu Naser et al., 2017; Chan et al., 2020). The control environment is the first category and is considered the main symptom of good internal regulation (Chan et al., 2020). The

attitude towards internal control and control awareness created and maintained by management and employees of an organization is known as the control environment (Liu et al., 2019; Pham, 2021). It is the combination of management ideology, habit and supportive attitude and employees skills, morals, ethical standards and integrity. The control environment is primarily influenced by the organization's structure and accountability relationships. The second category consists of control activities that include both manual and automated tools to prevent or reduce threats that may interfere with the organization's goals and objectives. In order to effectively and successfully achieve the company and its goals, the management must establish following measures (Mjaku and Pristina, 2019). The third form is risk analysis. Risks are events that prevent the achievement of goals. They ultimately affect the organization and its ability to achieve its goals. Risk management is a way to identify, assess and choose ways to respond to these events. Goals set at all business levels can be thwarted by both internal and external threats (Wang, 2019). The fourth type of control is information and communication. Communication is the sharing of important information within and between individuals and organizations to make choices and organize activities. Information must be disseminated within the company in such a way and at such a pace that management and other employees who need it can perform their tasks. In addition, there is communication with external parties, including customers, suppliers and regulatory authorities. (Salameh, 2019; Rae et al., 2017).

According to the AIS perspective, characteristics of internal control are influenced by internal control adaptation because they affect management and processes. Internal control is implemented to ensure that the priorities and goals of the organization are achieved. Implementation of control procedures, control environment, risk assessment, communication and information sharing, and monitoring are the five main parts of internal control (Abu Naser et al., 2017; Chan et al., 2020). The control environment is the first category and is considered the main symptom of good internal regulation (Chan et al., 2020). The attitude towards internal control and control awareness created and maintained by management and employees of an organization is known as the control environment (Liu et al., 2019; Pham, 2021). It is the combination of management and ideology, habit and supportive attitude and employees skills, morals, ethical standards and integrity.

The control environment is primarily influenced by the organization's structure and accountability relationships. The second category consists of control activities that include both manual and automated tools to prevent or reduce threats that may interfere with the organization's goals and objectives. In order to effectively and successfully achieve the company and its goals, the management must establish following measures (Mjaku and Pristina, 2019). The third form is risk analysis. Risks are events that prevent the achievement of goals. They ultimately affect the organization and its ability to achieve its goals. Risk management is a way to identify, assess and choose ways to respond to these events. Goals set at all business levels can be thwarted by both internal and external threats (Wang, 2019). The fourth type of control is information and communication. Communication is the sharing of important information within and between individuals and organizations to make choices and organize activities. Information must be disseminated within the company in such a way and at such a pace that management and other employees who need it can perform their tasks. In addition, there is communication with external parties, including customers, suppliers and regulatory authorities. (Salameh, 2019; Rae et al., 2017).

Monitoring, which is a technique for evaluating the results of internal regulation over time, is the sixth category. Monitoring is the analysis of a unit and its activities and events to see if controls are working effectively and to measure the level of service over time. Management should direct its next work to ensure that internal controls are in place and that the company and its objectives are being achieved. All employees must be aware of the organization's mission, goals, objectives and risk tolerance for monitoring to be most effective. (Ariesa and Berasategu, 2009; Febriana et al., 2017; Shoimah, 2015). If management follows certain procedures, an effective internal control system is in place. International Accounting Standards (IAS) classify the different types of internal control as ogaResearcheal chart, separation of duties, document control, asset protection, personnel qualification, arithmetic and accounting control, accounting and records, control, authorizations and approvals, assignment and rotation. , cost-effectiveness, routine and automatic control. The main principles of the reviewed literature on the variables affecting the effectiveness of internal control are the control environment, risk assessment, control measures, information and communication systems, and monitoring.

2.2.1 Control environment

The organization's management creates a control environment that shapes an institution's culture and its workforce's awareness of control (Whittington and Pany, 2001). A management mindset should be dedicated to following the specified control processes and ethical business practices. This serves as the framework for all other internal control elements by establishing structure and discipline. Integrity and ethical principles, dedication to competence, leadership philosophy and operational style, delegation of power and responsibility, organizational structure, and employee development are all elements that affect the control environment.

2.2.2Control activities

Management directives are carried out by control activities, which are the rules and regulations. They assist in making sure that the required steps are made to address risks to achieving the entity's objectives. Organization-wide, across all levels, and across all departments, control activities take place. They cover a variety of tasks such as authorizations, approvals, verifications, reconciliations, reviews of operational performance, asset security, and separation of functions. Typically, control activities consist of two components: procedures to carry out the policy as well as a policy defining what should be done. Considerate, diligent, and consistent implementation of all policies is required (Anduuru, 2005).

2.2.3Monitoring controls

Systems for internal control must be monitored in a way that evaluates how well they operate over time. Regular management and supervisory tasks are part of ongoing monitoring, which also includes other staff members' performance-related actions that evaluate the effectiveness of internal control systems (Colbert & Bowen, 1996).

2.2.4Risk assessment

A risk assessment and the efficacy of continuous monitoring measures serve as the main determinants of the breadth and frequency of separate reviews. Internal control shortcomings ought to be notified upstream, with major issues being quickly reported to the highest administration and governing boards. Internal control mechanisms evolve with time. After successful procedures are

in place, they may become less effective as a result of the hiring of new staff, inconsistent training and supervision, a lack of time or resources, or other pressures. In addition, conditions that the internal control system was initially intended for may also alter. Management must assess if the internal control system is still effective and equipped to handle new risks in light of the changing environment (Roth, 1997). So, the development and application of risk assessment measures will have an effect on the effectiveness of internal control.

2.2.5 Information and communication

According to studies by Gamage and Low Lock (2014), Ho (2016) and Nguyen (2018), information and communication play an important role in the effectiveness of internal control systems. According to all researchers, a well-thought-out information and communication system positively affects the effectiveness of an organization's internal control. In order for the incumbents to receive timely information and management, the information must be accurately determined both from within the company and from the outside. According to the report, the information is needed so that the entity can perform internal control tasks that support the achievement of its objectives. The company receives information necessary for daily internal control through internal and external communication. According to COSO (2013), employees understand the responsibilities of internal controls and how important they are to achieve goals through communication. Therefore, if the communication and information system is well designed and managed, it helps the staff to understand and perform their tasks accurately, which improves the effectiveness of the internal control of the unit.

2.2.6 Types of internal control systems

are various kinds of internal controls, which can be divided into preventive, investigative, and corrective control. Yet, other authors have produced a variety of Internal Control Systems. The types of internal controls, according to Milichamp (2002), are asset protection, separation of roles, supervision, verification, approval and authorisation, documentation and reporting. The types of internal controls include directive controls, preventative controls, compensating controls, detective controls, and remedial actions, according to Lousteau (2006), the State University of New York, and Dinapoli (2005). The description of these internal control kinds follows.

2.2.7 Preventive control:

Lacotelli (2009) defines preventative controls as actions taken by management to discourage and prevent noncompliance with instructions, rules, and procedures. The purpose of these preventative measures is to reduce the risk of loss and to thwart fraud, errors, and other abnormalities in transactions. These preventive measures include the separation of duties, appropriate authorization and approval, organizational chart establishment to assign roles to accountable officers, suitable documentation, physical control over assets, and ongoing staff training.

