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An Assessment of the Existence, Nature and Role of Current Internal Controls Being Applied at Lobels Bread, a Bread and Confectionary Manufacturer, Based in the Bulawayo Metropolitan Province in Zimbabwe

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Abstract: The research investigates and evaluates the existence, nature and role of internal controls at Lobels Bread Private Limited, a company facing financial distress, with the aim of identifying areas of weakness and providing recommendations to avoid and prevent collapse using a descriptive survey research design. The study employed questionnaires and interviews as tools for data collection, targeting 40 employees selected using stratified random sampling technique. The questionnaire consisted of both open- ended and closed- ended questions, while in-depth interviews were conducted with key personnel including the Finance Manager and Internal Auditor. The study reveals that Lobels Bread has a partially implemented internal control system with some controls in place but lacking comprehensiveness and effectiveness. The company's control environment is characterized by inadequate segregation of duties, lack of clear policies and procedures, and insufficient monitoring and review processes. The study also identifies significant weaknesses in the company's internal controls, including inadequate accounting and financial reporting systems, poor inventory management and lack of effective risk management policies. The findings of the study indicate that the internal controls at Lobels bread are not effective in preventing financial distress, and that the company is at risk of collapse if the weaknesses are not addressed. The study provide practical recommendations for Lobels bread to improve its internal controls, including strengthening the control environment, improving accounting and financial reporting systems, enhancing inventory management and establishing effective risk management processes. The study contributes to the existing literature on controls and financial distress, and provides insights into the importance of effective internal controls in preventing financial distress. The findings of this study are relevant to companies facing financial distress and can be used to inform strategies for improving internal controls and preventing collapse.

Keywords: Internal Controls, Efficiency, Effectiveness, Competitive Position, Financial distress

INTRODUCTION

Joseph (2002),in studies have shown that companies with poor internal control systems are more likely to experience large costs due to organizational fraud, asset misappropriations, corruption, and fraudulent statements than organizations with strong internal controls. Joseph T. Wells' article "Occupational Fraud: The Audit as Deterrent" located in the Journal of Accountancy, describes the frequency of fraud reported among companies who did and did not participate in audits as a means of internal control from 1996 to 2002. He used data from the survey distributed by the Association of Certified Fraud Examiners (ACFE) to

approximately 10,000 fraud examiners in 1996 as a comparison to the number of fraud cases that occurred in 2002.

The survey provided information about how fraud was accomplished and how the type of industry and size of the organization affected the amount of loss faced. The three most common offenses against organizations were asset misappropriations, corruption, and fraudulent statements. The largest median losses occurred in public companies, and the smallest were in nonprofit and governmental agencies. Organizations consisting of 100 or fewer employees experienced larger median losses than did organizations with 10,000 employees or more. The smallest companies were over a hundred times more vulnerable to fraud than were the largest companies. Some reasons for the larger losses in smaller companies were that basic accounting controls were often lacking, they were less likely to be audited, and there was frequently a higher level of trust among smaller companies due to their size (Wells 2002, 1-2).

The viability of the bread and confectionary manufacturing sector, Lobels Bread inclusive, hinges on strategic tools used by the executives, the effectiveness and efficiency of the internal controls so that assets are safeguarded and the organization is free of fraudulent activities that will avoid heavy assets and heavy financial losses, according to O Ray Whittington in his Principles of auditing (1992)

Atkins (1998) notes that history has it that some companies went down at some unstoppable rate despite the extensive effort and long hours spent in the boardroom analyzing and interpreting financial and non- financial data. Instead, time should be spent crafting controls that will safeguard against loss and fraud. With the Multicurrency system ushered by the Government of National Unity, everyone will want to maximize on any lapse of internal controls and make sure that what they can take to their benefit, they will take. The August 2017 Zimtrade article number 28 reported that Riozim mine lost one of their rigging machine under the pretext that the machine had gone for service . This is not a healthy situation for any company and hence the need to tighten controls and make sure that nothing of that nature will happen in future. This will make it meaningful then to carry out a research on how internal controls are being used to assist organizations in the bread and confectionary industry close gaps/ loopholes in the use of controls and in the end safeguard against their assets. Armed with the above concerns, and what appears to be inconsistencies and disregard of internal control values at Lobels Bread, it is thus of fundamental significance that a study of this nature be carried out, to further carry out an analytic assessment of the effectiveness and efficiency of the current internal controls adopted at Lobels Bread – with the ultimate goal of helping the company avoid further submergence and loss of financial resources and assets to be used for the success of the company.

Statement of the Problem

The bread and confectionary manufacturing industry delivery system in Zimbabwe, of which Lobels Bread is part and parcel, is threatened by fraud cases and misuse of assetsdue to inefficiencies and ineffectiveness of internal controls and over and above these, lack of employee knowledge on their existence and their importance – a situation that leaves employees as just followers while management does the thinking. The study therefore attempts to assess the existence, relevance, role of internal controls, nature and caliber of

internal controls being employed thereto in order to address the inconsistencies and failure to represent a true and fair view of financial reports that are derived from use of current internal controls.

Objectives of the Study

The research is agreeable by Lobels Bread p/l and in turn the recommendations and analyses shall be used and adopted whenever options to diversify the operations at this company come at stake. The research gave some experience to the researcher. It also was a good base for the coming researchers on the same area. The study was guided by the following objectives:

- To establish the nature of controls at Lobels Bread.
- To examine the effectiveness and efficiency of internal controls at Lobels Bread.
- To evaluate the essence of prevalence in individual department at Lobels Bread.
- To establish how regularly controls are updated at Lobels Bread.

METHODOLOGY

For the purposes of this study, the descriptive survey design waschosen.Thedescriptive survey design has the following advantages (Dominick 2005):

- Not limited by geographical boundaries.
- Is powerful , a scientific tool for gathering accurate and useful information
- It is useful for getting information from a small fraction of the population.
- Allow data to be obtained through a questionnaire
- It is easy to cut down on expenses pertaining to the study.
- Produce close estimates of what people think and do

However, according to Brian and Bell (2003), surveys have the following disadvantages:

- Opinion surveys are practically difficult
- It is difficult to give everyone in the population a chance of being surveyed
- Some people will not respond given the voluntary nature of this method.

Although the method has disadvantages, as suggested by Winner and Dominick (2005), it remains the best method for the study.

Research Instruments

A questionnaire was chosen and developed for collecting data. The self-administered questionnaire enjoy the following advantages, Brian and Bell (2003):

Affordability

- Quicker to administer as they could be sent out by post in one batch or otherwise distributed in very large quantities at the same time.
- No interview variability as they do not suffer from the problem of interviewers asking questions in a different order or in different ways.
- Convenience for respondents as respondents can complete a questionnaire when they want and at the speed that they want to go.

However, there are also disadvantages with questionnaires and according to Walonick (2004) they include:

- There is no opportunity to probe respondents to elaborate an answer
- Questionnaires are structured instruments, they allow little flexibility to the respondent with respect to response format

The questionnaire, however, remained the preferred data collection instrument due to the overwhelming merits.

Population of Study

According to (Antonius, 2004), a population refers to the universe of units from which a sample is to be selected.Best and Kahn (1993) suggested population as any group of individuals that have one or more characteristics in common that are of interest to the researcher. Thus, for this study, the population consisted of :-

- 21 senior managers
- 112 employees

Thus, the total population amounted133 employees and managers.

Sampling

The random sampling technique was used in order to acquire an accurate depiction of the general population. According to Bryman and Bell (2003), advantages of random sampling are as follows:

- Chances are that the response rate will be good
- The group of managers are readily available to the researcher
- It is a less costly exercise in terms of time and money.
- Commonly used in field of business and management

Random sampling remains a feasible sampling technique despite its disadvantage. This study applied it to tape on its advantages.

Sample Size

A sample is made up of items which provide the information needed (Kanhao & Keogh, 2003).). The sample was pegged at 30% of the population as a standard practice Law, et al

(2003). Every member of the population has an equal population of being selected for the study.

Data Presentation and Analysis

The data would be presented using tables, Bar charts and pie charts in this research study: Tables Provide an easy way for presenting data in rows and columns. Muchengeta (2005) suggested the following advantages for tables:

- They are easy to understand
- Most software offer a great deal of support for the creation of lay-out using tables
- Through the use of tables, web developers can create visually attractive layout that works out pleasingly even in odd browsers

Saunders, et al (2007) also suggested that this method has its own disadvantages which he said are:

- They do not comply with the principle of separation of structure and present age.

This research then used them because of their strengths.

Bar Charts

Advantages

- Bar charts are said to be a good way of presenting simple information about frequencies
- They are good in showing how data change over time
- Show each data category in a frequency distribution
- Summarise large data in a visual form
- Estimate key values in a short period of time
- Permit a visual check of the accuracy and reasonableness of calculations
- Easily understood due to wide spread use in business and media
- Display relative numbers or proportions of multiple categories

Disadvantages:(http:// geographyfieldwork.com/ data presentation barcharts.htm.)

- Required additional explanation
- Can easily be manipulated to yield false impressions
- Fail to reveal key assumptions , cause effects or patterns

Bar charts were used in this study because of the more strengths than weaknesses they have.