2.2.8 Detective controls

These are checks aimed at finding and detecting fraud, irregularities and errors in their commission. While detection is important, prevention is better. Sequencing controls, exception reporting, and validation are some of these controls. They show that harm has occurred by providing evidence of it, but they cannot prevent harm from occurring. Detective control includes audits, inspections, variance analyses, reconciliations, physical inventories, and variance studies. However, investigative controls are necessary to demonstrate that preventive controls are in place, prevent damage, and gather evidence of their effectiveness. Wells (2006). (2006).

2.2.9 Corrective controls

The corrective controls are implemented, according to Simmons (1995), to deal with any outside influences and any issues that have arisen within the system. System redesigns, follow-ups, post-audits, and the imposition of management sanctions for improper behavior are all examples of corrective control.

2.2.10 Directive controls

It makes reference to the policies and guidelines that top management implemented to promote adherence to independence. According to Rittenberg et al. (2007), the organization needs to be fully informed of the pertinent management policies and procedures in order to achieve compliance.

2.3 Theoretical Framework

2.3.1 Reliability Theory

The probability that the system will work as expected during a certain period of time is simply described by reliability theory (Gavrilov and Gavrilova, 2001). Insurance and life insurance companies have adopted this idea as a model for determining the most profitable premium rates. The concept confirms that internal control systems are primarily intended for risk assessment and management. In addition, the idea claims that ineffective internal control mechanisms lead to increased effort and thus costs (Kinney, 2000). Assessment of internal control system and weakness and vulnerability; is largely subjective according to Gavrilov and Gavrilova (2001). After assessing the reliability of the process and system, a comparison with the organization's financial data and past performance can provide a more reliable basis for determining how the internal control system affects business and revenue risk. One of the most important advantages of the Messier Jr. reliability theory, and according to Austen (2000) is how well it fits the requirements of understanding the organization and internal control systems and assessing control risks. Reliability theory is based on the idea that a system should be able to perform as intended once implemented.

2.3.2 Attribution theory

A social psychological theory called "attribution theory" looking at how people feel about events and behaviors and determining the causes of such events and behaviors. According to Schroth and Shah (2000), studies using attribution theory examine how people use information from their social environment to explain various events and behaviors. If evaluators believe that similar people would behave differently in the given situation, they (evaluators) prefer to blame the person for the outcome according to Reffett (2007). The first example corresponds to internal or dispositional attributes according to Wilks and Zimbelman (2004), while the second case corresponds to external or situational attributes. Reffett's; According to a 2007 study, appraisers are more likely to be prosecuted if they fail to detect fraud after they have identified fraud as a fraud risk. This expands the auditor's scope and responsibility in detecting fraud. According to Reffett's study, auditors are more accountable when an audit goes wrong if the auditors have identified the fraud committed as a fraud risk and have taken steps to investigate it. Thus, attribution theory supports audit reports on the effectiveness of internal control in

companies. Accordingly, auditors are expected to gain a deeper understanding of the internal controls used, evaluate their design and implementation, and test their effectiveness. It is deemed necessary by the auditors and dependence on it and the ability to reduce other relevant audit processes to meet performance requirements. According to the attribution theory, those responsible for fraud should be held accountable and auditors are seen as "public watchdogs" and this is most likely to occur when evaluations identify that audit services were performed substandardly (Reffett, 2007). The attribution theory places the responsibility of reporting fraud on the appropriate personnel of the institutions considering the investigation. There will always be a need for someone to manage internal control systems, despite the technological developments that have changed their structure. Therefore, it is the responsibility of these bodies, ie. the board and the board of directors, to ensure that all relevant regulatory and compliance matters are followed. According to our study, the purpose of this hypothesis is for auditors to be the first to detect fraud when it occurs.

2.3.4 Agency Theory

referring to agency theory (Connelly, Hoskisson, Tihanyi, & Certo, 2010; Eisenhardt, 1989; Jensen & Meckling, 1976), one party, the shareholder or the principal, defines the task, the other party, the management or the agent, in effect does the job. In such an arrangement, the principal hires the agent to perform a task or perform a task that the principal is unable or unwilling to perform. For example, in companies, the principals are the shareholders who delegate authority to the board to carry out their tasks. This suggests that agency theory and its underlying assumptions are based on preferences and motivations that drive human behavior (Sarens and Abdolmohammadi, 2011). According to Pratt and Zeckhauser (1985), the separation of ownership from management can cause goal conflicts between the agent and the principal. In addition, agents are in theory free agents who tend to pursue greater personal interests at the expense of principals (Sharma, 1997). According to Koch, Ostner, Peisker, and Schülke (2009), this means that different people have different motivations and would do anything to achieve those motivations. Similarly, agency theory states that both the agent and the principal are motivated by their own interests and do not necessarily act in the interests of the other party (Jensen and Meckling, 1976). According to Arnold and De Lange (2004) and Miller (2005), agency theory also assumes that an information asymmetry problem can arise between the agent and the principal due to the separation of

ownership and control. When one party to a transaction has more information than the other, the result is information asymmetry (Lang, 2006). In general, agents are better informed about the day-to-day operations of the firm than principals (Eilifsen, Messier, Glover, & Prawitt, 2006). Thus, the theory states that principals have no reason to believe that agents will act in their best interests due to information asymmetry and the self-interest of agents (Bonazzi and Islamo, 2007; Lan and Heracleous, 2010). When the interests of the principal and the activities and actions of the agent are not aligned, agency is lost, reducing organizational effectiveness. Asare (2006) notes in his contribution that the creation and implementation of internal control with a specific organizational goal in mind is the main responsibility of those in charge of affairs to minimize the possibility of losing the institution. By implementing management controls such as monitoring systems and internal controls, Zimmerman (2011) argues that management interests should be aligned with organizational interests to reduce agency costs. Explores agency theory, its underlying assumptions, objections, and how it affects corporate performance through the creation and use of internal control systems.

2.5 The challenges faced implementing internal control systems

There may be steps your company can take to help with the prevention and detection of fraud within the organization. Another very common type of internal control management flaws are frequently migrated by introducing a combination of anti-fraud controls and slightly altering current systems. in 2015 (Arwinge) However, an internal control mechanism is only as effective as its implementation because each organization must create its own framework. Internal control management mechanisms help with the resolution of legal inquiries, increased transparency, the prevention of theft, and the enhancement of the accuracy of accounting reporting used by investors. (Lewis and Arnold, 2019)

The following is a list of typical difficulties with internal controls:

2.5.1 Control override by management

Management typically plays a key role in the development, implementation, and maintenance of internal controls, therefore management naturally has the right to change them. If an executive has the ability and the motivation to circumvent safeguards and commit fraud due to personal financial

worries or earning goals, it is a risk that cannot be easily addressed. It suggests that those in charge of management, including shareholders, the board of directors, and the audit committee, actively participate in determining the likelihood that fraud will occur at the company and in putting additional measures in place to reduce the risk of management override if these fraud risks are detected. Also, setting the correct tone at the top might be advantageous to both the business and the employees. (Doxey, 2019)