Pie Charts

They are useful for showing components that add up to 100%. A pie chart has the advantage of being able to show the relative size of the different categories bringing out as well the size of each slice relative to the total population. Their use has the following advantages according to (http//whitepapers.techrepublic.com/abstract):

- They are visually simpler compared to other types of graphs
- Not much explanation is needed
- Easy to understand because of its wide use in business and media
- Show proportions to the number of data points in each category
- Compacts data into visual form
- They also show the importance of the various types of variables

According Cleveland (1985) the pie chart has the following disadvantages:

- They are prone to manipulation resulting in false impressions
- They can only be used to show the values within one category (Laws et al 2003)

Despite the disadvantages, the pie chart remained another preferred data presentation media

THEORETICAL BACKGROUND

Internal Controls

Millichamp (1990:79) refers to the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records. The individual components of an internal control system are known as the controls or the internal controls

Ray (1992) supported by suggesting that many people interpret internal controls as the steps taken by a business to prevent employee fraud. He also suggested that such measures are only a part of internal control. The organization's internal control system consists of the policies and procedures established to provide reasonable assurance that the organization's objectives will be achieved. The concept of reasonable assurance recognizes that no structure is perfect and that the cost of an entity's internal control should not exceed the benefits expected to be derived. As one might expect, when considering internal controls, an organization's objectives include safeguarding assets and providing reliable financial information. Internal control extends beyond the accounting and financial functions. Its scope is companywide and touches all activities of the organization. It also includes the method by which top management delegates authority and assigns responsibility for such functions as selling,purchasing, accounting and production. Internal control also includes the program for preparing, verifying and distributing to various levels of management those current reports and analysis that enable executives to maintain control over variety of activities and functions that constitutes a large corporate enterprise.

The use of budgetary techniques, production standards,inspection, time and motion studies and employee training program involves engineers and many other functions far removed from accounting and financial activities, yet all these devices are part of the mechanism referred to as an internal control structure.

Drucker (2006) pointed out that controls are approved for their soundness when the operational employees know them better than the senior employees. He further noted that it then becomes easy to coordinate controls when the lower levels have vast knowledge about them. When proper internal controls are used, the objective that the author suggested for safeguarding assets from fraudulent activities and misuse will be achieved.

A website,www.businessdirectory.com,(26/10/2010), also supported the fact that soundness on any system originates from the knowledge base that the organization has created on its personnel especially the junior staff. It is through knowledge that controls can be tested for their soundness. Based on these notes from various authorities, this study was then carried, to find out whether the control systems at Lobels Bread are sound or not.

Lawrence (1975) concurs with Millichamp when he suggested that internal control comprises the plan of an organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. He however, added that controls are grouped into two groups which are:

- **Administrative controls**:- represents the plan of an organization and the procedures and records that are concerned with the decision process leading to management authorization of transactions. Such authorization is management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transactions.
- **Accounting controls**:- which are the plan of organization, procedures and records that are concerned with the safeguarding of assets and reliability of financial records and consequently are designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization , transactions are recorded as necessary to permit preparation of financial statements in conformity with generally acceptable accounting principles or any other criteria applicable to such statements and to maintain accountability for assets and access to assets is permitted only in accordance with management's authorization and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences .

Literature suggested that for control systems to be sound it has to be divided into two groups, which are administrative and financial. The study sought to find out whether the Lawrence (1975) theory that controls are grouped into two categories is true at Lobels Bread.

Objectives of Internal Controls

Puttick (2004) enlisted three primary reasons for having internal controls in an organization. These are:

- Ensuring that valid transactions are recorded. The control objective involves two aspects which are, transactions are executed only after the appropriate authority has been given and that only reveal transactions are recorded.
- Preventing assets misuse and fraud
- Ensuring that all transactions that occur are completely recorded. This objective requires that all transactions are recorded at the time of their execution, in the accounting records and are accounted for in the correct accounting period.

These are the fundamental objectives of internal control. Most authors suggested these as the core reasons why controls should be used. It was however, checked in this study whether the hypothesis that Lobels Bread has a sound control system is true or not.

Types of Controls

In so far as all the definitions explored herein, the principles on which internal controls lie stand out. Walley (1974). These controls should be put in place where a manual system is in place.

Organization - this a set of plan of an organization which should define and allocate responsibilities and identity lines of reporting. In all cases the delegation of authority and responsibility should be clearly specified. An employee should always know their precise powers delegated to him, the extent of his authority and to whom he should report for example the responsibility of approving major plant spares valued (US$ 1000 000 and above) must be retained by the Board of Directors and within the competence of the works manager for a budgeted amount agreed by directors. Span of control is very vital in organizations. Authorities suggested that it is important to have powers delegated to individuals so that fraud is easily picked when it happens and also to minimize the financial losses and assets misuse. This study checked if this kind of control exists at Lobels Bread. The study would test whether the hypothesis that internal controls being applied are not effective and efficient to guard against fraud and misuse of company assets is true or not.

Segregation of Duties – Millichamp (1967) pointed out that no one person should be responsible for recording and processing a complete transaction. The involvement of several people reduces the risk of manipulation or accidental error and increases the element of checking of work. Functions which for a given transaction should be separated include initiation for example (the works foreman decides the firm needs oil) authorization (the works manager approves the purchase) execution (the buying department order the oil) custody (the goods in section receives and passes with good record to the stores) and recording (the arrival is documented by the goods inwards section and the invoice is compared with the original order and goods in note by the accounts department and recorded by them in the books).

Illustrative Example David (1997)

A manufacturer of golf clubs operated a large storeroom containing thousands of sets of golf clubs ready for shipment. Detailed perpetual inventory records were maintained by the employee in charge of the storeroom. A shortage of several sets of clubs developed as a

result of the theft by another employee who had acquired an unauthorized key to the storeroom. The employee responsible for the storeroom discovered the discrepancy between the clubs in stock and the quantities of the clubs as shown by the records. Fearing criticism of his record keeping, he changed the inventory records to agree with the quantities at hand. The theft continued and large losses were sustained before the shortage was discovered. If the inventory records were being maintained by someone not responsible for physical custody of the merchandise, there would have been no incentive to conceal a shortage by falsifying the records. The figure below illustrates the use of independently maintained records to establish accountability for assets.

This example justified the controls that the company was using and how effective they are. This research tested the hypothesis that control systems being used at Lobels Bread are not effective and efficient.

The research therefore explained whether the procedures on segregating duties in companies should be exactly the same as the ones illustrated in this explanation. For that reason, the hypotheses that the internal controls being applied are not effective and efficient was checked for its correctness.

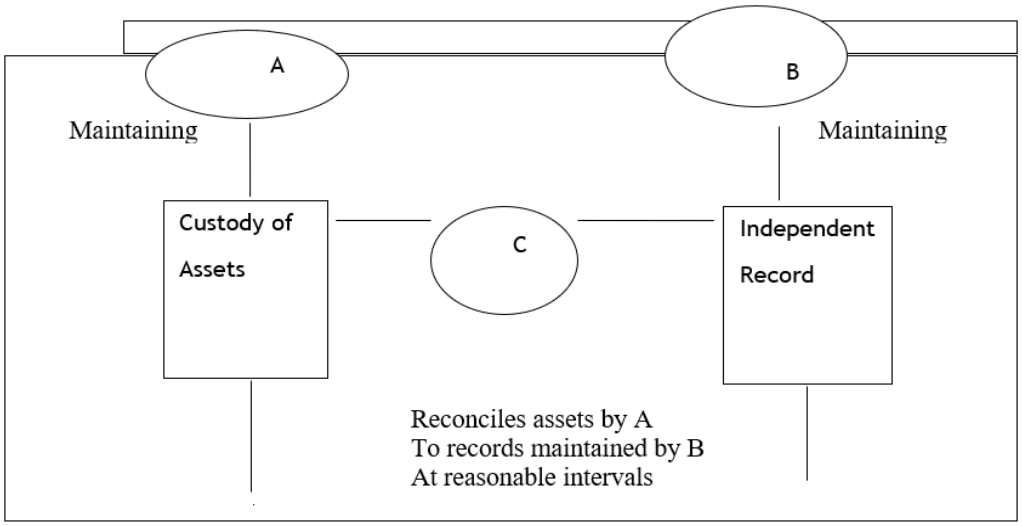
Physical – Vance (1975) pointed out that this looks at the physical custody of assets and involves procedures designed to limit access to authorized personnel only. Access can be direct for example being able to enter warehouse or indirect, that is by documentation for example personnel being able to extract goods by doing the right paperwork. The guideline states that these controls are especially important in case of valuable,portable, exchangeable or desirable assets. For example, use of log books when using company vehicles. Such kind of controls should be applied if assets are to be safeguarded. This research then has to check whether physical controls are good enough to protect abuse of assets at Lobels Bread.

Authorization and Approval – this is a special case of organization. All transactions should require authorization or approval by an appropriate person. The limits to these authorizations should be specified. For example, all credit sales must be approved by the credit control department and all overtime must be approved by the works manager.

An organization with authority distributed well enough to an extend that no one person can complete a transaction on his own will safeguard the organization against assets misuse. It is yet to be proved whether authorization and approval is being done effectively and efficiently at Lobels Bread.

Arithmetical and Accounting – Cooper (1996) pointed out that these are the controls in the recording function which check that the transactions have been authorized, that they all included and they are correctly recorded and accurately processed. Procedures include checking the arithmetical accuracy of the records the maintenance and checking of totals , reconciliations , control accounts , trial balances , accounting for documents preview that is before an important action involving the company’s property is taken , the person concerned should review the documentation available to see that all that should have been done and has been done. For example, clerk A checking the extensions having been made by clerk B.

Table X: Independently checked record



Adopted from Vivian RV Cooper (1967), Manual of Auditing, Gee & Co:

It is not essential that all the three parties in the diagram be employees of the company. One or more may be outsiders. Example if A is a bank in custody of cash deposits, B would be a contemporary employee maintaining records of cash receipts and cash disbursements and C might be a computer record that performs periodic bank reconciliations. Controls should be applied where records are independently kept as is illustrated in this example. The research then established whether the hypothesis that controls at Lobels Bread are being used in an effective and efficient manner is true or not.

The authorizers have to be checked to see if they are authorizing on merit or not. This piece of work also unveiled whether such kind of controls are in existence at the organization. It did so by testing the hypothesis whether internal controls being applied are being used effectively or not.