2.5.2 Duties are only segregated to a limited extent

The authority to authorize transactions, record transactions, and custody of assets should not be in the hands of a single person. Smaller companies may struggle to create an adequate division of labor due to staffing constraints, but larger enterprises may also encounter issues if the division of labor is not done properly. In order to help ensure that goals are attained, businesses must implement compensatory controls, such as oversight, supervision, and inspection by executives or those accountable, Arnold and Lewis (2019)

2.5.3 Excessive emphasis in detective controls versus proactive control

If something is wrong, investigative controls will find it before it's too late and damage has already been done. Both preventive and investigative controls are components of an effective internal control system. Regular policy and procedure training, the installation of user names and passwords to restrict access to the system or modules within the system, the requirement for multiple signing on payments, or the evaluation and approval of purchase requests prior to purchase are all examples of safety systems. (Doxey, 2019)

2.5.4 Extremely Confident

The perpetrator of fraud is typically portrayed as being sincere, trustworthy, and a fantastic employee that you never expected. Employees should be trusted by an organization to perform their duties to the best of their abilities and to be good employees, but this trust should not be abused to get around internal controls. The first line of defense in preventing fraud and ensuring your company's existence is good accounting processes. Even businesses that already have controls in place need to regularly review them to make sure the goals are still being met and to

identify any problem areas or potential dangers. Keep the aforementioned internal controls risks in mind as you evaluate the operational internal controls in your firm.

2.6 Internal control systems and financial performance

Internal control is a set of guidelines and processes to prevent the intentional or negligent diversion of funds to prohibited activities. Internal audits ensure consistent recording of data to produce useful financial reports, they also help prevent fraud and loss by protecting assets and important documents, increase operational efficiency by minimizing unnecessary duplication and prevent misallocation of resources. compliance with the requirements of management policy and funding sources (Anduuru, 2005). Chih (2007) argues that internal audits support a company and its ability to operate efficiently, comply with legal requirements and provide reliable financial reports to stakeholders. For example, controls may limit the number of tasks a single employee can perform while working for an organization or require management to approve financial statements and reports. The organization and its resources, both tangible (such as equipment and property) and intangible (such as reputation or intellectual property such as trademarks), are partially protected by internal controls. Internal control is a system that ensures compliance with policies, risks, accounting and financial reporting for the efficient and successful operation of a company. Internal control is often used in management, accounting and banking (Krishnamoorthy, 2002). In addition to helping the organization produce quality products and services consistent with its goals, internal control helps the organization promote orderly, lean, efficient, and successful operations. Develop and maintain reliable financial and administrative data and present data accurately in timely reports to promote compliance with laws, regulations, contracts and administrative directives. Protects resources against losses due to waste, misuse, mismanagement, errors and fraud (Tunji, 2013) Companies use internal controls to prevent employees from using company information for their own purposes and to deter those who would try to embezzle money or steal goods, which would increase operating costs and reduce profits. Strong internal control starts with clearly describing the tasks and responsibilities of each person and project in the expenditure approval and payment processes. When dealing with financial information, each employee must be aware of their responsibilities and powers (Hollis and Daniel, 2012). A clear division of responsibility between all participants in the process is very important. This avoids someone managing the entire process. Protecting all assets, including supplies, furniture, equipment and of course cash, is an

integral part of excellent internal control methods. All storage items must be properly identified and access to non-essential computers, supplies and equipment must be controlled. Internal control issues can also arise when processing credit cards. Although the amounts of money are often small, managing petty cash is another part of internal control that should always be considered, as cash payments usually involve a high level of risk. The emergency cash payments needed to operate for about a month must be covered by petty cash. According to Abushaiba and Zainuddin (2012), cash should last a whole month and each payment should not exceed a certain limit. It is best to designate one person as the cashier and give them precise instructions on how to make payments. Only this person should have access to the change box. Prenumbered cash applications completed and signed by recipients must be kept in the petty cash. It is a good idea for the administrator to regularly check that the petty cash has the correct amount of money. An internal control system is being developed to support accurate financial reporting. Functional, informational, and performance goals are the three main categories of goals that are important to businesses. The company maintains internal control constantly following certain processes. Internal controls include detailed rules that prohibit certain employee behaviors in the workplace. Internal controls are mostly used to prevent fraud. Business owners use internal controls to ensure that one person does not handle too many accounting tasks. Many accounting tasks, such as recording deposits and reconciling bank statements, increase the likelihood that an employee will manipulate information, commit fraud, or embezzle funds from the company (Main, 2000). Owners, supervisors or accounting supervisors may be responsible for timely review of employee accounting work to ensure accuracy and correctness. Business owners can evaluate and monitor their operations using internal control. Employees must follow all SOPs under internal control. Employers and customers; Business owners can also evaluate performance using internal control standards. Internal controls establish safety requirements to ensure that employees are not injured during business operations.

2.7 Empirical Review

An overview of what empirically recognized scholars and researchers have written on the topic. It shows what information and concepts have been covered, how well they are covered, and what their advantages and disadvantages are. It does not present new or unique experimental work; instead, it uses secondary sources. Ndiwa (2014) investigated how tertiary institutions in Kenya

and internal control systems affected the financial result. Although they have the resources to operate, many public institutions in Kenya are facing financial difficulties and in some cases this has forced some of them to close. Thus, the study attempted to examine the continued poor financial performance from an internal control perspective, which was previously ignored. The overall objective of the study was to establish a relationship between internal control and financial performance in higher education institutions in Kenya. The African Institute for Research and Development was the only institution that participated in the study. According to the results, the majority of respondents thought that internal control and financial management are related.

Systems of internal control and impact on sugarcane farmers in Kenya

Mwakimasinde, Odhiambo and Byaruhanga reviewed the 2014 economic development. The specific objective of the research was to find out the effect of the components of the internal control system on the financial results of sugarcane cultivation companies. Financial results were characterized by unit cost, target achievement, profitability or surplus, while the internal control system was characterized by control environment, risk assessment process, information system and control activities. The regression results also show that internal control systems help to improve the financial performance of sugarcane cultivation companies. In the light of the study and its findings and conclusions, the following suggestions were made; The internal control system has been shown to have a statistically positive effect on the performance of sugarcane farms; Therefore, the internal control system must be improved. Although it produced important results, the study had several limitations that open up opportunities for further research. Kamau (2014) investigated how internal audits affected manufacturing firms in Kenya. The results showed that the control environment was a characteristic of the internal audits of most manufacturing companies, and this characteristic had a significant impact on companies financial results. The results also showed that employees were trained to implement accounting and financial management systems, and the organization's assets were identified and protected by a security system. According to the statistical results of the regression study, there is a positive correlation between internal control and financial performance in manufacturing companies in Kenya. The report recommends that internal and external auditors regularly update and familiarize themselves with International Financial Reporting Standards (IFRS) and principles to improve their knowledge and skills in applying accounting practices and stay abreast of current events. Kinyua (2015) investigated the effect of internal control environment on the financial performance

of companies listed on the Nairobi Stock Exchange. The purpose of the study was to find out how internal control environments affected the financial performance of companies listed on the Nairobi Stock Exchange. The results showed a significant positive relationship between internal control environment and financial performance, supporting Mawanda et al's (2008) results that institutions with well implemented internal control systems always had better financial performance. Therefore, the study recommends improving internal control environments to further improve the financial performance of companies listed on the Nairobi Stock Exchange.

2.8 Chapter Summary

According to the literature, companies often spend a lot of money on internal control and use it to increase the caliber of their internal control systems. Organizations with effective internal control systems can ensure that their organizational and financial success goals are met. As a result of the literature review, it can be concluded that the control environment, control measures, risk assessment, information and communication and monitoring are important factors of financial and organizational success. Achieving organizational effectiveness and efficiency, achieving business goals and ensuring compliance with laws and regulations have been the goals of every internal control system. Obviously, ICS cannot promise flawless performance without errors and fraud. Basically, the internal control of companies and state institutions was studied to prevent fraud. Thus, it is undeniable that there is a need for ICS research and continuous improvement in both private and public organizations to achieve the intended goal.

Chapter 3

Methodology

3.0 Introduction

The previous chapter discussed the literature review, and this chapter evaluates the data collection techniques used and analyzes research on the effects of internal control systems on the performance of construction companies. This chapter focuses on research and research methods. This study uses both primary and secondary research. This chapter highlights the research design, data sources, sampling methods, data analysis and data presentation that were used to collect data for this study. This section again describes the sampling methods used and provides an overview of the study and the target population and the sample.

3.1 Research Design

The researcher used descriptive research. The detailed information provided by the descriptive research methodology provides a clear picture of the study population and the effect of internal control systems on construction companies. The researcher decided that descriptive research was necessary because Cohen et al. (2004), it concerns existing conditions, common practices, beliefs, views and attitudes, and ongoing processes. The design and use of descriptive research is justified by its ability to use information from readily available sources to obtain information about respondents and perceptions, feelings and attitudes about the effectiveness of inventory management systems. According to Tuckman (2003), the use of descriptive surveys is also recommended because they allow researchers to draw conclusions based on a certain time data collection and what is likely to happen in the future under similar conditions. The popularity of explorers. Case studies use a holistic approach, the researcher examines relationships as they develop, important information is obtained and thus such cases can increase our understanding of differences in organizational performance. Most researchers focus on the general trend of activity, but the case study technique emphasizes individuality and provides a more comprehensive set of data about individuals. However, the main disadvantage of the case study is that it is difficult to generalize the results to other companies in the construction industry, since one research unit is not representative of almost all other similar units.

3.2 Population Target

According to Stephanie Gien (2019), a target population is a broad phrase for a group or collection of elements about whom the researcher is curious. A target population is a specific group that is examined in order to obtain the essential data or information. Certain population subgroups have the relevant information. The accounting team at Pat Dunn and company, as well as the marketing

and human resource department, were the study's target demographics. The study's sample population includes every employee of Pat Dunn and Company employ 50 employees.

3.3 Sample Size

The sample size of 45 was determined using the Rao soft sample calculator. The sample section was similarly primarily made up of referrals, with the balance made up of the supervisors of each department, a small number of employees on the company's floor, and the management team. There is a 95% level of confidence and a 5% margin of error with this sample size (degree of accuracy).

3.3.1 Sampling techniques

Sampling is taking measurements of a portion of the population in order to make generalizations that apply to the entire population. The researcher utilized a probabilistic sampling technique. This method was employed since the sample representatives are crucial to the generalizability of the research findings on a larger scale.

To choose individuals from the desired population, the researcher decided to employ stratified random sampling. Because the researcher made sure that every unit in the population had a representation in the sample, the stratified random sampling technique was employed to ensure that the sample accurately represented the whole population and allowed for proper generalization of the results

3.4 Research Instruments

3.4.1 Questionnaire

Previous studies of this type have found questionnaires to be an effective tool for collecting such data, and questionnaires were chosen as the method of data collection in this study. In general, using questionnaires to collect data is a smart idea because it gives respondents plenty of time to think about their answers. Data analysis is simplified by the homogeneity of responses to standardized questionnaires, which also means the questions themselves. Also, respondents would be more willing to answer honestly and objectively if they knew that their identity would not be compromised, which is another reason why surveys were considered appropriate for this study. On the other hand, not receiving questions or explanations is a serious lack of form. Questionnaires

and the ability to define meaning can be very difficult, and the problem of multiple interpretations makes it so much worse that the intended meaning, and thus the research and purpose, is lost. All questionnaires used closed questions to reduce the ambiguity and bias of respondents and answers

Another data collection method, interviews, was used to supplement the questionnaire and its gaps. As a result, the two data collection methods complemented each other. Many respondents either do not have time to fill in the questionnaire or it takes more time than necessary to fill it in by heart. Before giving the questionnaire to the respondents, the researcher decided to explain to them the seriousness of the survey. He also ensured that the respondents are aware that the exercise has a deadline and collection date

3.4.2 Interviews

In this study, responses from staff and management were collected through face-to-face interviews. The prepared interview guide contained questions that guided both the interviewer and the interviewee so that they did not take turns talking. In order to achieve some uniformity, the interview questions and their order were standardized. This allowed the researcher to compare and evaluate the responses. The researcher obtained more information about the interview subjects by asking them to elaborate on their answers in this study through the use of the interview. Another remarkable aspect is that the interviewer was able to probe the respondents and behavior as well as other non-verbal cues and body language that allow him to get more information when he feels there is more to say on a particular topic. Compared to a survey, the interview method allowed the researcher to obtain more primary data. The interviewees were not given the opportunity to discuss with others, so their answers were more likely to reflect their true opinions. Gray areas were clarified through interviews in the presence of the interviewer. The interviews made it possible to clarify unclear points for both the interviewer and the interviewee. However, the interview technique for data collection has some disadvantages, one of which is that respondents are not given the opportunity to think creatively and offer new perspectives on a certain topic. A certain prejudice arises from the way in which the questions are asked. Answers may be biased because the interviewer interacts with the subject, including through voice projection and other body language actions. Sometimes respondents do not take interviews seriously enough; the interviewer can really notice that the respondent is multitasking and not paying full attention to the interview.

The interviewer wanted to be honest about these questions and suggested postponing the interview until the respondent was more prepared and ready to focus on the conversation.

3.5 Data collection procedure

The researcher used a triangulation criterion that included both the questionnaire and the interview to analyze the internal control systems on the performance of construction firms. If the results of the instruments agree, the accuracy, validity, and reliability of the research are improved; if they disagree, extra research may be required to determine why the result is constantly diverging.

3.6 Measurement of Variables

The Likert Scale was used in the surveys by the researcher to gauge attitudes, knowledge, and quantitative methodologies. Open-ended questions were also incorporated in order to better understand the respondents' opinions, attitudes, and behavioral adjustments about internal control systems on the performance of construction enterprises..The researcher also used the Likert scale because it was straightforward to construct and was probably to be useful. With this method, the researcher was able to estimate the number of respondents, producing a very accurate scale that was also straightforward to read and complete. A typical scale would be "Strongly disagree, disagree, neutral, agree, strongly agree" (Losby; 2012). In order to indicate their level of agreement or unhappiness with the method of analysis, respondents would check the appropriate boxes.

Strongly disagree=5

Disagree=4

Neutral=3

Agree=2

Strongly agree=1

3.7 Data Presentation Analysis

After data collection, SPSS was used for analysis and visualization. To facilitate the interpretation of the results, the material was presented in a logical order, following the chronology of the research objectives and questions. Pie charts, graphs and tables were used to present the data which facilitated interpretation and comparison of primary data, secondary data and research

perspectives. Among the results. Examination of the qualitative data involved corroborating the data from the empirical literature. Answers sent and scores were calculated using quantitative analysis and numerical variables such as the number of respondents.