Personnel – Millichamp (1990) suggested that these procedures should be designed to ensure that personnel operating a system are competent and motivated to carry out the tasks assigned to them, as the proper functioning of a system depends upon the competence and integrity of the operating personnel. Measures include appropriate remuneration and promotion and career development prospects, selection of people with appropriate personnel characteristics and training and assignment to tasks of the right level. Organization with employees who are not well remunerated are likely to abuse assets of the organization. They would also not knowwhether controls are important or not. This study checked on the way the Lobels Bread personnel are being remunerated. It would also prove whether management and employees know the existence and importance of controls.

Effective personnel management as noted by Brathwaite (1998) is not a guarantee against losses from dishonest employees. It is often the most trusted employees who engineer largest embezzlements system because they are familiar with the system and they can manipulate it. The fact that they are so highly trusted explains why they have access to cash, securities and company records and are in a position that makes embezzlement possible. They create and abuse systems because they are familiar with all subsystems the organization is using. Drucker (2006) also noted that, there more familiar a person is on any

system of the organization, there more they become very risk on embezzlement. These familiar personnel are the drivers of controls and without them a system won't be rendered effective, Kurt (1997). Normally these people are insured using fidelity bonds, Malcom (1995). Fidelity bonds are a form of insurance in which a bonding company agrees to reimburse an employer within limits, for losses attributable to theft or embezzlement by bonded employees. Most employers require employees handling cash or other negotiable assets to be bonded. Individual fidelity bonds may be obtained by concern with only a few employees; larger concerns may prefer to obtain a blanket fidelity bond covering many employees. Before issuing fidelity bonds, underwriters investigate thoroughly the past record of employees to be bonded. This service offers added protection by preventing the employment of persons with dubious records in position of trust. Bonding companies are much more likely to prosecute fraud cases vigorously than are employers; general awareness of this fact is another deterrent against dishonesty on the part of bonded employees.

Lobels Bread are a company that deals with cash on a daily basis. The use of Fidelity Bonds is a good control to safeguard against cash. This is one of the best controls for cash loss. This study checked whether Lobels Bread is using this as one of the controls to guard against fraud and theft of cash. Literature in this case supported the fact that there has to be controls to safeguard against loss and fraud. This was the reason why this study was conducted to check on the need for controls to be put in place to safeguard fraud and misuse of assets. It would also test on the hypothesis that controls at Lobels Bread are not effective and efficient.

Management – Various authors pointed out that these are controls, exercised by management which are outside and over and above the day to day routine of the system. They include overall supervisory controls review of management accounts , comparisons with budgets , internal audits and any other special review procedures for example senior management must be aware of day to day activities and be seen by staff to be so. Glaring failures of control will become apparent and staff will be motivated to perform well. This was highlighted by Smith (1995).

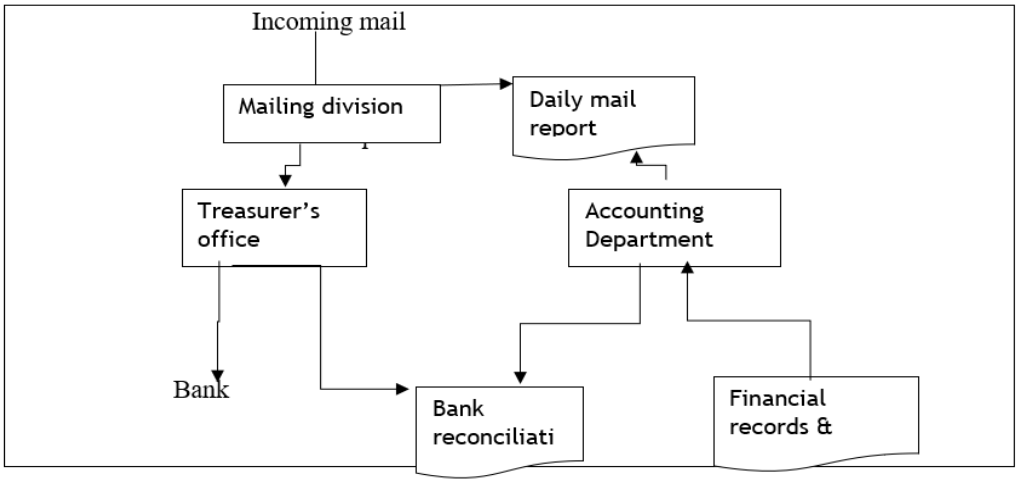
Vivian (1967:11) also pointed out that these controls are the foundation on which companies must be run and that it is by means of familiarity tests that the effectiveness of internal controls are evaluated. Accordingly, this study ascertained the procedures that organizations should use when applying controls so that they then become effective. The whole system of controls both financial and otherwise established by the management in order to secure as far as possible the accuracy and reliability of the company's records and safeguards its assets. It includes such accounting procedures as the regular verification of control accounts for purchases , sales and stock with the supporting detailed ledger accounts , periodic trial balances , cross checking debits and credits before posting , numbering and accounting for documents such as goods received notes and sales invoices , verification of records with evidence from outside sources or by physical verification and other procedures which are designed to ensure an accurate and suitable recording of the company's transactions, the financial accounts prepared there-from should reflect a true and fair view of the state of affairs at the end of and the results for , the period under review. This research established whether personnel at Lobels Bread are familiar with all the above controls and also whether these controls are efficient and effective or not. This would test on the hypothesis that control systems at Lobels Bread are not effective and efficient.

Departmental Controls Process Procedures

Special Concerns of Internal Control on Cash

Ray (2006), suggested that the degree of control which is exercised over the assets of the firm depends in large measure on the convertibility of these assets to cash. This is due to the fact that misappropriation or theft is more likely to be practiced on assets that can be readily sold or on cash itself than on assets that are difficult to turn into cash. Obviously, cash is the asset which must be controlled with the greatest amount of care. Controls over change funds and other cash funds and cash received for cash sales are examples of points in the system at which misappropriation might occur. Less obvious perhaps, but equally needed, are controls which must be designed and implemented for cash disbursements which are usually made by check. There have been numerous examples of forgeries and payments to fictitious vendors which have resulted in misappropriation of the firm's cash.

Table: Simplified system of internal control for cash receipts



Adopted from O Ray Whittington (1997)- Irwin Publishers:

The table above illustrated the procedure on how cash should be handled. This is a diagrammatical illustration of controls that should be put on cash handling. It is also paramount to check how Lobels Bread handle their cash processes. This research checked on the hypothesis that controls being applied at Lobels Bread fully combat fraud and misuse of assets.

Special Concerns of Internal Control – Accounts Receivable

O R (2006), suggested another area which is particularly subject to possible misappropriation and to loss from carelessness or error is the area of accounts receivable. Very often it is necessary for an embezzler to "cover his tracks" by using some means associated with an accounts receivable transaction. For example, if an employee is able to abstract cash receipts which have been submitted in payment of an account receivable, the unpaid account would remain open on the books and eventually the misappropriator would be

discovered. If it is possible to cover the transaction by generating a fictitious credit, to the accounts receivable, the chance of discovery is greatly minimized.

He also noted that alternatively, it might be possible for the unscrupulous employee to cover his tracks by “lapping”. “Lapping” is a device by which incoming cash is withheld and subsequent cash receipts are recorded as if they were being paid by the person whose remittance was previously withheld to cover the theft. Thus, receipts coming in on day one would be stolen receipts coming in on day two would be applied to accounts which were actually paid on day one. In this manner a permanent fund can be built up which can be used for unauthorised purposes and as long as the delay in deposits is relatively short, the likelihood of discovery is minimal. When the lapping becomes significant in terms of total cash receipts (which implies a large lapse between receipt of a remittance and the entry of a credit for it) or if the employee responsible for the lapping becomes ill or there is a rearrangement of duties within the department, the likelihood of discovery increases. While a good system of control will protect against the possibility of lapping, nevertheless many auditors test for it as a regular part of their review of the operation of the system of internal control.

Authorities like Ray (2006) suggested these controls on accounts receivables. It was also tested in this research how Lobels Bread handles their accounts receivable in trying to check how good the hypothesis that controls is in various departments fully combat fraud and misuse of assets.

Special Concerns of Internal Control- Physical Assets

Lee (1998) prescribed that physical assets are also subject to possible misappropriation. The two main classes of physical assets are, of course, merchandise inventories and fixed assets. Small items such as rare metals or precious jewels, and even scrap turnings, are sometimes subject to misappropriation if the controls are not effective. It is well known that retail stores suffer a loss of merchandise from internal theft, and in these cases probably the only effective measures involve the use of private detectives, since more effective internal controls would be objected to by the majority of the stores’ customers. In a manufacturing firm, however, it is possible to institute a system of requisitions, segregation of small tools and valuable raw materials, and perhaps even wire fences and plant guards to reduce the possibility of what is euphemistically called “shrinkage”.

He also diagnosed that in any system of internal control it should always be borne in mind that most people think that the cost of control should not exceed the probable dollar loss which might occur. In a certain manufacturing company an elaborate system of internal control was installed to safeguard the nuts, bolts, and washers which were used in large quantities in the manufacturing operation. While this elaborate system accomplished the desired objective of reducing to almost zero the shrinkage which had previously occurred in this type of inventory, nevertheless the cost of maintaining a requisition system and a full time employee was expensive. As a matter of fact, a cost analysis was made of former shrinkage rates as opposed to cost of implementing the new system and it was discovered that it would cost less to allow employees to help themselves to nuts, bolts, and washers. The elaborate system was discarded at a saving of 50percent to the manufacturing company. The shrinkage was accepted, therefore, as the lesser of the two evils.

He suggested that in the case of fixed assets the problem of internal control is not as serious as it is in the case of merchandiseinventory. In most cases, the items are large and easily controllable and possible misappropriation or error is reduced to a minimum. There are however exceptions to this general pattern, and the auditor should be aware of these and account for them in his review of the system of internal control which are:

1. Misappropriation of replacement parts of parts of large machines
2. Personal use of large assets
3. Un -authorized sale of abandoned or obsolete machinery and equipment
4. Possible theft of office machinery such as computers.