3.8 Validity and Reliability

To ensure the study's validity, the instruments were thoroughly examined utilizing information that was dependable, honest, defensible, respectable, trustworthy, sincere, certain, and unfailing. The results would be meaningless unless the data was evaluated using a test-retest technique. According to Bapir (2012), a qualitative study is more valid if it has more data and findings. A quantitative study is also considered problematic if data validity was utilized to determine if the data was credible or relevant (Straub et al. 2004). As a result, the dependability of quantitative research determines its validity (Venkatesh, Brown and Bala; 2012). As previously stated, validity and dependability serve to ensure data quality.

3.9 Ethical consideration

According to Walton (2013), research ethics deals with the analysis of ethical dilemmas that arise when people participate as research participants. Research ethics aims to protect human participants by ensuring that research is conducted in a way that benefits individuals, groups and society as a whole. Finally, the aim was to analyze the ethical sense of certain research activities and projects, such as risk management and data collection. The researcher received a letter from the institution requesting permission to conduct commercial research, which he sent to Pat Dunn and Company. The letter stated that the information obtained will be used only for scientific reasons. Participants were assured that the information they provided would be kept confidential.

Chapter Summary

This chapter reviewed the research methods used in this article. Research methodology addressed the questions through research design, population sampling, data collection methods and tools. The chapter briefly described how the data was organized, combined and aggregated to analyze and report the results of the study on the evaluation of the effects of internal control systems on the operations of construction companies.

Chapter 4

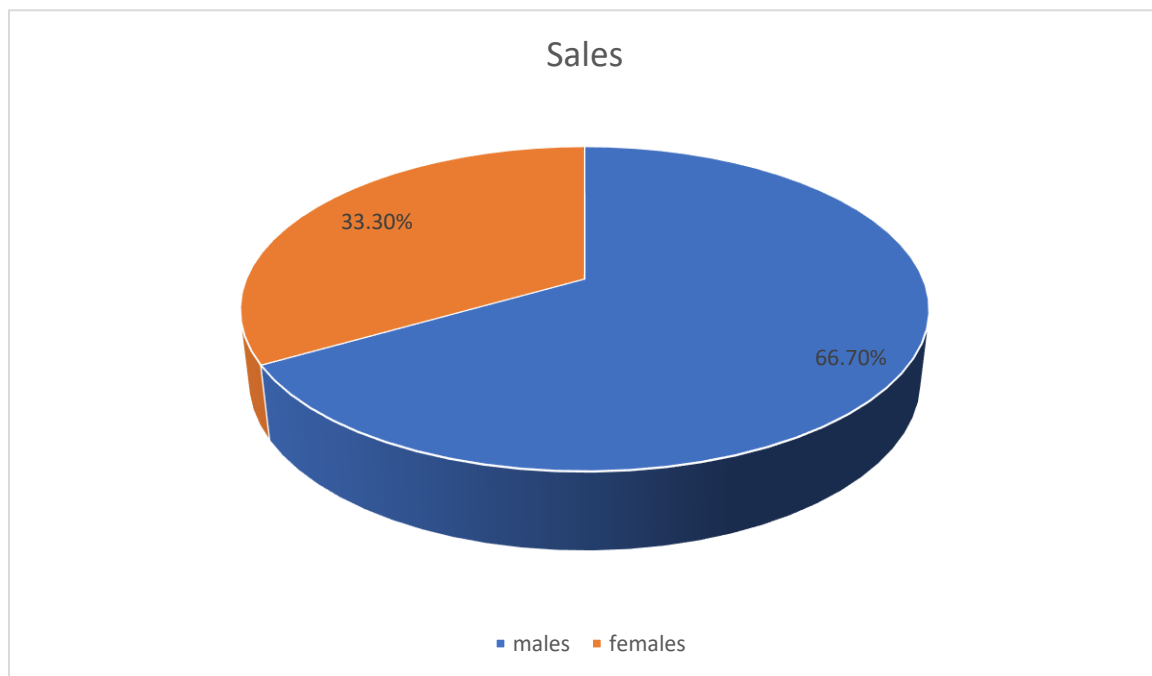
Results and Discussions

4.0 Introduction

The purpose of this chapter is to present the results of the preceding chapter's research technique. Tables and pie charts will be used to display the findings.

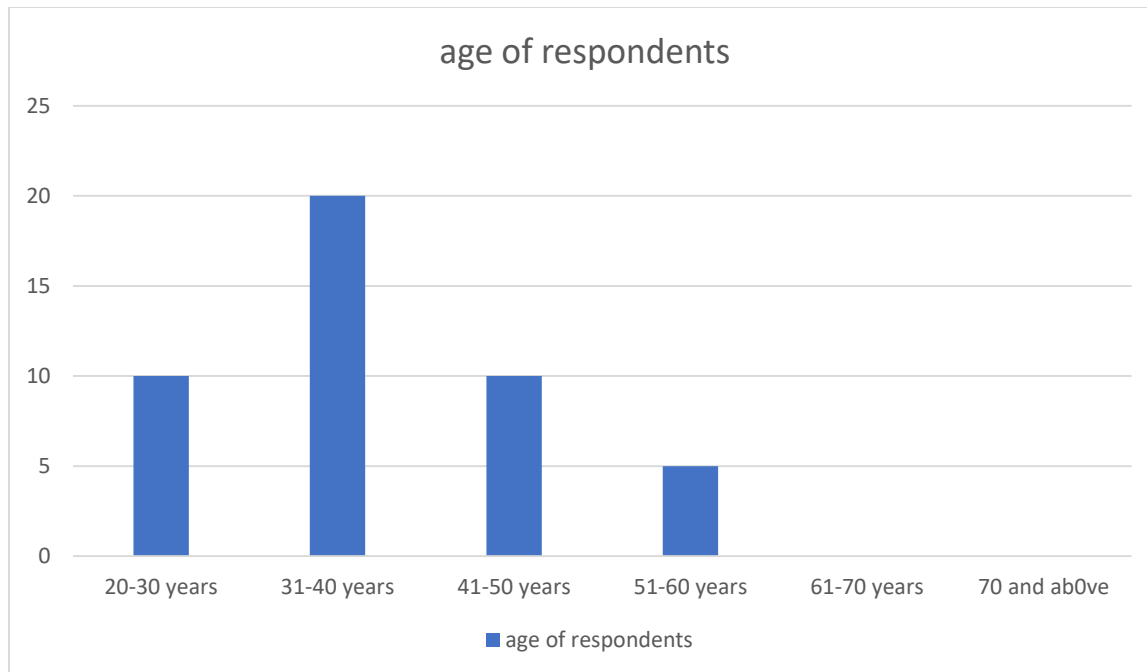
4.1 Descriptive Summary

4.1.1 Gender



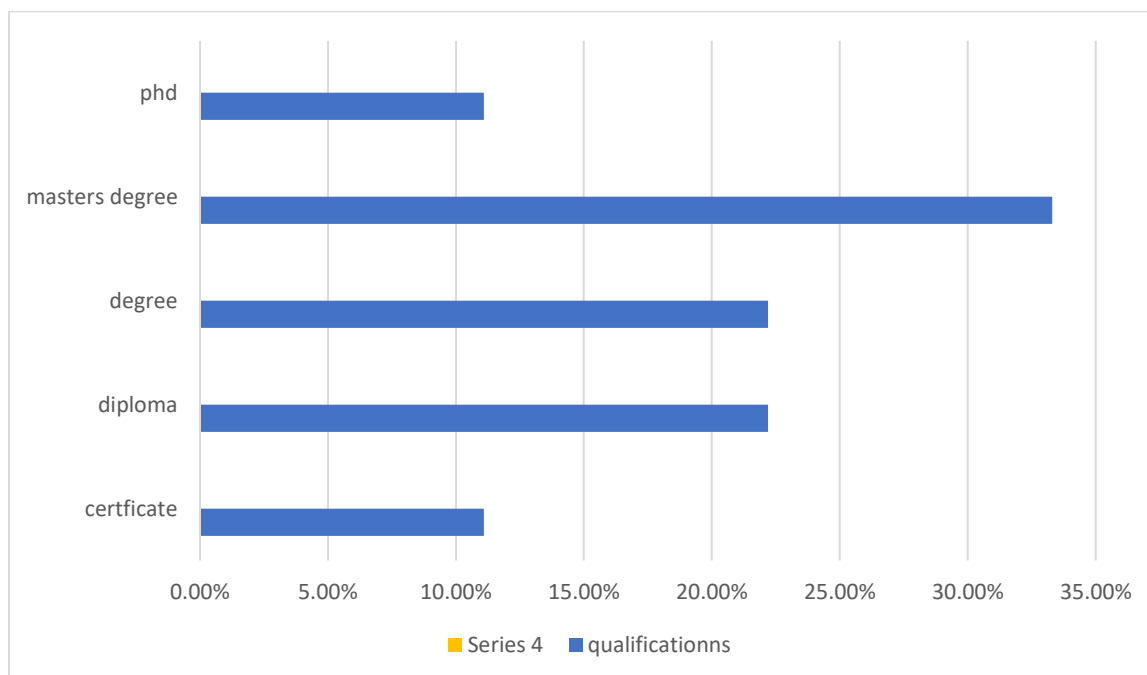
The gender proportion of males respondents is 66.7% while the female respondents were 33.3%. Both male and female were participated in the survey even if the ratio of the respondents is not proportional. This enables the researcher that there is bias in the survey instrument related to the gender of the respondents

4.1.2 Age of participants



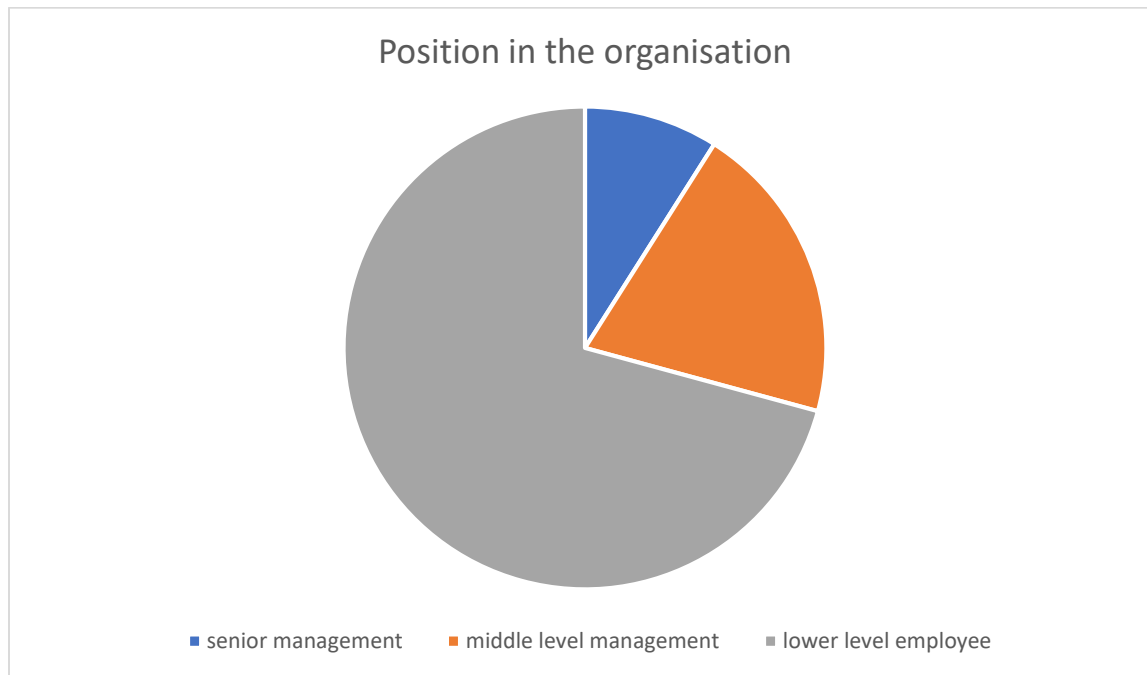
The age category of 20-30 years consists of 10 participants (22.2%) followed by those under the category of 31-40 years with 20 people (44.4%). 10 people from the age of 41-50 (22.2%), 5 participants from the age of 51-60 years (11.1%). The remaining age groups have 0% which are 61-70 years and 70 years and above respectively.

4.1.3 Qualifications



The education qualification of respondents indicates that 11.1% hold a certificate, 22.2% of the respondents were diploma holders and degree holders. From the total respondents, the major percentage holds by the masters degree holders with 33.3%, while 11.1% of the respondents achieved their Phd.

4.1.4 Position in the organisation



17.8% (8) of the respondents is the senior management, while 40% (18) of the respondents is the middle level management and 42% (19) of the respondents are the lower level employees.

4.2 SECTION B

4.2 Internal control systems utilized by construction organisations

Description	1-2 Disagree	3 Neutral	4-5 Agree	Mean	Std dev
Preventive control	7.9%	5.5%	86.6%	4.121	0.898
Detective control	24.9%	12.8%	62.3%	3.593	1.094
Corrective controls	31.1%	15.8%	53.0%	3.202	1.118

Directive controls	24.9%	11.5%	59.4%	3.462	1.206
--------------------	-------	-------	-------	-------	-------

When asked whether the organisation uses preventative control, respondents said that it does, based on the empirical data that was gathered. The company takes these preventative steps to lower the chance of loss and thwart fraud, mistakes, and other anomalies in transactions, as indicated by the 86.6% of respondents who agreed with the statement. The company employs detective controls, according to 62,3% of respondents, but these controls are necessary to demonstrate that preventative measures are in place, stop losses, and get proof of their efficacy. Wells (2006).53% of respondents concur that the company has corrective controls in place, pointing out that they do post-audit follow-ups, redesigns, and follow-ups. The assertion that there are directive controls in the company, which alludes to the policies and rules that senior management put in place, is agreed upon by 59.4% of the respondents. These internal controls according to Milichamp (2002) are assets protection ,separation of roles, supervision just to mention a few.