Special Concerns of Controls in Purchasing

Ray (1992) noted that during an examination of the Forester Company, the auditors of the organizational lines of authority and their use of an internal control questionnaire disclosed that the receiving department personnel were under the direction of the purchasing agent. Accounts payable department employees had also been instructed to accept informal memoranda from the purchasing agent as evidence of receipt of merchandise and propriety of invoices. Because of this deficiency in internal controls, the auditors made very thorough examination of purchases invoices and came across a number of large December invoices from one supplier bearing the notation “subject to adjustment at time of delivery of merchandise”. Investigation of these transactions disclosed that the merchandise had not yet been delivered, but the invoices had been paid. The purchasing agent explained that he had requested the advance billing in an effort to reduce taxable income for the year under audit, during which profits had been higher than usual. Further investigation revealed that the purchasing agent held a substantial personal interest in the supplier making the advance billings and that top management of the client company was not An ACCA study pack (2002), highlighted a Buyalot Bakeries case study. The bakery was into making and delivering bread and bakery products for a large number of stores. They had 20 of their own bakery shops as well as supplying to around 100 supermarkets and other shops. Banking was being carried out at 6 regional centers across the country and then goods are delivered, based on orders received. It had a number of teething problems both with the new computer system and delivery of the right goods to the right place.

To subvert these problems the organization chose to use the following controls to guard against the risks available:

- Establish policy and procedures for purchasing, communicated throughout Buyalot, in particular since policy had reluctantly changed and this could be a key area where purchasing requirements are not understood or met.
- Authorization and approval procedures for purchasing with requisition notes of purchasing authorized.
- List of approved suppliers, with no purchases made outside that list without prior authorization.
- Procedures for negotiating the best deals in the market place for specific bulk purchases.

- Controls over goods inward, with goods checked for quality and quantity on receipt and goods received notes received and checked.
- Effective payment procedures, including checking of invoices against goods received.
- Purchase ledger control accounts maintained and independently checked on a regular basis.
- Reconciliations carried out on a regular basis and independently checked.
- Statements from suppliers checked against the purchase ledger account.

Literature suggested that these controls in application made it possible to minimize the loss risks at the organization. Companies in the Bread and Confectionary industry can also use the same internal controls to safeguard their assets and guard against fraudulent activities. This study also checked how these controls on purchasing at Lobels Bread matched those for Buyalot Bakeries. Literature proved that the Buyalot Bakery purchasing department controls were very effective. It was checked in this research whether Lobels Bread was using the same controls in the purchasing department and to what extent where they effective.

Controls for Files and Equipment

Every Electronic Data Processing system should have adequate security controls to safeguard equipment, files, and programs against loss, damage and access by unauthorized personnel. When programs or files are to be accessed from microcomputer or online terminals, users should be required to enter a secret password in order to gain access to the system. The computer's operating system should be programmed to maintain a log of all terminal usage and should produce a warning if repeated attempt are made to gain access to data by use of incorrect passwords. The importance of these controls has been illustrated by several highly publicized incidents of youthful hackers using home computers to gain entry to both military and commercial computer systems (John and Paul (1992)).

Kurt (1997), also noted that another purpose of security controls is to enable a company to reconstruct its computer based records in the event that files are lost or damaged. Magnetic discs or tapes can be damaged by exposure to magnetic fields or excessive heat. Also, it is possible that a program or a file will accidentally be erased while it is being processed by the computer. As a precaution against such accidents, duplicate copies should be made of all files and programs. These backup copies should be stored at a separate location from the originals. Integrated databases should be transferred to disks or tapes at regular intervals to prevent significant data loss in the event of computer failure.

Safeguards are also necessary to protect the equipment the equipment against fire, sabotage, and water damage. The best way to prevent deliberate damage is to limit access to the facility to authorized personnel. The Electronic Data Processing personnel should be carefully screened before employment and management should always be alert to the possibility of damage by a disgruntled employee. Frequently, the location of the computer facility is kept relatively secret. The facility should have no windows and few doors, entrances should be controlled by guards or badge- activated locks. In addition, the computer room should be fire resistant, air conditioned and above likely flood levels, Cooper and Lybrand (1993).

Authorities in this review suggested that even files need to be safeguarded so that reports produced are reflective of the situation at hand. Therefore, it become imperative that there has to be controls that safeguard files of the organization. This research checked whether there was enough security controls on files at Lobels Bread and if not then what the company needs to do in future to improve on its security controls to safeguard against losses of its files. This was done to check on the hypothesis that internal controls being used fully combat fraud and misuse of company assets.

Electronic Data Processing Activities (EDP)

Bernard (1991), suggested that the rapid growth of electronic data processing for business is having a greater impact on public accounting than perhaps any other event in the history of the profession. No longer is the challenge of auditing EDP activities limited to a few large clients. With the advent of computers, even the smallest audit clients are likely to use a computer for many accounting functions. When a company converts to an EDP system, the work formerly divided among many people is performed by a computer. Consolidation of activities and integration of control functions are to be expected, since the computer can conveniently handle many related aspects of a transaction according to Cox, Etal (2002).

PCAOB (2004), pointed out that often organizations are very quick to change their hardware and software. This change is not matched with any suitable change in the controls that the organization is using or even have the users of that equipment trained on how to use the equipment. All the other functions in the organization need to be upgraded for the equipment bought to work well. Controls are implemented by people but if they are not trained enough to maintain a working EDP system then there won't be any benefit accruing from the new equipment acquired. Organizations use computers to just capture certain information that they would want and think are relevant. There won't be any match between the change or upgrading of software and hardware to the controls that the organization would be using, B Geist (1981).

Bernard (1991) suggested that so often an organization would change their computer equipment yearly, but the new computer equipment would be used as standalone. There is no match with the use of that equipment. They won't be linked together to form a network that would make it possible to set an electronic data processing system. It is very vital to always upgrade technology and use it efficiently, otherwise the benefit of having such equipment would be overcome by the cost, Alan Brian (2003).

Despite the integration of several functions in an EDP system, the importance of internal control is not in the least diminished. The factors that we described in the manual use of internal controls still apply and are relevant. Separation of duties and clearly defined responsibilities continue to be key ingredients despite the change in organization of activities. These traditional internal control concepts are augmented by controls written into the computer programs and controls built into the computer hardware. This study identified which inbuilt controls are being applied by the EDP at Lobels Bread. It was also established in this research whether the same controls for example separation of duties and control, authorization and others were being applied in the electronic data processing systems at Lobels Bread or not. Concurity with the hypothesis there is a mismatch between technology change and controls update at Lobels Bread was then tested.

Literature also pointed out that, internal controls over EDP activities often are classified as either general controls or application controls. General controls relate to all EDP applications and include such considerations as the organization of the EDP department, procedures for documenting, testing and approving the original system and any subsequent changes, controls built into the hardware and security of files and equipment. Application controls on the other hand relate to the specific accounting tasks performed by EDP, such as the preparation of payrolls. Controls of this nature include measures designed to assure the reliability of input, controls over processing and controls over output.

Structure in a Computer Department for Effective Electronic Data Processing

Well and Joseph (2002) it is suggested that, because of the ability of the computer to process data efficiently, there is a tendency to combine many data processing functions in an EDP department. In a manual or mechanical system, combination of functions may be considered incompatible from a standpoint of achieving strong internal control. For example, the function of recording cash disbursements is incompatible with the responsibility of reconciling bank statements. Since one of these procedures serves as a check for the other, assigning both functions to one employee would enable the employee to conceal his or her own errors. A properly programmed computer, has no tendency or motivation to conceal its errors. Therefore, what appears to be an incompatible combination of functions may be combined in an EDP department without weakening controls. It is also suggested by SS and R St (2007) that the organizational structure of a well-staffed EDP department should have the following separation responsibilities:

- Data Processing Management- a manager should be appointed to supervise the operation of the data processing department. The data processing manager should report to an officer who authorizes transactions for computer processing.
- Systems Analysis- systems analysts are responsible for designing the EDP system. After considering the objectives of the business and the data processing needs of the various departments using the computer output, they determine the goals of the system and the means of achieving these goals. Utilizing system flowcharts and detailed instructions, they outline the data processing system.
- Programming- guided by the specifications provided by the systems analysts, the programmers design program flowcharts for computer programs required by the system. They then code the required program in computer language, generally making use of specialized programming languages, such as COBOL and the software elements, such as assemblers, compilers and utility program.
- Computer operations- Computer operators manipulate the computer in accordance with instructions developed by the programmers. On accession they might have to intervene through the computer console to correct an indicated error.
- Data Preparation- personnel involved with the function of preparing and verifying data for processing through batch processing or online / real time system.
- Control Group- the department reviews and tests all input procedures, monitor computer processing, reviews exception reports. Handles the reprocessing of exceptions detected by the computer and reviews and distributes all computer

output. This group also reviews the computer log of operators interventions and the library log of program usage. In smaller organizations, control group functions may be performed by the user groups. Besides segregation of functions, the data processing organization plan should provide for rotation of programmer assignments, rotation of operator assignments, mandatory vacations and adequate fidelity bonds for EDP employees. At least two of the qualified data processing personnel should be present whenever the computer facility is in use. Careful screening policies on hiring EDP personnel are also important in achieving effective internal control as was suggested by T A L (1988).

Literature suggested that an organization with these departments is an ideal organization to support controls and make sure that they are effective and efficient and at the end, financial results produced from them represent a true and fair view of the financial position of any organization. Once these departments are there, then the organization would have moved with the change in technology and hence would have changed their controls. This study checked on the hypothesis that there is a mismatch between change in technology and updating of controls.

Hardware Controls

John and Paul (1992), noted that modern electronic data processing equipment is highly accurate and reliable. Most errors in computer output result from erroneous input or an error in the program. Auditors, however, should be familiar with the hardware controls within a given system in order to appraise the reliability of the hardware. Hardware (equipment) controls are built into the computer by the manufacturer. Among the more common hardware or equipment controls are the following:

- Echo check- the purpose of the echo check is to ensure that peripheral equipment, such as the printer complies with computer instructions. A signal is returned to the computer verifying transmitted data or acknowledging the performance of an assigned task.
- Self- diagnosis- Many computers are supplied with hardware or software routines that allow the computer to test its own circuitry. Self- diagnosis routines can identify a defective circuit or memory module before the system fails.
- Duplicate process check- a duplicate process check consists of performing a operation twice and comparing the two results. In duplicate process check known as read after write, the computer reads back data after they have been moved in the system and verifies their accuracy.
- Parity Check- Data are processed by the computer in arrays of bits. In addition to bits necessary to represent the numeric or alphabetic character, a parity bit is added when necessary to make the sum of the bits always odd or even, depending upon the make of the computer. As data are transferred at rapid speeds between computer components, the parity check is applied by the computer to assure that bits are not lost during the transfer process.

Literature suggested that there has to be controls on the physical components of a computer. This study therefore looked at the controls that are being applied by Lobels Bread

and tested whether they have moved to these modern once or not. Once these controls are in place it means that Lobels Bread has moved to the modern ways of controlling a business. This study checked on the hypothesis that mismatch between technology change and updating of controls.

Controls Over Input

Are the first type of application controls and are designed to provide assurance that data received for processing represent properly authorized transactions and are accurate and complete when read into the computer. Control over input begins with proper authorization for initiation of the transactions to be processed. EDP is primarily a recordkeeping department and therefore should not be authorized to initiate transactions. When transaction data are originally recorded on hard-copy source documents, such as sales order, authorization may be indicated by the appropriate person initializing the document. In on-line systems, transaction data may be entered directly into the computer from remote terminal devices located in the departments initiating the transactions. This may be accomplished by assigning to authorize terminal users an identification number that must entered into the terminal before the computer will accept the input data. Also, the operating system should maintain a log of activity at each terminal to be reviewed by the system's control group for evidence of authorized use, according to the impact of information technology by Bernard C Williams and Barry J Spaul (1991), Hall. They also indicated that the input validation (edit) checks such as the following should be performed on data as it is entered:

1. Limit test which is a test of the reasonableness of a field of data , given a predetermined upper and or lower limit
2. Valid test which is a comparison of data (forexample, employee, vendor and other codes) against a master file for authenticity.
3. Self-checking number which is a number containing redundant information such as the last two digits being the sum of the others, permitting a check for accuracy when the number is input, or after it has been transmitted from one device to another.

It is very paramount to check some of the input controls in place at Lobels Bread and check how they are being used. This study checked whether what literature suggested is true or not. Literature suggested that there has to be controls when processing data. This study also tested whether the hypothesis that there is a mismatch between technology change and updating of controls.

Controls Over Processing

Processing controls are designed to assure the reliability and accuracy of data processing. A major method of achieving control over processing is the use of program controls, which are written into the computer programs. A number of the input controls described above are programmed as processing controls, including limit tests, validity tests, self-checking numbers , item counts and control and hash total. In addition, file labels being used to ensure that the proper transaction file or master file is being used on a specific run. A header label is a machine readable message on a tape or disk file, identifying the file and

the date it was created. A trailer file is a last record in a file and contains such control devices as an item count and or control totals. These internal labels are used in conjunction with gummed – paper external labels to prevent operators from accidentally processing the wrong file, B C W and B J S (1991). In cases of exceptions or errors disclosed by program controls, the computer processing will halt, or the exceptions will be printed out. Exception reports should be transmitted directly to the control group for follow up. The control group's responsibility includes ascertaining that corrections of exceptions are properly entered and that duplicate corrections are avoided. The control group also monitors the operator's activities. A log maintained by the operator should be available for review by control group. The log records the description of each run, the elapsed time for the run, operator console interventions, machine halts and master files. These are controls that an organization has to apply when they have moved with technological change. It therefore becomes imperative to check whether these controls are in place or not. If they are there, then it means Lobels Bread has moved with technology. This would then reject the hypothesis that there is a mismatch between technology and updating of controls at Lobels Bread.

Controls Over Output

Output controls are designed to assure the reliability of computer output and to determine that output is distributed only to authorized personnel. Reconciliation of control totals generated by the computer to the totals developed at the input phase is an important aspect of output controls. In some EDP systems user departments appraise the reliability of output from the data processing department by extensive review and testing. For example, sales invoices generated by the computer may be tested for clerical accuracy and pricing by an accounting clerk. Although the user controls can be very effective, it is generally more efficient to implement program controls and have users merely test the overall reasonableness of the output. Another important output control involves assigning the EDP control group the responsibility for distributing the computer output to the appropriate users, and for following up on exceptions reported, A H (1993). This study tested the controls over output that are being used by Lobels Bread and how effective they are. This would then allow for suggested improvements so that they are good enough to guard against fraud and misuse of company assets. This then checked the presents of these controls. These controls according to literature do not exist when the organization has failed to move with technology. This study would check their existence and then whether the hypothesis that there is a mismatch between technology and updating of controls at Lobels Bread is true or not.

Data Analysis

Statistical analysis will be done using a windows based statistical computer package called the Statistical Package for the Social Sciences (SPSS) program. SPSS is a widely used computer program that allows quantitative data to be managed and analyzed (Bryman and Bell, 2003). Like all other packages that deal with numbers, it reads the numbers in sets of rows and columns, that is, a matrix. SPSS has the following merits according to statistical methods in social sciences 2001, available from http:/www.leeds.ac.uk/acom/

- It saves time and makes errors less likely,

- It interprets codes hence errors are eliminated,
- It is easy to input data,
- It allows use of most statistical analysis for example standard deviation and chi-square test,
- It gives names to variables in order to identify them, hence convenience in the display.

It has a disadvantage that it offers less flexibility in terms of the area of neither the data sheet nor how to use it.

Due to the descriptive nature of the results obtained measurements of distribution aspects of the responses such as central tendency of dispersion and skewness were interpreted in order to draw preliminary conclusions. Secondly associations between different variables were analyzed using bivariate analysis. Since these variables are measured on a nominal scale, the chi- squared test is used to determine whether variables in the study are independent or dependent. Other techniques employed are correlation analysis and analysis of variance (ANOVA). The tables then become the basis for pictorial and graphical presentation of findings.

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Response Rate

Out of the 40 questionnaires that were sent out, 30 were returned, representing a 75% response rate. The response of 75% gave a representative sample size of the target population and, hence, generated credibility of results for the analysis and hypothesis testing. The response rate of 75% from the issued questionnaires was due to the fact that the same target respondents to some questionnaires distributed had other questionnaires by others who were doing researches for example one that was carrying out a job evaluation exercise at the same period this researcher did this research. As a result, the respondents were not very keen to complete the questionnaires. In addition, most of the respondents seemed to be pre-occupied with production targets so much that they had little time for questionnaires. Some respondents alluded to rewards for responding to the questionnaires.

	Production	**Procurement**	**Accounting**	**Sales& Marketing**	**Administration**	**Total**
Send	15	5	6	4	10	40
Response	9	5	6	4	6	30
%age Response	60	100	100	100	60	75

Reliability and Validity of the Questionnaire response

According to Coolican (2004), cronbach's alpha is the commonly used statistic for estimating attests' reliability. Alpha is said to be equivalent to the average of all possible split-half reliability values that could be calculated on the data set. Good reliability is represented

with alpha values from around 0,75 up to 1. The cronbach's alpha was thus used in this study to test the reliability of the data. The questionnaire achieved a Cranach's alpha test of 0,8028 as shown below. This means that the data produced is 80,28% reliable.

Reliability

****** Method 1 (space saver) will be used for this analysis ******

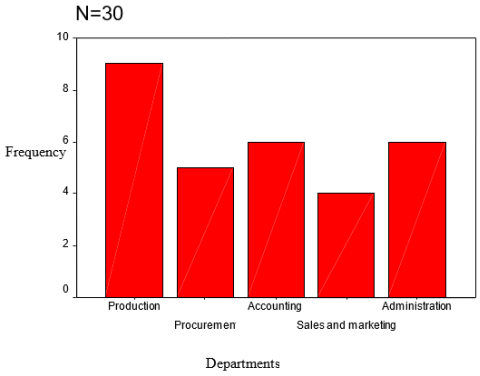
```
RELIBILITY   ANALYSIS  - SCALE  (ALPHA)
                                                    N of
Statistics  for     Mean      Variance  Std Dev   Variables
SCALE               128.0385  242.2785  15.5653   30

Reliability coefficients

N of cases  = 26.0            n of items  = 30

Alpha  = .8028
```

Areas of Work Respondents



The figure above shows 30% of the respondents were from production operations, 17% from the procurement department, 20% from the Accounting, 13% from the Sales and Marketing and the balance of 20% from the administration department. These departments are all the departments at Lobels Bread. The study seeks to verify the existence and the role of controls from all the personnel at Lobels Bread, and that is the reason all the departments were targeted. All levels of the organization were targeted because controls were used in all departments and at all levels.

Section A – General Information

The section also tested the reliability of the instruments that were used in this study. The demographics of the target population sample with respect to the role in the organization, experience profile and department of work were analyzed using cross tabulation with control variables being tested in order to test the credibility of the instruments used in this research study.