4.3Challenges faced by firms

Description	1-2 Disagree	3 Neutral	4-5 Agree	Mean	Std dev
Control override by management	68.1%	18%	18%	3.61	1.02
Extremely confident	70.19%	20.19%	9.62%	3.592	10.72
Excessive emphasis in detective controls vs proactive control	31.1%	15.8%	53.0%	3.202	1.118
Duties are only	48.8%	16.8%	34.3%	2.76	1.19

segregated to a limited extend					

68.1% of respondents disagree with the assertion that management sets the right tone, which benefits the company and the employees, as seen in the above table. (2019, Doxey). Although employees should be trusted by an organisation to fulfil their jobs to the best of their abilities and to be good employees, 70.19% of respondents disagree with this statement. This suggests that trust should not be misused to circumvent internal controls. According to 53% of the respondents, the business has proactive control in place. Other measures include installing user names and passwords to restrict access to the system or certain modules, requiring repeated sign-on fees, and evaluating and approving requests. (Doxey, 2019). 48.8% of respondents disagrees that duties are only segregated to a limited extend, because the authority authorize transactions, record transactions, and custody of assets are not be in the hands of a single person

4.4 Internal control practices adoption on construction firm's performance

Description	Extremely Disagree	Disagree	Neutral	Agree	Extremely agree
Improved profits	10%	10%	50%	15%	15%
Liquidity improves adoption	-	-	0.25%	95%	0.25%
Increase in market share	-	25%	50%	25.25%	0.25%

Improved risk management	-	-	10%	80%	10%

As can be seen from the above table, 50% of respondents disagree that internal controls increase profit. 95% of participants concur that increased liquidity facilitates the implementation of internal control. 50% of those surveyed have no opinion about the claim that it increases market share. Eighty percent of the participants concur that internal controls enhance risk management and boost market share. Internal control not only helps a company produce high-quality products and services that are in line with its objectives, but it also helps a company maintain successful, prosperous, and orderly operations. Guard resources from being lost as a result of fraud, abuse, mismanagement, mistakes, and waste (Tunji, 2013).

Chapter Summary

The empirical evidence gathered in this study point out that the internal controls positively affect firms performance .The next chapter will look at the recommendation, conclusions of the study

Chapter 5

Recommendations, Summary and Conclusions

5.0 Introduction

The purpose of the study was to determine effects of internal control systems on performance of construction firms at Pat Dunn and company . Summary, conclusion, suggestions for further research, and recommendations are all included in this chapter

5.1 Summary

There are various kinds of internal controls, which can be divided into preventive, investigative, and corrective control. Yet, other authors have produced a variety of Internal Control Systems. The types of internal controls, are asset protection, separation of roles, supervision, verification, approval and authorisation, documentation and reporting. The types of internal controls include directive controls, preventative controls, compensating controls, detective controls, and remedial actions, The description of these internal control kinds follows.

Preventive control: The purpose of these preventative measures is to reduce the risk of loss and to thwart fraud, errors, and other abnormalities in transactions. These preventive measures include the separation of duties, appropriate authorization and approval, organizational chart establishment to assign roles to accountable officers, suitable documentation, physical control over assets, and ongoing staff training.

Detective controls

These are controls that are designed to find and expose issues like fraud, irregularities, and mistakes after they have been made. Despite the fact that detection is important, prevention is preferable. Post-audits, exception reporting, and validation are some of these controls. They show that a loss has happened by providing evidence of it, but they cannot stop a loss from happening. Detective controls include audits, reviews, variance analysis, reconciliation, physical inventories, and studies of variation. Yet, investigative controls are essential for showing that preventative controls are in place, preventing losses, and gathering evidence of their effectiveness.

Corrective controls

The corrective controls are implemented, to deal with any outside influences and any issues that have arisen within the system. System redesigns, follow-ups, post-audits, and the imposition of management sanctions for improper behavior are all examples of corrective control.

5.1.2 The challenges faced implementing internal control systems

There may be steps your company can take to help with the prevention and detection of fraud within the organization. Another very common type of internal control management flaws are frequently migrated by introducing a combination of anti-fraud controls and slightly altering current systems. However, an internal control mechanism is only as effective as its implementation because each organization must create its own framework. Internal control management mechanisms help with the resolution of legal inquiries, increased transparency, the prevention of theft, and the enhancement of the accuracy of accounting reporting used by investors.

5.1.3 Internal control systems and financial performance

Internal controls are a collection of guidelines and processes to stop the intentional or negligent usage of money for prohibited activities. Internal controls ensure that data is recorded consistently so that useful financial reports can be produced, they also help prevent fraud and loss by safeguarding assets and important records, they increase operational efficiency by minimizing needless duplication of effort and preventing resource misallocation, and finally they promote adherence to management policies and funding source requirements . internal controls support a company's ability to operate effectively, adhere to legal requirements, and provide stakeholders with trustworthy financial reports. Controls may, for instance, place a cap on the number of tasks one employee can do while working for the organization or demand that financial reports and statements be approved by management. The organization's resources, both tangible (such as equipment and property) and intangible (such as reputation or intellectual property, such as trademarks), are protected in part by internal control. For the efficient and successful functioning of the business, internal control is a system that guarantees that policies, risks, record keeping, and financial reporting are adhered to. Internal controls are frequently employed in management, accounting, and banking

In addition to helping an organization generate high-quality goods and services that are compatible with its goal, internal control also assists an organization in promoting orderly, economical, efficient, and successful operations. Develop and maintain trustworthy financial and management data, and accurately present that data in timely reports to promote compliance with laws,

regulations, contracts, and management directives. Protect resources against loss due to waste, abuse, mismanagement, errors, and fraud

5.2 Conclusions

Internal Controls are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Increasingly, reliability of financial reporting in accounting context is very important for the investors who use the information for decision management. The reliability of financial reporting is effective to internal control efficiency to ensure that the transactions and bookkeeping are appropriate and properly authorized, valid, correctly recorded, complete, and on time. Moreover, it is very important that organizations have fairly summarized accounting information data disclosure. However, in general, a quality reporting is affected by internal control mechanism. There is a general perception that institution and enforcement of proper internal control systems will always lead to improved financial performance. It is also a general belief that properly instituted systems of internal control improve the reporting process and also give rise to reliable reports which enhances the accountability function of management of an entity. Appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives.

5.3 Recommendations

It is expected of auditors to get a deeper understanding of the internal controls in place, evaluate their design and execution, and test their operational efficacy. This is deemed necessary due to the auditors' dependence on it and the potential for reducing other substantive audit processes to meet performance requirements. According to the attribution theory, those responsible for fraud should be held accountable, and as auditors are seen to be "public watchdogs," this is most likely to happen if evaluations find that subpar audit services were rendered.

There will always be a need for someone to administer internal control systems, notwithstanding technological advancements that have altered their structure. So, it is the responsibility of these authority figures, i.e., management and the board of directors, to make sure that all pertinent regulatory and compliance issues are followed.

Suggested for further study

Effects of internal control systems on performance of construction firms at Patt Dunn and company. was investigated in this study. Before making any generalizations, the same study needs to be conducted in different Zimbabwean organizations on a range of conditions. There is a need for conducting quantitative research because this study was primarily qualitative

References

. James Christopher Westland, 2020. "Predicting credit card fraud with Sarbanes-Oxley assessments and Fama-French risk factors," *Intelligent Systems in Accounting, Finance and Management*, John Wiley & Sons, Ltd., vol. 27(2), pages 95-107, April.