Table:Experience Profile

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 - 4 years	21	70.0	70.0	70.0
	5 - 10 years	7	23.3	23.3	93.3
	11 - 15 years	2	6.7	6.7	100.0
	Total	30	100.0	100.0	

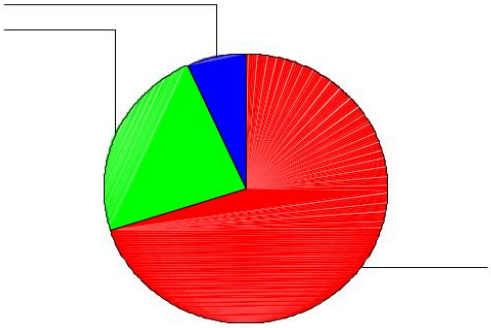


Figure: Experience Profile

The table and figure above showed that 21 respondents (70%) have been with the organization for 1-4 years, followed by those with 5-10years who were 7 representing 23% and finally those with 11years and above represented 7% of the respondents. The results showed that the organization does not have much experience, an indication that the control system could not be sound and effective. Literature suggested that experience is a powerful tool for implementing an effective and sound control system Drucker,(2006). In this study the junior staffs are not highly experienced.

Section B- Testing for soundness by checking knowledgelevels

The table below showed that 75% of the executives know controls and are certain that controls are good enough to guard against fraud and combat misuse of assets while only 30% of the operational personnel administered with the questionnaire agreed that controls are good enough. The analysis above showed that this diluted will represent 57% of the respondents from all departments know that controls are good enough to guard against fraud and misuse of company assets. This is a slight majority but good enough to conclude.

Literature, according to David (1997), suggested that a quality control system is only possible when implementers (operational personnel), are conversant with controls they are applying. This renders controls sound. Drucker (2006) pointed out that controls are approved for their soundness when the operational employees know them better than the senior employees. He further noted that it then becomes easy to coordinate controls when the lower levels have vast knowledge about them. A website,www.businessdirectory.com,(26/10/2010), also supported the fact that soundness on any system originates from the knowledge base that the organization has created on its personnel especially the junior staff. It is through knowledge that controls can be tested for their soundness.

Table: Departmental position in relation to knowledge of controls

			Are these controls good enough to guard against fraud and misuse of assets?		
			Yes	Not sure	Total
What is your position in the department?	Executive	Count	3	1	4
		% within What is your position in the department?	75.0%	25.0%	100.0%
	Senior Manager	Count	4		4
		% within What is your position in the department?	100.0%		100.0%
	Junior Manager	Count	7	5	12
		% within What is your position in the department?	58.3%	41.7%	100.0%
	Operational	Count	3	7	10
		% within What is your position in the department?	30.0%	70.0%	100.0%
Total		Count	17	13	30
		% within What is your position in the department?	56.7%	43.3%	100.0%

Majority of operational respondents at Lobels Bread were aware of the controls and the fact that controls are serving the intended purpose. Therefore, the hypothesis that controls at Lobels was sound was agreed with.

Table: Workshop attendance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	10	33.3	37.0	37.0
	No	17	56.7	63.0	100.0
	Total	27	90.0	100.0	
Missing	System	3	10.0		
Total		30	100.0		

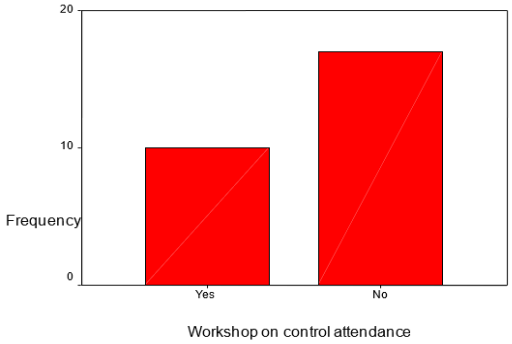


Figure: Workshop Attendance

The table and the figure above shows that 37% of the respondents have attended workshops to educate them on controls that Lobels Bread is using while the balance of 63% have not attended any workshop to educate them on controls that the company is using.

This was testing the hypothesis that say Lobels Bread has a sound control system. Controls are only sound and effective when people applying them are well educated of them.

Literature indicated that if controls systems are to be sound the following objectives have to be met Millichamp (1967):

- Ensuring that valid transactions are recorded,
- Preventing assets misuse and fraud.

An organization without properly educated personnel on controls would not be able to use them effectively and hence, they won't be sound. The majority of employees at Lobels Bread as was indicated by the response did not undergo any workshop to explain the controls that the company is using. The objectives above then won't be met. The hypothesis that Lobels Bread has a sound control system was rejected. The reason for rejecting was that the engine for driving the controls (operational personnel) was not aware of the controls and their objectives because they did not attend any workshop to explain to them the existence and role of current controls being applied at Lobels Bread.

Table: Respondents' self rating of knowledge on controls

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strong	8	26.7	26.7	26.7
	Average	17	56.7	56.7	83.3
	Weak	5	16.7	16.7	100.0
	Total	30	100.0	100.0	

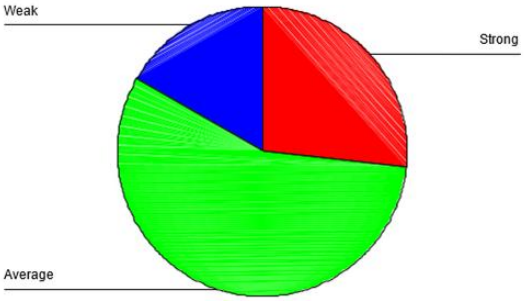


Figure: Respondents' self-rating of knowledge on controls

The table and pie chart above indicate that 83% of the respondents have a strong to average understanding of the controls that Lobels Bread is using while the remainder (17%), have a weak understanding of the controls that the organization is using. This indicated that most of the respondents have some little knowledge of the controls the company is using. This was testing the hypothesis that Lobels Bread has a sound control system. Drucker (2006) indicated that a well-informed person is an equipped one. Literature concurred with the findings in this regard. The findings suggested that few of the respondents have not been educated about the controls they are using or had knowledge of the controls they were using. According to Literature, and the findings, the hypothesis that Lobels Bread has a sound control system was accepted because most of the respondents had knowledge of the controls. However, the respondents needed some education to improve their knowledge and as a result effectiveness and efficient on use of the controls, Smit (2003).

Section C- Familiarity on control- a test for effectiveness

Table: Familiarity of Controls in relation to years of service

			Are you familiar with controls Lobels Bread is using?			
			Yes	No	Not sure	Total
How long have you been with the organization?	1 - 4 years	Count	10		11	21
		% within How long have you been with theorganization?	47.6%		52.4%	100.0%
	5 - 10 years	Count	4	1	2	7
		% within How long have you been with theorganization?	57.1%	14.3%	28.6%	100.0%
	11 - 15 years	Count	2			2
		% within How long have you been with theorganization?	100.0%			100.0%
Total		Count	16	1	13	30
		% within How long have you been with theorganization?	53.3%	3.3%	43.3%	100.0%

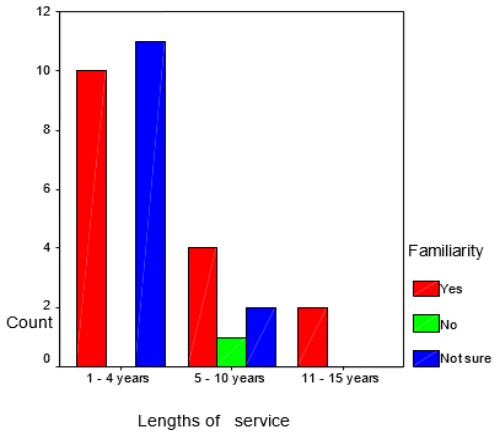


Figure: Familiarity to controls in relation to years of service

The bar chart showed that respondents up to 10 years of service (14 respondents) indicated that they were familiar of controls that Lobels Bread was using while only 1 was not familiar with the controls and 13 respondents were not sure. The upper years from 11-15years of service two people responded and both highlighted that they were familiar with the controls the company was using. What can be deduced from the findings in the figures above is that in the organization the majority of the personnel particularly those who have saved 10years and below, were familiar while those above 11years were more familiar with controls that the company is using.

In the Literature reviewed, Puttick (2004) suggested that for any company to use controls effectively, their junior personnel should be very much familiar with the controls that the organization is using. Ray (2006), summarized by suggesting that effective controls require retention and proper deployment of experience held within the human capital. The hypothesis that was being tested stated that controls at Lobels Bread are not effective and efficient. Given the fact that the respondents with over eleven years' experience were more familiar with controls , than those with less than ten years, the hypothesis that stated that controls at Lobels Bread are not effective and efficient was accepted.

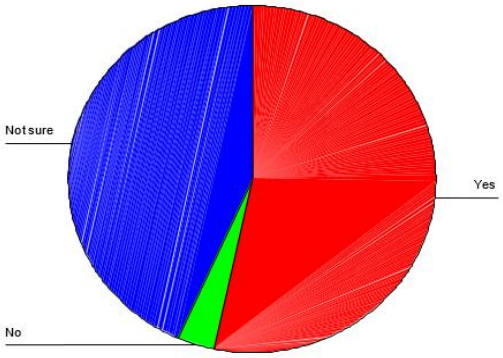


Figure: Familiarity of controls

The pie chart above shows that 53% of the respondents were familiar with the controls that were being used at Lobels Bread. These respondents were mostly in the category of those whose service in the organization exceeded 11 years and the 47% either did not know controls that Lobels Bread is using or were not sure of these controls.

The literature reviewed stated that the power of controls depends on whether people working or implementing controls are familiar with the controls they are implementing or not. If there is strong familiarity, controls are rendered effective enough to combat fraud and misuse of assets. Familiarity can be improved by having employees attend some workshops to induct them on controls that the company is using.

Table: Familiarity to controls in relation to workshop on controls attendance

			Have you ever attended a workshop to learn basic controls in your organization?		
			Yes	No	Total
Are you familiar with controls Lobels Bread is using?	Yes	Count	8	6	14
		% within Are you familiar with controls Lobels Bread is using?	57.1%	42.9%	100.0%
	No	Count	1		1
		% within Are you familiar with controls Lobels Bread is using?	100.0%		100.0%
	Not sure	Count	1	11	12
		% within Are you Familiar with controls Lobels Bread is using?	8.3%	91.7%	100.0%
Total		Count	10	17	27
		% within Are you familiar with controls Lobels Bread is using?	37.0%	63.0%	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.367[a]	2	.015
Likelihood Ratio	9.589	2	.008
Linear-by-Linear Association	6.258	1	.012
N of Valid Cases	27		

The majority of the respondents, (53%) were familiar with the controls. This was not a convincing majority to express efficiency on control use. There is need to further improve familiarity of controls to the respondents, either through workshops or any other means necessary. Based on analysis, the hypothesis that controls are not being used effectively and efficiently at Lobels Bread was accepted, because there is need for improvements on educating the respondents to improve on familiarity and finally their efficiency. Since the Chi test above shows that there is a relationship between workshop attendances and familiarity with controls it then can be concluded that people who have attended workshops are well educated about the subject under review. The p- value of 0.015 above is less than 0.05.

Literature according to an ACCA (2000) study pack indicated that controls can only be effective when the people who are applying them are familiar with them. This was also suggested by the results from the questionnaire responses. The analysis pointed out that there is a relationship between familiarity to controls and attending workshops. The hypothesis that controls are not effective and efficient at Lobels Bread was tested. According to results shown by the analysis majority of the respondents suggested that they are weakly familiar with controls the organization is using. The findings did not conclude that there is no familiarity at all in the case of the respondents. The results suggested that the majority of the respondents' familiarity is weak and needs to be improved through workshops since there is a relationship between attending workshops and familiarity with controls. The hypothesis therefore, was accepted on the basis of weak knowledge on the part of the majority respondents. The decision was also supported by literature which pointed out that unfamiliarity with controls is disastrous on implementing them Malcom, (1995)

Section D- Departmental controls Process Procedures

The table and bar chart above indicated that 70% of the respondents acknowledged that the procedures being used by Lobels Bread are similar to the once that Literature has suggested in all the three procedures tested by the instrument, while 3% denied that the procedures are similar and the rest 27% were not sure.

Millichamp (1967), suggested that cash transactions should pass through: cash receipting,checking andverifying, banking and bank reconciliation, to be able to combat cash fraud. 70% of the respondents concurred with literature on these procedures. Therefore, the hypothesis that controls in various departments fully combat fraud and misuse of assets was then accepted on this basis.

Table: Special Concerns on cash

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	21	70.0	70.0	70.0
	No	1	3.3	3.3	73.3
	Not sure	8	26.7	26.7	100.0
	Total	30	100.0	100.0	

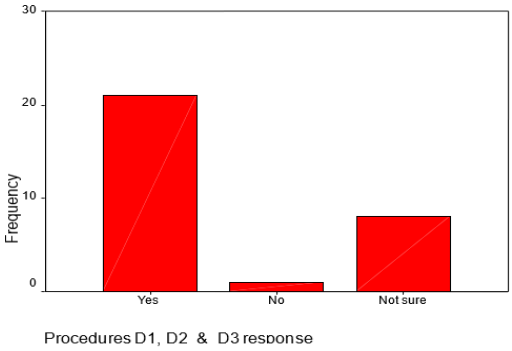


Figure: Special concerns on cash

Special Concerns on Purchasing

Table: Procedures for purchasing similarity to the ones at Lobels Bread

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	20	66.7	66.7	66.7
	No	1	3.3	3.3	70.0
	Not sure	9	30.0	30.0	100.0
	Total	30	100.0	100.0	

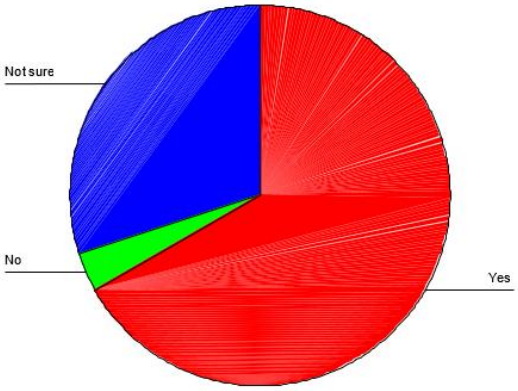


Figure: Procedures for purchases similarity to the ones at Lobels Bread.

From the above table and chart 67% of respondents agreed that the procedures in the questionnaire about purchasing control procedures are similar to the once Lobels Bread is using while 33% either did not agree or were not sure about the similarity of the procedures in purchasing to the ones at the organization.

Literature pointed out that purchasing should be done in a certain format to avoid fraud. What Literature suggested in this study indicated that the procedures Lobels Bread is using is the recommended ones when purchasing. Testing on these procedures was done to check on the hypothesis that controls in various departments fully combat fraud and misuse of assets at Lobels Bread. Literatures concurs with the situation on the ground at Lobels Bread's purchasing department. On this basis, the hypothesis was then accepted, and it was certified that control procedures in the purchasing department at Lobels Bread are sound and effective.

Puttick, (2004), also gave the following control procedure on purchasing:

- Purchase Requisition:

- Authorization for Purchasing
- Best Deal Negotiation,
- Purchase,
- Receiving,
- Recording & subsequent reconciliations

The respondents in this study who suggested that the procedure is not correct were only 3% and 27% were not sure while the bulk approved the procedure. On this ground, literature concurred with purchasing procedures that Lobels Bread are applying when purchasing. It became imperative that the hypothesis that controls in various departments at Lobels Bread combat fraud and misuse of assets should be accepted on this basis. An ACCA (2002), study pack in the Buyalot Bakery example also used these procedures and they were very successful in combating fraud on purchases at the organization.

Table: Special Concerns on physical assets

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	21	70.0	70.0	70.0
	No	1	3.3	3.3	73.3
	Not sure	8	26.7	26.7	100.0
	Total	30	100.0	100.0	

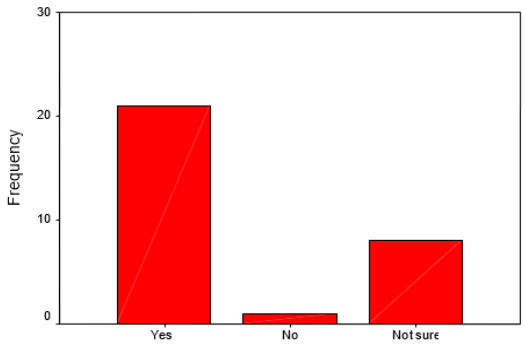


Figure: Special Concerns on physical assets

The table and bar chart above suggested that 70% of the respondents in this study agreed that the physical assets control procedures that are used at Lobels Bread while 30% either refused or were not sure on these physical control procedures. This means that control procedures that the administration department is putting in guarding against the misuse of physical assets are effective and there won't be the misuse of assets. This then made it feasible to accept the hypothesis that suggested that controls in the administration department fully combat fraud and misuse of assets at Lobels Bread.

The table below indicated that 67% of the respondents know what all the departmental control procedures are being used for in the organization while only 33% did not know or are not sure of the reasons why procedures are there at Lobels Bread. This gave these procedures credibility and hence the conclusion that they are working effectively was granted.

Table: Controls' knowledge compared to procedures being used

			Are the procedures similar to the ones Lobels Bread use on purchasing?			
			Yes	No	Not sure	Total
What are the controls used for in your organisation?	Ensuring that valid transactions are recorded	Count			1	1
		% within What are the controls in C2 used for in your organisation?			100.0%	100.0%
	To allow for an efficient & orderly manner of running busine	Count	2		2	4
		% within What are the controls in C2 used for in your organisation?	50.0%		50.0%	100.0%
	To prevent assets' misuse and fraud	Count	4		4	8
		% within What are the controls in C2 used for in your organisation?	50.0%		50.0%	100.0%
	To reprimand employees	Count		1		1
		% within What are the controls in C2 used for in your organisation?		100.0%		100.0%
	To ensure completeness and accuracy of records	Count	2		1	3
		% within What are the controls in C2 used for in your organisation?	66.7%		33.3%	100.0%
	1,2,3& 5	Count	7			7
		% within What are the controls in C2 used for in your organisation?	100.0%			100.0%
	1, 2, & 3	Count	1			1
		% within What are the controls in C2 used for in your organisation?	100.0%			100.0%
	1, 2 & 5	Count	2			2
		% within What are the controls in C2 used for in your organisation?	100.0%			100.0%
	1 & 2	Count	2		1	3
		% within What are the controls in C2 used for in your organisation?	66.7%		33.3%	100.0%
Total		Count	20	1	9	30
		% within What are the controls in C2 used for in your organisation?	66.7%	3.3%	30.0%	100.0%

According to Michael (1992), a well knowledge group of people is best equipped and are poised to achieve much in implementing controls. The findings according to the table above showed that the bulk of employees at Lobels Bread are aware of all the departmental control procedures that the organization is using. Therefore, control procedures in these areas are reasonable and can combat fraud and guard against the misuse of assets. In this view, the hypothesis that controls in various departments fully combat fraud and guard against misuse of assets was accepted because respondents in this study approved the procedures and the reasons why they are being used.

The table and bar graph below showed that 60% of the respondents agreed that the procedures in all the three departments, accounting, purchasing and administration save the purpose of combating fraud and guard against the misuse of assets while the remainder 40% were either not sure or not agreeing to the three departmental control procedures being

able to combat fraud and the misuse of assets. The literature also highlighted the three departments' controls procedures. The procedures according to a Buyalot Bakery case study by an ACCA (2002), study pack were very effective and assisted the company in combating fraud and the misuse of assets. Literature proved that the Buyalot Bakery accounting, purchasing and administration departments' controls were effective.