Navarro, Patricia & Robb, Sean W.G. & Sutton, Steve G. & Weisner, Martin M., 2020. "The cost stickiness of information technology material weaknesses: An intertemporal comparison between it-related and other material weaknesses," *International Journal of Accounting Information Systems*, Elsevier, vol. 37(C).

Ahsan Habib & Mostafa Monzur Hasan & Haiyan Jiang, 2018. "Stock price crash risk: review of the empirical literature," *Accounting and Finance*, Accounting and Finance Association of Australia and New Zealand, vol. 58(S1), pages 211-251, November.

Jun Guo & Pingsun Huang & Yan Zhang, 2019. "Do debt covenant violations serve as a risk factor of ineffective internal control?," *Review of Quantitative Finance and Accounting*, Springer, vol. 52(1), pages 231-251, January.

Kelly Huang & Brent Lao & Gregory McPhee, 2020. "Internal information quality and patent-related innovation," *Journal of Business Finance & Accounting*, Wiley Blackwell, vol. 47(3-4), pages 489-518, March.

Ye, Mao & Zheng, Miles Y. & Zhu, Wei, 2023. "The effect of tick size on managerial learning from stock prices," *Journal of Accounting and Economics*, Elsevier, vol. 75(1).

Dongyoung Lee, 2017. "Corporate Social Responsibility and Management Forecast Accuracy," *Journal of Business Ethics*, Springer, vol. 140(2), pages 353-367, January.

Bačun, Dinko, 2019. "Temporal Anomalies in Budgetary Cost Control of Municipal Corporations," 7th International OFEL Conference on Governance, Management and Entrepreneurship: Embracing Diversity in Organisations (Dubrovnik, 2019), in: 7th International OFEL Conference on Governance, Management and Entrepreneurship: Embracing Diversity in Organisations. April 5th - 6th, 2019, Dubrovnik, pages 27-40, Governance Research and Development Centre (CIRU), Zagreb.

Han Li, 2015. "Managerial Ability and Internal Control Quality: Evidence from China," *International Journal of Financial Research*, International Journal of Financial Research, Sciedu Press, vol. 6(2), pages 54-66, April.

Mostafa Harakeh & Ghida Matar & Nagham Sayour, 2020. "Information asymmetry and dividend policy of Sarbanes-Oxley Act," *Journal of Economic Studies*, Emerald Group Publishing Limited, vol. 47(6), pages 1507-1532, April.

Christopher D. Ittner & Jeremy Michels, 2017. "Risk-based forecasting and planning and management earnings forecasts," *Review of Accounting Studies*, Springer, vol. 22(3), pages 1005-1047, September.

Ruihao Ke & Meng Li & Yuan Zhang, 2020. "Directors' Informational Role in Corporate Voluntary Disclosure: An Analysis of Directors from Related Industries†," *Contemporary Accounting Research*, John Wiley & Sons, vol. 37(1), pages 392-418, March.

Ying Cao & Yuanying Chi & Jianbin Wei, 2023. "Internal Control, Negative News, and Corporate Performance An Empirical Analysis Based on China's Strategic Emerging Enterprises," *Advances in Management and Applied Economics*, SCIENPRESS Ltd, vol. 13(1), pages 1-2.

Hongrui Feng & Shu Yan, 2019. "CEO incentive compensation and stock liquidity," *Review of Quantitative Finance and Accounting*, Springer, vol. 53(4), pages 1069-1098, November.

Jung Ho Choi, 2021. "Accrual Accounting and Resource Allocation: A General Equilibrium Analysis," *Journal of Accounting Research*, Wiley Blackwell, vol. 59(4), pages 1179-1219, September.

Choi, Jung Ho, 2017. "Accrual Accounting and Resource Allocation: A General Equilibrium Analysis," Research Papers 3553, Stanford University, Graduate School of Business.

Choi, Jung Ho, 2018. "Accrual Accounting and Resource Allocation: A General Equilibrium Analysis," Research Papers repec:ecl:stabus:3553, Stanford University, Graduate School of Business.

Questionnaire

My name is Prisca Nyamusa, a BAAC student from the Bindura university of science Education the faculty of Commercy a Bachelor of Science Hons Degree in Accounting. In partial fulfilment of the requirements of this degree, I am carrying out a research on the impact of internal control practices on performance of construction firms in Zimbabwe, focusing on construction firms in Harare.

Your cooperation in completing this questionnaire will be greatly appreciated and the responses will be used purely for academic purposes and hence will be treated with high levels of confidentiality. It is hoped that the research findings will assist construction firms in effectively enhancing their corporate performance through effective implementation of good internal control systems.

Kindly tick as appropriate.

Section A: Demographic Data

1. What is your gender?

Male	
+	

Female	
--------	--

2. What is your age group?

20-30 years	
31-40 years	
41-50 years	
51-60 years	
61-70 years	
Above 70 years	

3. What is your professional qualification?

Certificate	
Diploma	
Degree	
Master's degree	
PhD	

4. What is your position in your organization?

Senior manager	
Middle Level manager	
Lower level employee	

Section B: Internal control practices currently existing in construction firms

B1. (a) Is your organization adhering to sound internal control practices?

Tick

To a greater extent	
To a reasonable extent	
To a minimum extent	
To a lesser extent	
Not at all	

B2. The following relates to possible internal control systems utilized by construction organisations?

Kindly fill in the following table, Tick where applicable (Key: SA=Strongly Agree, A=Agree; D=Disagree; SD=Strongly Disagree)

Types of internal controls	SD	D	A	SA
B2.1. Preventive controls				
B2.2. Detective controls				
B2.3. Corrective controls				

B2.4. Directive controls				
--------------------------	--	--	--	--

B3. The following relates to possible challenges construction firms face when implementing internal control systems

Kindly fill in the following table, Tick where applicable (Key: SA=Strongly Agree, A=Agree; D=Disagree; SD=Strongly Disagree)

Possible challenges encountered	SD	D	A	SA
B3.1. Control override by management				
B3.2. Extremely confident				
B3.3. Excessive emphasis in detective controls vs proactive control				
B3.4. Duties are only segregated to a limited extend				

B4. The following relates to the possible effects of internal control practices adoption on construction firm's performance

Kindly fill in the following table, Tick where applicable (Key: SA=Strongly Agree, A=Agree; D=Disagree; SD=Strongly Disagree)

Effects	SD	D	A	SA
B2.1. Improved profits				
B2.2. Liquidity improved after adoption				
B2.3. Increase in market share % (Growth)				
B2.4. Improved risk management				

Thank you for taking time to answer this questionnaire.

INTERVIEW GUIDE FOR MANAGEMENT

This interview is presented to management in the light that the findings are to be treated as confidential by the researcher.

Thank you in advance for your cooperation

1. What are the internal control practices currently existing in the Zimbabwean construction firms?

.....
.....

2. Do you undertake internal audits in a period of a year? Please specify?

.....
.....

3. Are all actions by staff supervised?

.....
.....

4. How does the current internal control practices in construction firms influence their corporate performance?

.....
.....

5. What are the challenges faced by construction firms when implementing internal control systems?

.....
.....

6. What are the best internal control practices that should be embraced by the construction companies to improve their performance?

.....
.....

Pyamwe

7. What are the possible effects of implementing strong internal control practices on performance of construction firms?

.....
.....

8. What do you think needs to be done to improve the internal control systems?

.....
.....

Researcher.

Supervisor.....

Chairperson.....