Table: Assessment of the response on combat of fraud and misuse of assets

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	18	60.0	60.0	60.0
	No	2	6.7	6.7	66.7
	Not sure	10	33.3	33.3	100.0
	Total	30	100.0	100.0	

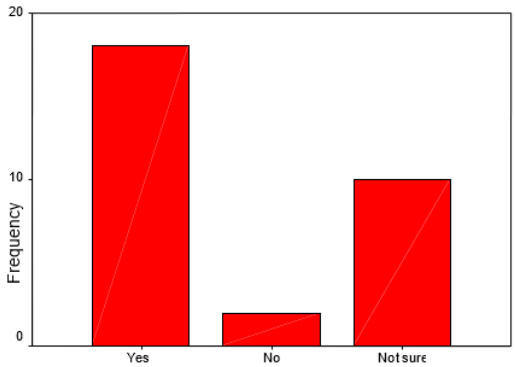


Figure: Assessment of the response on combating fraud and misuse of assets

The literature and the findings from the study accepted the hypothesis that controls in various departments fully combat fraud and guard against misuse of assets on the basis of the overwhelming 60% support of the departmental procedures by the respondents and the Buyalot Bakery case study.

Section E – Upgrading of controls in relation to technology

Table: Modern controls available

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Hardware controls	1	3.3	3.4	3.4
	Processing controls	13	43.3	44.8	48.3
	Output controls	3	10.0	10.3	58.6
	All	9	30.0	31.0	89.7
	1 & 3	1	3.3	3.4	93.1
	2, 3 & 4	1	3.3	3.4	96.6
	1, 2 & 3	1	3.3	3.4	100.0
	Total	29	96.7	100.0	
Missing	System	1	3.3		
Total		30	100.0		

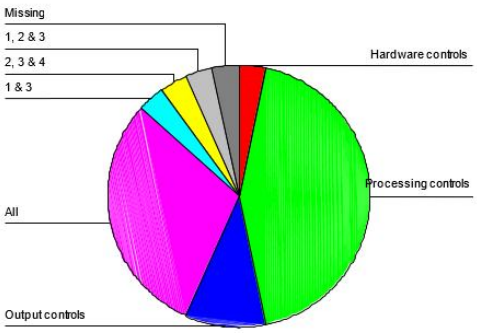


Figure: Modern controls available

The minority (30%) of the respondents according to the findings of the study noted that all the controls were available while the majority (70%) could not indicate that all the four controls were available. They might have noticed one, two or three and left the other one(s). Literature suggested that all these controls should be available, for an organization to have a sound and effective electronic data processing system. The company would have moved with time in terms of controls upgrading compared to technology movement. Modern controls are controls centered on the computers. Lobels Bread is already using electronic data processing controls according to the survey.

Availability of these controls according to responses from the questionnaires pointed out that the company has changed controls from the old ones to the new regime of controls which allow Lobels Bread to operate an electronic data processing system to combat fraud and misuse of assets.

Table: Position versus controls available in the EDP

			Which of the following controls are available in your computer data processing?							
			Hardware controls	Processing controls	Outpu controls	All	1 & 3	2, 3 & 4	1, 2 & 3	Total
What is your position in the department?	Executive	Count	1			3				4
		% within What is your position in the department?	25.0%			75.0%				100.0%
	Senior Manager	Count				3	1			4
		% within What is your position in the department?				75.0%	25.0%			100.0%
	Junior Manager	Count		7	1	3			1	12
		% within What is your position in the department?		58.3%	8.3%	25.0%			8.3%	100.0%
	Operational	Count		6	2			1		9
		% within What is your position in the department?		66.7%	22.2%			11.1%		100.0%
Total		Count	1	13	3	9	1	1	1	29
		% within What is your position in the department?	3.4%	44.8%	10.3%	31.0%	3.4%	3.4%	3.4%	100.0%

This is despite that it is the minority (30%) who know the existence of all the modern controls. This could be because respondents as indicated in the earlier discussion lack knowledge on controls. The availability of these modern controls made it possible to reject the hypothesis that there is a mismatch between technology changes to updating of controls at Lobels Bread. However, of the minority (30%), who know that all the modern controls are available, 75% of them are executives and only 25% are the other categories as indicated in the table below.

According to the literature reviewed, it cannot just be these controls working in isolation for an electronic data processing. These controls should also be supported by a modern structure of a computer department. Literature was also reviewed by checking on the existence of a support structure and the results were shown in the table and bar chart below:

Figure: Availability of a computer department similar to one reviewed in literature

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	16	53.3	53.3	53.3
	No	5	16.7	16.7	70.0
	Not sure	9	30.0	30.0	100.0
	Total	30	100.0	100.0	

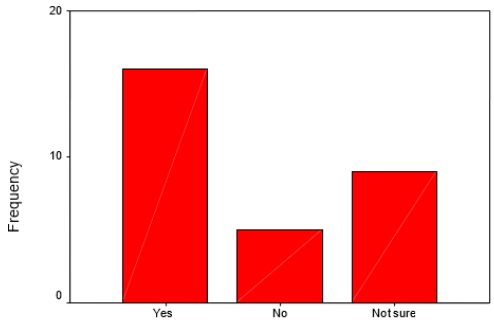


Figure: Availability of a computer department similar to one reviewed in literature

The table and bar chart above indicated that 53% of the respondents noted that the structure in the computer department was similar to the one that literature suggested for the modern controls to work effectively, while 47% were not sure or not supporting the structure. This supported the fact that controls are modern and the structure is modern at Lobels Bread. This makes these controls effective and sound. It therefore, follows that the hypothesis that there is a mismatch between technology changes and updating of controls at Lobels Bread can be rejected because the electronic data processing system cannot work with old controls only.

The table below showed that 88% of the respondents agreed that controls are made effective and sound when a structure is similar to the one that was suggested by literature. The same structure was noticed at Lobels Bread. The controls usable in an electronic data processing system were also seen. This meant that there was a match between technology and the upgrading of controls at the organization. Given the discussion on these two variables above, the results showed that the match between structure and controls being able to combat fraud has resulted in no fraud and assets misuse at Lobels Bread. It was therefore imperative to reject the hypothesis that there is a mismatch between technology change and updating of controls at Lobels Bread.

Table: Comparison of structure &effectiveness of the modern controls

			Are these controls good enough to guard against fraud and misuse of assets?		
			Yes	Not sure	Total
Is the structure below similar to the one in use at Lobels Bread computer department?	Yes	Count	14	2	16
		% within Is the structure below similar to the one in use at Lobels Bread computer department?	87.5%	12.5%	100.0%
	No	Count	2	3	5
		% within Is the structure below similar to the one in use at Lobels Bread computer department?	40.0%	60.0%	100.0%
	Not sure	Count	1	8	9
		% within Is the structure below similar to the one in use at Lobels Bread computer department?	11.1%	88.9%	100.0%
Total		Count	17	13	30
		% within Is the structure below similar to the one in use at Lobels Bread computer department?	56.7%	43.3%	100.0%

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

The study was motivated by the high levels of the company's assets misuse at Lobels Bread mainly because controls were not sound and effective enough to combat fraud and guard against the misuse of assets despite their existence at the organization. This was evidenced by losses that the company was incurring, Lobels Bread yearly financial statement (2009). The purpose of the study was to assess the existence, nature and role of current internal controls being applied at Lobels Bread, Belmont, in the Bulawayo Metropolitan Province. This was done with a view to identifying the gaps in the controls implementation so that recommendations for readdressing losses are suggested. The assessment was done using the descriptive survey technique at Lobels Bread Branch in Bulawayo Metropolitan province. A questionnaire with structured questions was administered to 40 respondents who made up thirty percent (30%) of the target population. A response rate of seventy five (75%) was achieved. The study was conducted particularly focusing on control existence, nature and role from the personnel at Lobels Bread, but however with time constraints as the researcher also sought to meet organizational deadlines in addition to the research deadlines. The data was presented using frequency tables, bar charts and pie charts. Conclusion was drawn from the data interpreted.

CONCLUSIONS

Existence of Controls

The study established that Lobels Bread Bulawayo Province Branch have controls but lacks experience and knowledge in their staff profile. The company is not doing much in educating

their staff about the controls that they are using so that implementation becomes easy and effective. The organization is not capturing learning curves effects from its older generation because it's only the old staff according to findings who know much about controls and the junior have little to no information. Therefore, the control system had become irrelevant and was not being used effectively. The study, therefore, concluded that the control system in place at Lobels Bread Bulawayo Branch but not sound and effective to guard against fraud and misuse of company assets.

Workshop Attendance

The study established that the junior personnel at Lobels Bread Bulawayo Branch has little to no knowledge on controls that the company is using because the company has not taken and strides in trying to educate the junior personnel who are the implementers of the controls. This lack of knowledge has made the controls fail to be sound and relevant. The study in this case concluded that junior personnel at Lobels Bread Bulawayo branch have knowledge on the controls the company is using and, hence, the controls' ineffectiveness.

Familiarity with Controls

The research proved that the personnel at Lobels Bread are not familiar with the controls they are using. The majority of the personnel who know controls and their existence correctly are only the senior staff and those in the accounting department. The rest of the departments for example production departments have very low knowledge rates.

Nature of Controls

The controls that the company is using are the best as supported by literature and the situation on the ground. However, it was noticed in the study that it is the implementation that is not perfect and as a result making the controls ineffective. The departmental controls that the company is using have proven to be the best but the implementation leaves a lot to be desired. The research study, therefore, concluded that controls being applied and the roles they are playing in various departments are the best but lacked proper implementation.

Familiarity versus Years of Service

The study found out that the familiarity of controls is not properly matched with experience in all the ranks of the organization especially with the junior ranks. Research also noticed that the more the numbers of years a person have stayed in the organization the more knowledge they have on controls that the company is using.

Availability of Modern Controls

The research established that Lobels Bread has matched their control upgrading with technological change. This was witnessed by the existence of a proper structure that the

company has put in place as part of their administration department. The department, however, has no autonomy.

Structure Versus Effectiveness of Control

The structure was established to be available by the study, but controls are still not effective because the department that is supposed to champion the electronic data processing is under the administration department. This is over and above the fact that knowledge and experience within the junior ranks is very little if at all is not available.

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